

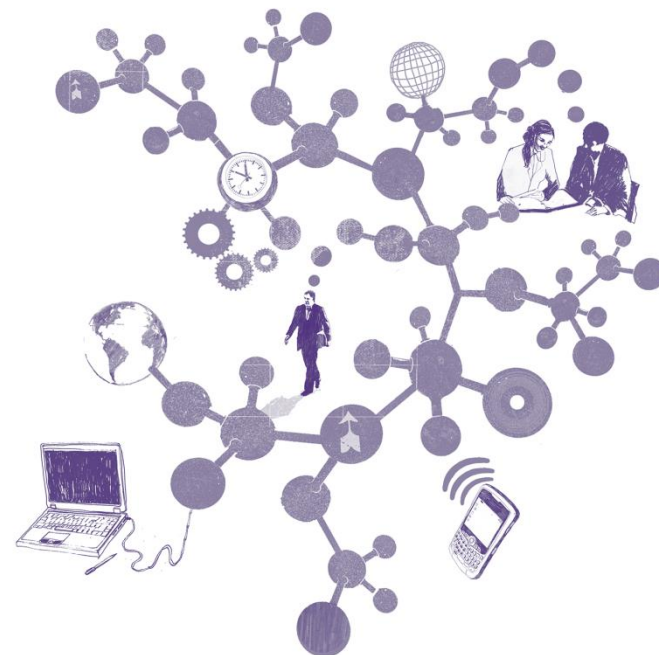
The Annual Audit Letter for Devon County Council

Year ended 31 March 2015

23 October 2015

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Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at Devon County Council ('the Council') for the year ended 31 March 2015.

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plans that we issued on 27 March 2015 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and Public Sector Audit Appointments Limited.

Financial statements audit (including audit opinion)

We reported our findings arising from the audit of the financial statements in our Audit Findings Report on 22 September 2015 to the Audit Committee. The key messages reported were:

- 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 following accounting policy changes and restatements relating to accounting for schools and the estimated unfunded Pension liabilities for teachers.
- Our audit work considered in some detail the accounting for schools restatement and the evidence underlying the exercise of management judgement applied in treating schools as on or off balance sheet. The judgement applied led to the Council recognising an additional net £219 million of assets on the balance sheet this year. Based on our work, we were satisfied that the restatement was materially correct. Taking into account the size of the Council's task in relation to the accounting for schools restatement, there were relatively few amendments required to the draft financial statements. Those that were, were needed to ensure consistency within the disclosure notes.

We issued an unqualified opinion on the Council's 2014/15 financial statements on 28 September 2015, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirmed that the financial statements give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.

Key messages continued

Value for Money (VfM) conclusion	<p>We issued an unqualified VfM conclusion for 2014/15 on 28 September 2015.</p> <p>On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we were satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.</p> <p>Overall Financial Position</p> <p>For 2014/15 the Council reported a small underspend compared to budget after transfers to reserves. Despite this achievement, budget spending pressures remain, in particular with respect to People and Place Services where overspends existed in the year.</p> <p>During 2014/15 earmarked reserves have reduced from £56.5m to £47.5m mainly driven by funding the costs of service transformation. The Council has acknowledged that the level of useable reserves are low and this will have to be carefully monitored during 2015/16 and onwards.</p> <p>Our work confirmed that the Council has operated within its Treasury Management policy and has not taken out any new long term borrowing in 2014/15.</p> <p>Strategic Financial Planning</p> <p>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.</p> <p>For 2016-17 the Council has identified a potential savings gap and during the audit it was noted further work remains to be done. Larger savings need to be identified in future years and strategies to achieve savings from 2016/17 onwards were still to be fully defined.</p>
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Key messages continued

Value for Money (VfM) conclusion (continued)

Despite this, 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. These include closure of care homes and transformation of the youth and library services.

The Council has shown strong leadership in successfully implementing such major and controversial service changes in the last year. Undertaking the necessary consultation, and 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.

Children's services

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 acknowledged improvement in a number of key areas since the last inspection. It was 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.

Key messages continued

Whole of Government Accounts	We reviewed the consolidation pack which the Council prepared to support the production of Whole of Government Accounts. We reported that the Council's pack was consistent with the audited financial statements.
Pension Fund accounts	We provided an unqualified opinion on the pension fund accounts included in the Council's statement of accounts. The draft financial statements and the supporting working papers were prepared to a high standard. No significant issues were identified to report .
Audit fee	Our fee for 2014/15 main audit was £140,374 excluding VAT. Our fee for the Devon Pension Fund audit was £28,603, excluding VAT. Both fees were in line with our planned fees for the year. Further detail is included within appendix B.

Appendix A: Key issues and recommendations

This appendix summarised the significant recommendations identified during the 2014/15 audit.

No.	Issue and recommendation	Priority	Management response/ responsible office/ due date
1.	<p>Due to the nature of many services the Council provides, changes required to transform services and make savings are often very complex. Therefore some of the planned savings will be difficult to deliver within the required timescale.</p> <p>Recommendation: 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.</p>	High	<p>The County Council recognised that it would be helpful to extend its savings plans to fully cover a longer time period. Management stated that it will be easier to do this when the Government's funding plans are known.</p> <p>Responsible office: Finance</p> <p>Due date: This is being considered in the next round of budget setting</p>

Appendix A: Key issues and recommendations (continued)

No.	Issue and recommendation	Priority	Management response/ responsible office/ due date
2.	<p>Further work is required to develop a sustainable financial plan for 2016-17 onwards and identify the required savings.</p> <p>Recommendation: The Council should consider whether it can increase the period of its annual savings plan to fully cover two or three years.</p>	Medium	<p>The County Council recognised that it would be helpful to extend its savings plans to fully cover a longer time period. Management stated that it will be easier to do this when the Government's funding plans are known.</p> <p>Responsible office: Finance</p> <p>Due date: This is being considered in the next round of budget setting</p>

Appendix B: Reports issued and fees

We confirm below the fees charged for the audit and non-audit services.

Fees for audit services

	Per Audit plan £	Actual fees £
Council audit	140,374	140,374
Devon Pension Fund audit	28,603	28,603
Total audit fees	168,977	168,977

Fees for other services

Service	Fees £
Audit related services	6,200
• Grant certification outside the Audit Commission regime	
Non-audit related services	Nil

Reports issued

Report	Date issued
Audit Plan	27 March 2015
Audit Findings Report	22 September 2015
Certification Report	28 September 2015
Annual Audit Letter	23 October 2015



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