

The Audit Findings for Devon County Council

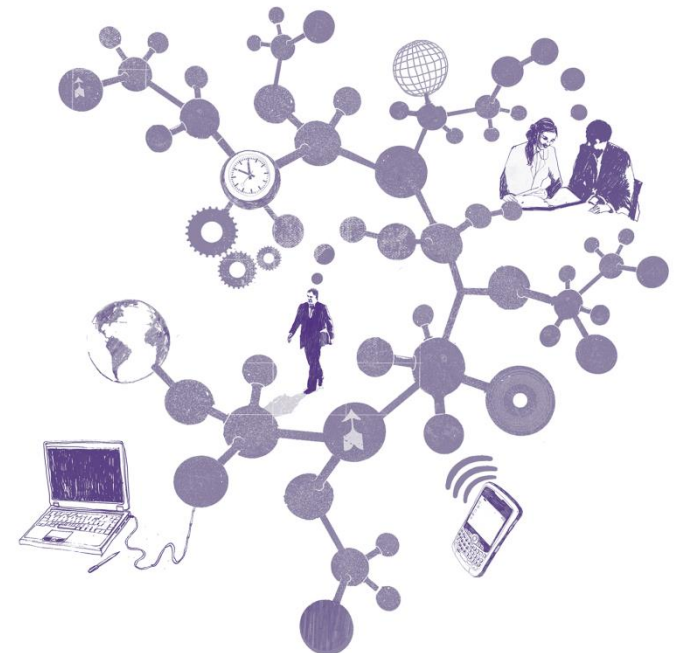
Year ended 31 March 2015

September 2015

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15 September 2015

Dear Mary

Audit Findings for Devon County Council for the year ending 31 March 2015

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of Devon County Council, the Audit Committee) , as required by International Standard on Auditing (UK & Ireland) 260. Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

Elizabeth Cave

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Section 1: Executive summary

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Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Devon County Council's (the Council) financial statements for the year ended 31 March 2015. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA UK&I).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position and expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated 5 March 2015.

Our audit is substantially complete although we are finalising our work in the following areas:

- review of property, plant and equipment valuations at year end
- review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation and
- updating our post balance sheet events review, to the date of signing the opinion
- Whole of Government Accounts
- final senior management and quality reviews.

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion in respect of the financial statements.

The key messages arising from our audit of the Council's financial statements are:

- the draft financial statements and the supporting working papers were prepared to a good standard
- we identified no material issues and no significant adjustments to the Consolidated Income and Expenditure Account or the Balance Sheet
- The Authority provided an additional balance sheet as at 1 April 2013 at our request and there were amendments within the disclosure notes
- we have reviewed the pension accounts and as with the main accounts audit no significant issues have been identified

We have not identified any adjustments affecting the Council's reported financial position (details are recorded in section 2 of this report). The draft and audited financial statements for the year ended 31 March 2015 recorded net expenditure of £176,892k.

Further details are set out in section two of this report.

Value for Money conclusion

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VfM conclusion.

Further detail of our work on Value for Money is set out in section three of this report.

Whole of Government Accounts (WGA)

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

Controls

Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

Findings

Our work has not identified any control weaknesses which we wish to highlight for your attention.

Further details are provided within section two of this report.

The way forward

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the County Treasurer.

We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the County Treasurer and the finance team.

Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
September 2015

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and the findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 27 March 2015. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 27 March 2015.

Audit opinion

Our proposed audit opinion is set out in Appendix B.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>Improper revenue recognition</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Devon County Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Devon County Council, mean that all forms of fraud are seen as unacceptable. 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management override of controls</p> <p>Under ISA (UK&I) 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • Review of the controls which operate for the processing of journal entries and testing of journal entries • review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.


Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Creditors understated or not recorded in the correct period (operating expenses restated)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Walkthrough testing of operating expenses and creditors completed confirms processes are operating and controls are designed satisfactorily • substantive testing of material expenditure streams in the 2014-15 financial year • substantive testing of significant creditor balances • review of after date payments to ensure all liabilities identified 	Our audit work has not identified any significant issues in relation to the risk identified.
Employee remuneration	Employee remuneration accrual understated	<ul style="list-style-type: none"> • Walkthrough testing of employee remuneration completed which confirms processes are operating and controls are designed satisfactorily • Reconciliation of the pay expenditure reported in the draft financial statements to total expenditure recorded in the payroll system • Completed a payroll trend analysis 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>The Council reconciles gross pay but does not perform a reconciliation of total employment costs to the various expenditure totals in the ledger. Our reconciliation identified an immaterial difference of £1.1m between the allocation of postings. We understand that the Council is reviewing how payroll is posted to improve this.</p>

Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Accounting for School buildings on or off Balance Sheet</p>	<p>There have been changes to the Code guidance in 2014/15 for the Accounting for Schools. The Council will need to consider the status of Voluntary Controlled, Voluntary Aided and Foundation Schools individually to assess whether they should be recorded on the Balance Sheet.</p> <p>Interpretation of the guidance in the Code has been ambiguous and open to different interpretations.</p> <p>Councils have been requested to provide detailed explanations and evidence to support their interpretation of the guidance.</p>	<ul style="list-style-type: none"> • We have discussed proposed treatment with your Capital Accountants and provided copies of a Grant Thornton briefing note on the subject. • We have reviewed the Council's interpretation of the guidance for each individual school or group of schools and the evidence provided to support the proposed treatment. • We have provided a view on compliance with the Code • Reviewed the accounting entries in the financial statements to confirm that the Council have complied with the relevant accounting standards 	<p>The Council reviewed the evidence for ownership of all of its schools and justified whether each school should be on or off balance sheet in line with the relevant accounting standards. The result was that most voluntary controlled schools were derecognised, whilst Foundation schools and a number of playing fields were brought onto the balance sheet. We identified that of the £219m total of school assets restated, £5.8m related to retrospective revaluations of schools which had not changed in status. It is not normal practice to restate balances in prior years for revalued assets unless they have come on or off balance sheet. The total is not material and the policy was adopted so that all balance sheets would include schools on a consistent basis.</p> <p>The draft accounts included an inconsistency of £2.8m because the schools' restatement in prior years had not been reflected in the 2013/14 Capital expenditure and Financing note. As a result, £2.8m of REFCUS had to be reclassified to Property, Plant and Equipment within Note 33, however there was no impact on the total of capital investment or capital financing requirement.</p> <p>The total of school assets held under PFI and similar contracts (note 35) was understated by £6.2m.</p>

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<p>Revenue recognition</p>	<ul style="list-style-type: none"> • Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods and services. • Interest receivable on investments is accounted for respectively as income on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by contract. • Council tax and Non Domestic rates revenue is recognised when the following conditions have been satisfied: <ul style="list-style-type: none"> a) the amount of revenue can be measured reliably; and b) it is probable that the economic benefits or service potential associated with the transaction will flow to the authority. 	<ul style="list-style-type: none"> • The accounting policy is appropriate and complies with the Code of Practice on Local Authority Accounting (the Code). • Income is not an area that requires significant judgement or estimation. • The disclosure of the accounting policy is adequate. 	

Assessment



● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate and disclosures sufficient

● Accounting policy appropriate but scope for improved disclosure

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition (continued)	<ul style="list-style-type: none"> There is no difference between the delivery and payment dates for non-contractual, non-exchange transactions, ie revenue relating to council tax and general rates, and therefore these transactions shall be measured at their full amount receivable. The Collection Fund Adjustment Account records the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Funds administered by the Billing Authorities. 	<ul style="list-style-type: none"> The accounting policy is appropriate and complies with the Code of Practice on Local Authority Accounting (the Code). Income is not an area that requires significant judgement or estimation. The disclosure of the accounting policy is adequate. 	
Estimates and judgements	<ul style="list-style-type: none"> Key estimates and judgements include: <ul style="list-style-type: none"> useful life of capital equipment pension fund valuations and settlements revaluations impairments provisions private Finance Initiative PPE valuations. 	<ul style="list-style-type: none"> The estimates and judgements made by management are in line with the Code's expectations. The pension fund valuations have been based on judgements and estimates from an independent actuary. The estimates of asset valuations and asset lives are provided by an independent valuer. The disclosure of the accounting policy is adequate. 	




