

# The Audit Findings for Devon County Council

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**Year ended 31 March 2017**

August 2017

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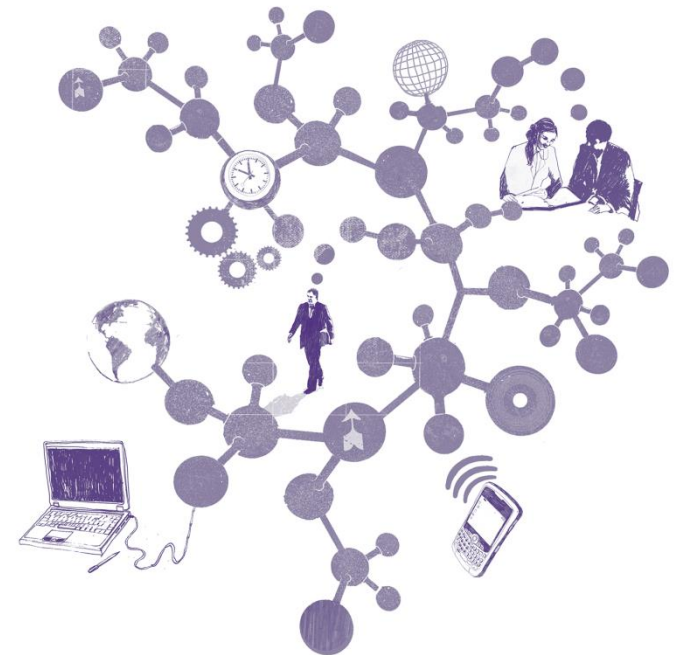
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1 August 2017

Dear Members of the Audit Committee

**Audit Findings for Devon County Council for the year ending 31 March 2017**

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Devon County Council Council, the Audit Committee), to oversee the financial reporting process, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), 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 and giving a value for money conclusion. 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

Director

**Chartered Accountants**

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# Section 1: Executive summary

**01. Executive summary**

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05. Fees, non audit services and independence

06. Communication of audit matters

## Purpose of this report

This report highlights the key issues affecting the results of Devon County Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure 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 consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Council acquired in the course of performing our audit; or otherwise misleading.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);

- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

## Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 16 March 2017.

Our audit is substantially complete although as at 22 August we are finalising our procedures in the following areas:

- Management review and quality control procedures
- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- review of revised versions of the Annual Governance Statement and
- updating our post balance sheet events review, to the date of signing the opinion
- Whole of Government Accounts

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

## Key audit and financial reporting issues

### Financial statements opinion

We have identified no adjustments affecting the Council's reported financial position (details are recorded in section two of this report). The draft financial statements for the year ended 31 March 2017 and the audited financial statements show net expenditure of £197,659k. We have recommended a number of adjustments to improve the presentation 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 one material adjustment where £30m was included in cash and cash equivalents which should have been included in short term investments. The Balance Sheet and Cash Flow Statement have been amended. There was no impact on net assets.
- we identified no significant amendments to the Comprehensive Income and Expenditure Statement
- we have reviewed the pension accounts and no significant issues have been identified.

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

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

### Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes if the AGS and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Council's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

## 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

We draw your attention in particular to a control issue identified in relation to:

- the bank reconciliation at the year end did not take into account the total amounts in the ledger of cash and cash equivalents. Due to the early closure of the ledger, the Council amended the way they posted the bank transactions that cleared on the last day of the year. However two departments (exchequer and technology) were both involved in making adjustments for these entries and no overall reconciliation of the final amounts in the ledger was completed. This has led to an uncleared suspense account balance of £2.4m which overstated creditors, and overstatements of bank balances by £1.1m and debtor balances by £1.3m. These have been amended in the final set of accounts.

Further details are provided within section two of this report.

## Value for Money

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

We have focused our work on the significant risks that we identified per our audit plan. In arriving at our conclusion, our main considerations were:

- **Delivery of planned recurrent savings** – the Council delivered a balanced budget despite the significant pressures on Adult Services and not having delivered all the planned savings. Regular monitoring of savings during the year allowed the Council to manage its budget closely to achieve the planned outturn.
- **Financial sustainability & identification of recurrent savings for 2017/18 and beyond**- the Council has developed a medium term financial strategy from 2017/18 to 2020/21 which includes a balanced budget for 2017/18. Further savings remain to be identified from 2018/19 onwards. Following the announcement of additional Better Care Fund funding for Adult Social Care the Council is awaiting guidance how this can be used in order to refresh its medium term financial strategy (MTFS).
- **Service Transformation project**- the Council has started a transformation programme and this year has scoped some of the key areas for transformation with the aim of finalising a transformational plan in the 2017/18 financial year. The Council has made some progress however significant work needs to be done in order to deliver the required savings in the medium term and arrangements need to be made for monitoring the programme to ensure delivery.