● **Assessment**

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate and disclosures sufficient

● Accounting policy appropriate but scope for improved disclosure

Accounting policies, estimates & judgements continued

Accounting area	Summary of policy	Comments	Assessment
<p>Judgements - local authority maintained schools premises</p>	<p>Properties used by schools are recognised in accordance with the indicators of control identified under the requirements of the Code's adoption of IFRS 10, Consolidated Financial Statements.</p> <p>Where assets are owned by the Council and used by community, foundation, voluntary aided and voluntary controlled schools then they are recognised in the Authority's balance sheet.</p> <p>Where the title of ownership of voluntary aided and voluntary controlled school assets rests with Trustees of the religious bodies, the Authority does not recognise these assets in the balance sheet.</p> <p>The Council does not recognise the land or buildings used by Academy Schools in its balance sheet. The Authority still owns the assets but has transferred the rights over the assets to the academies through leases of 125 years.</p>	<ul style="list-style-type: none"> • The accounting policy is appropriate and complies with the Code of Practice on Local Authority Accounting (the Code). • We have reviewed the Council's interpretation of the guidance for each individual school or group of schools and the evidence provided to support the proposed treatment. • The disclosure of the accounting policy is adequate. 	
<p>Going concern</p>	<p>Management have a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.</p>	<p>We have reviewed management's assessment and are satisfied with managements' assessment that the going concern basis is appropriate for the 2014/15 financial statements.</p>	
<p>Other accounting policies</p>	<p>We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.</p>	<p>Our review of accounting policies has not highlighted any issues which we wish to bring to your attention</p>	

Assessment

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Accounting policies, Estimates & Judgements– review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	<p>Estimates and judgements - Property, Plant & Equipment</p> <p>In previous years the Council carried out a rolling programme of revaluations, with the date of the valuations varying between 1 and 5 years. This approach was similar to many other authorities and we were satisfied that you had satisfied yourselves that the carrying amount of Property, Plant and Equipment (based on these valuations) did not differ materially from the fair value at 31 March 2014.</p> <p>However, in our view this rolling programme did not meet the Code's requirement to value items within a class of property , plant and equipment simultaneously, as this Code requirement, which is based on IAS 16 Property, Plant and Equipment, only permits a class of assets to be revalued on a rolling basis provided that:</p> <ul style="list-style-type: none"> • the revaluation of the class of assets is completed within a 'short period' • the revaluations are kept up to date. <p>In our view, we would normally expect this 'short period' to be within a single financial year. This is because the purpose of simultaneous valuations is to 'avoid reporting a mixture of costs and values as at different dates'. This purpose is not met where a revaluation programme for a class of assets straddles more than one financial year.</p>	<p>Page 49 of the accounts sets out the authority's rolling programme of revaluations. This shows that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. Guidance is currently under review on what constitutes a 'short period' which may require the authority to value the whole of a class of assets in a single year.</p> <p>This year a selection of land and buildings were valued which included all schools and which formed part of the quinquennial cyclical programme.</p> <p>As well as receiving valuations for the above, the Council has performed a review of the asset base not revalued, and has assessed that carrying values for these assets are not materially misstated due to the impact of valuation changes since the last revaluation.</p> <p>For assets not valued in the year, we have gained sufficient assurance from the Council's valuer that Property, Plant and Equipment valuations held in the accounts remain materially correct.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit Committee and been made aware of any reporting. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit.
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> A letter of representation has been requested from the Council.
4.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements. Disclosure amendments made to the draft accounts are listed on page 19.
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed
6.	Confirmation requests from third parties	<ul style="list-style-type: none"> We obtained direct confirmations from the PWLB, Barclays and Bayern LB for loans and requested from management permission to send confirmation requests to Lloyds Bank, BMO Financial Group, Svenska Handelsbanken AB, HSBC, Nationwide Building Society and Barclays for bank and investment balances. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Employee Remuneration and Operating Expenses as set out on page 10 above.

There are no issues that we would wish to bring to your attention.

Adjusted misstatements

We are required to report all non-trivial misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the primary statements and the reported financial position.

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on total net expenditure £000
1 There were no adjusted misstatements.			

Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit, three of which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements	
1 Disclosure	£2,835	Capital Expenditure and Capital Financing	Capital Expenditure and Capital Financing (note 33) comparatives for 2013/14 had not been restated for the prior period restatement resulting in inconsistencies within the accounts. £2.8m of capital investment in 2013/14 previously treated as REFCUS had to be reclassified as Property, Plant and Equipment within Note 33., however there was no impact on the total of capital investment or capital financing requirement.	Adjusted
2 Disclosure	£3,187	Capital Expenditure and Capital Financing	Note 33 was expanded to show the initial recognition of the Exeter Energy from Waste less the deferred credit. The net finance lease liability was unchanged.	Adjusted
3 Disclosure	£6,201	Private Financing Initiatives	The total of school assets held under PFI and similar contracts (note 35) was understated by £6.2m. However, there was no impact on the balance sheet or Note 13 Property, Plant and Equipment.	Adjusted
4 Disclosure	Not applicable	Property, Plant and Equipment	The Council has included additional information on the basis of valuation of youth centres and care homes where it has been anticipated that properties would be transferred to other organisations or sold on the open market after 31 March 2015.	Adjusted
5 Disclosure	Not applicable	Balance Sheet	The Council has included a 3 rd balance sheet in the final accounts as part of the accounting policies restatement to include comparative values restated as at 1 April 2013.	Adjusted

Section 3: Value for Money

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Value for Money

Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VfM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

These criteria are:

The Council has proper arrangements in place for securing financial resilience - the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness - the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control.

Overall our work highlighted the Council is reporting a small underspend compared to budget after transfers to reserves.

Despite this budget spending pressures remain, in particular with respect to People and Place Services where overspends existed in 2014/15.

In 2014/15 earmarked reserves have reduced from £56.5m to £47.5m mainly driven by funding the costs of services transformation. The Council acknowledges that the level of useable reserves are low and this will have to be carefully monitored during 2015/16 and onwards.

The Council has operated within its Treasury Management policy and has not taken out any new long term borrowing in 2014/15. The Council still holds high levels of long term debt, which is a historic issue.

Whilst the Council has a balanced budget for 2015/16, finding additional savings in future years remains a very significant challenge. The Council has a Medium Term Financial Strategy which is approved as part of the 2015/16 budget. In practice this comprises a four year rolling plan. It includes a position statement on years 2016/17 and beyond however further work is required to develop a sustainable financial plan for these years as well as identifying the required savings.

For 2016-17 the Council has identified a potential savings gap and a lot of work remains to be done. A number of the 'schemes' identified are at a very broad level and some could be difficult to achieve. Larger savings need to be identified in future years and strategies to achieve savings from 2016/17 onwards have still to be fully defined.

Value for Money (continued)

Although financial planning is carried out over a four year horizon, the focus is on the coming year. We recognise that developing exact future plans is difficult due to the uncertainty over the Comprehensive Spending Review expected later in the 2015 calendar year. The Council will need to produce more transformational savings which will enable it to continue to balance its budget in the coming years.

Challenging economy, efficiency and effectiveness

We have considered the Council's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity

Overall our work highlighted that the Council is making strategic changes to services to addressing its significant financial challenge.

The Council has successfully implemented some major service changes in the last year. These include closure of 20 care homes and the transformation of the youth and library services. Undertaking the necessary consultation, withstanding challenge from a judicial review for these difficult decisions has necessitated strong leadership. Current plans include changes to public transport to achieve further savings and continue to deliver strategic change in the organisation.

Last year we qualified the VFM conclusion due to the Ofsted inspection of children's services. During 2014-15 there was a re-inspection which raised the overall judgement from 'inadequate' to 'requires improvement'. While the council still has a way to go before it can expect a good rating for this service, the report acknowledges improvement in a number of key areas since the last inspection. It is significant that the report confirms an assessment that there is no evidence to suggest that any children in the care of Devon County Council are at risk.

The challenge remains in maintaining provision of an acceptable level of services whilst at the same time funding the required transformational change.

Further detail of our work on Value for Money is set out in section 3 of this report.

Overall Vfm conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

Green	Adequate arrangements
Amber	Adequate arrangements, with areas for development
Red	Inadequate arrangements

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating
Key indicators of performance	<p>The Council is reporting a small underspend of £49,000 after transfers to reserves. When the budget was set the Council anticipated there would be a need to transfer £653,000 from the Budget Management Reserve to support revenue spending, however this was not required.</p> <p>Despite being within budget, spending pressures remain, in particular with respect to People and Place Services where overspends existed in 2014/15. An overspend in People was primarily driven by higher costs for children places in care and more children needing to be placed in care, whilst Place has seen overspends in relation to Dartington school and having to deal with increases in waste tonnages.</p> <p>In 2014/15 earmarked reserves have reduced from £56.5m to £47.5m mainly driven by funding cost of services transformation, such as the closure of residential care homes. The Council acknowledges that the level of useable reserves are low and this will have to be carefully monitored in 2015/16 and onwards, meeting the need for transformational change alongside meeting demands for current spending.</p> <p>The Council has operated within its Treasury Management policy and has not taken out any new long term borrowing in 2014/15. Despite this, the Council still holds high levels of long term debt.</p>	Green

Residual risk identified	Summary findings	RAG rating
Strategic financial planning	<p>Whilst the Council has a balanced budget for 2015/16, finding additional savings in future years remains a challenge. Review of the savings plans has identified a potential savings gap for 2016/17 with strategies still to be defined to achieve savings in 2016/17 onwards. Large savings need to be identified in future years.</p> <p>The Council continues to work on its savings plans and has set key targets for savings across the organisation with individual directorates being challenged to deliver the needed savings focusing primarily on the gaps in 2016/17.</p> <p>The Medium Term Financial Strategy (MTFS) approved by the Council in February 2015 is part of the 2015/16 budget document. It considers the financial position in detail for 2015/16 and presents the annual plan. For future years 2016/17 - 2018/19 there is a position statement which identifies the expected requirement for savings based on known pressures, and assumptions about future grant settlements. Plans to meet the shortfalls identified are not fully set beyond one year and, whilst certain individual plans look further forward, the focus of savings planning continues to be on the year ahead.</p> <p>The Council should aim to identify savings plans further ahead to enable more strategic transformation to be managed which can take more than a year to deliver. This will require continued identification of savings at a stage where there is uncertainty with respect to how savings are to be achieved and the outcome of the Comprehensive Spending review.</p> <p>The Council has a track record of delivering against budget and whilst there are significant financial challenges, the assumptions made by the Council are considered appropriate. The Council has done well in implementing a number of strategic solutions to achieve savings. However, the Authority's strategy is heavily impacted by the current financial constraints and there is a danger that short term measures may be necessary which have a greater impact on services than longer term transformation.</p> <p>The Council considers different scenarios in developing savings. Projects to deliver savings often receive feedback through consultation and are adapted accordingly.</p>	Amber

Residual risk identified	Summary findings	RAG rating
Financial governance	<p>Work performed has identified that members are involved in development and monitoring of savings plans and through Cabinet/CLT and has scope to challenge plans in place through scrutiny committees.</p> <p>Key personnel are involved in the medium to long term plan and the Council has plans in place to engage with Members by holding training and sessions for Members to challenge budget setting and the financial plans.</p> <p>Management consider key financial information such as the latest savings plans (including outcomes) on a regular basis to make informed decisions.</p> <p>The Council produces a regular report of the financial performance against budget and provides commentary on savings plans as appropriate.</p>	Green
Financial Control	<p>The Council's budget setting process remains robust and there is a track record of delivering spend within budget. Individual service and directorate variations are anticipated and managed within the overall total.</p> <p>There is a framework for setting and monitoring savings plans with front line as well as finance staff involved in developing and the delivery of savings plans. Monitoring of these, takes place through the budget report.</p> <p>The Council gives consideration to different options and have implemented strategic transformational change to give long term sustainable savings.</p> <p>Financial performance is controlled well through the budget. Whilst financial control is considered to be strong, more work is needed to identify all the necessary savings for future years. The Council is working hard to achieve the required savings.</p>	Green
Prioritising resources	<p>The Council has shown strong leadership in successfully implementing some major and controversial service changes in the last year. These include closure of 20 care homes, transformation of the youth and library services. Undertaking the necessary consultation, withstanding challenge from a judicial review for these difficult decisions has necessitated strong leadership. Current plans include changes to public transport to achieve savings and continue to deliver strategic change in the organisation.</p> <p>The challenge remains in maintaining provision of high level of services whilst at the same time funding the required transformational change.</p> <p>Due to financial challenges, various strategies have or are been considered to deliver savings. The Council has been seen to analyse its different services and carry out activity such as benchmarking to inform its strategy.</p>	Green

Residual risk identified	Summary findings	RAG rating
<p>Improving efficiency & productivity</p> <p>(Effectiveness of services)</p>	<p>Last year we qualified the VFM conclusion due to the Ofsted inspection of children's services. During 2014-15 there was a re-inspection which raised the overall judgement from 'inadequate' to 'requires improvement'. While the Council still has a way to go before it can expect a good rating for this service, the report acknowledges improvement in a number of key areas since the last inspection. It is significant that the report confirms an assessment that there is no evidence to suggest that any children in the care of Devon County Council are at risk.</p> <p>The report also acknowledges that the Council has implemented a number of processes to improve data quality and the management of service provision, but this has been slow and at the time of the inspection there were no measurable outcomes to assess.</p> <p>Following the Information Commissioner's Office issuing the Council with a limited assurance assessment in 2013/14, the Council has addressed the three areas for improvement highlighted with an action plan which has been monitored during 2015/16.</p>	<p>Green</p>

In our audit plan we identified the following additional risk which has not been covered above

Residual risk identified	Summary findings
<p>Better Care Fund</p>	<p>Devon County Council is the administering authority for the Better Care fund budget of £59.7m. Governance arrangements are considered to be strong in the administration of the fund with sub teams set up to consider delivery as well as financial aspects of the Fund. This is as well as having oversight from the Joint Coordinating Commissioning Group and the Health and Well Being Board. There is a clear framework and risk sharing has been defined.</p> <p>Whilst it is early days given the Better Care Fund was effective from 1 April 2015, the performance target to reduce hospital admissions by 3.5% was not met in the final quarter of 2014/15, which affects contributions to the fund in the first quarter of 2015/16. The target is considered unlikely to be fully met in the remaining quarters, given that it is ambitious and especially given this is that the calculation does not take into account factors such as increased demographic pressures. If this target is not met at all, over a 12 month period there will be a reduction in the Better Care Fund budget of approximately £4m which will be passed instead to providers of healthcare.</p> <p>Alongside performance, there are also challenges in relation to the financial constraints of NHS partners. This has not impacted the fund to date, but it underlines the importance of liaison with the partners on a regular basis. The Council is doing this and has regular communication with its partners at various levels.</p>

Section 4: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

Fees, non-audit services and independence

We confirm below our final fees charged for the audit and provision of non-audit services.

Fees

	Per Audit plan £	Actual fees £
Council audit	140,374	140,374
Grant certification on behalf of Audit Commission	0	0
Total audit fees	140,374	140,374

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Fees for other services

Service	Fees £
Audit related services	
Grants outside Audit Commission regime	6,200

Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

Communication of audit matters to those charged with governance

International Standard on Auditing ISA (UK&) 260, as well as other (UK&I) ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice (the Code) issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

	Audit Plan	Audit Findings
Our communication plan		
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1.	The Council should aim to identify savings plans further ahead to enable the difficult strategic transformation to be managed by the time the savings are required.	High	The County Council recognises that it would be helpful to extend its savings plans to fully cover a longer time period. It will be easier to do this when the Government's funding plans are known	To be considered in the next round of budget setting
2.	The Council should consider whether it can increase the period of its annual savings plan to fully cover two or three years.	Medium	The County Council recognises that it would be helpful to extend its savings plans to fully cover a longer time period. It will be easier to do this when the Government's funding plans are known	To be considered in the next round of budget setting

Appendix B: Draft Audit opinion

We anticipate we will provide the Council with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DEVON COUNTY COUNCIL

We have audited the financial statements of Devon County Council for the year ended 31 March 2015 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

This report is made solely to the members of Devon County Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the County Treasurer and auditor

As explained more fully in the Statement of the County Treasurer's Responsibilities, the County Treasurer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the County Treasurer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Devon County Council as at 31 March 2015 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We are required to report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998; or
- we designate under section 11 of the Audit Commission Act 1998 a recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission in October 2014.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2014, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2014, we are satisfied that, in all significant respects, *Devon County Council* put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

Certificate

We certify that we have completed the audit of the financial statements of Devon County Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.



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