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

## Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Further details of our work on other statutory powers and duties is set out in section four of this report.

## The way forward

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

We are continuing to obtain evidence in relation to an objection to the 2015/16 accounts about expenditure under the Care Act 2014 and we have received a further objection relating to the 2016-17 accounts.

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

## Acknowledgement

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**  
August 2017

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## Section 2: Audit findings

01. Executive summary

**02. Audit findings**

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# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £20 million (being 1.75% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £1 million. This remains the same as reported in our audit plan.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£10,000
Disclosure of auditors' remuneration in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£10,000

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

# Audit findings against significant risks

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
<p><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue 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"> <li>• there is little incentive to manipulate revenue recognition;</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• the culture and ethical frameworks of local authorities, including Devon County Council, mean that all forms of fraud are seen as unacceptable.</li> </ul>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
<p><b>Management over-ride of controls</b></p> <p>Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>Work performed:</p> <ul style="list-style-type: none"> <li>• review of journal entry process and selection of unusual journal entries for testing back to supporting documentation</li> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• review of unusual significant transactions.</li> </ul>	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review and testing 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 judgements.</p>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

# Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p><b>Valuation of property, plant and equipment</b>                      The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p>	<ul style="list-style-type: none"> <li>• Review of management's processes and assumptions for the calculation of the estimate.</li> <li>• Review of the competence, expertise and objectivity of any management experts used.</li> <li>• Review of the instructions issued to valuation experts and the scope of their work</li> <li>• Discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions.</li> <li>• Review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding.</li> <li>• Testing of revaluations made during the year to ensure they were input correctly into the Council's asset register</li> <li>• Evaluation of the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value.</li> </ul>	<p>The Council has revalued a large proportion of its Property, Plant and Equipment in year with a valuation date as at 31 December 2016. The valuation was found to be carried out by a suitably qualified expert.</p> <p>The valuer has assessed £608.8m of the £813.7m total net book value of Property, Plant And Equipment at the year end which covered land and buildings, surplus assets and assets held for sale. No issues arose from the testing performed.</p> <p>We are satisfied that the Council has demonstrated that the carrying value of all other property, plant and equipment valued in prior years is not materially misstated.</p>

# Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p><b>Valuation of pension fund net liability</b> The Council's pension fund net liability, as reflected in its balance sheet, represents a significant estimate in the financial statements.</p>	<ul style="list-style-type: none"> <li>Identifying the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessing whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement.</li> <li>Review of the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation.</li> <li>Gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made.</li> <li>Review of the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul>	<p>Our audit work involved review of the IAS 19 valuation including the reasonableness of the actuarial assumptions made.</p> <p>PwC are an audit expert and carried out a review of the actuarial assumptions used for the valuation of the Authority's pension fund liability. As part of PwC's review of IAS 19 reporting as at 31 March 2017 for the National Audit Office, Audit Scotland and Wales Audit Office which reviewed the assumptions used by actuaries for valuing the pension liability, the following was noted, "For employers advised by Barnett Waddingham, the discount rates proposed fall outside of our expected ranges as the methodology is not as robust as we would expect, particularly under market conditions at 31 March 2017."</p> <p>The Authority's pension liability was estimated by Barnett Waddingham using a discount factor that was 0.1% above PwC's expected range (2.5% to 2.7%). The impact is a possible overstatement of the liability of 2% (£23,492k). This has been discussed with management where we challenged the rationale for management using the discount factor of 3.8% and considered it to be reasonable overall taking into account other assumptions used.</p> <p>Overall taking into account other assumptions such as CPI and mortality rates which can alter the value of the pension liability estimate and by performing a sensitivity analysis, we considered the overall assumptions as a collective reasonable. The pension liability is an accounting estimate and will therefore never be 100% accurate as they are highly sensitive to changes in assumptions. We discussed with management the rationale for the assumptions used and concluded that the estimate was reasonable.</p>

# Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p><b>Changes to the presentation of local authority financial statements</b></p> <p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 CIPFA Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements</li> <li>reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Council's internal reporting structure</li> <li>reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS)</li> <li>tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES</li> <li>tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger</li> <li>tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements</li> <li>reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified. We confirmed that the disclosures and presentation are in line with what has been reported to the Council in year.</p> <p>However we did request that the Expenditure and Funding Analysis (EFA) was included in the notes of the accounts. This was due to the CIPFA Code not defining the EFA as a primary statement. If the EFA is not included in the financial statements as a note to the accounts it will not be covered by our audit opinion.</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
<p><b>Employee remuneration</b></p>	<p>Payroll expenditure represents a significant percentage of the Council's gross expenditure.</p> <p>We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> <li>Employee remuneration accruals understated (Remuneration expenses not correct)</li> </ul>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle</li> <li>undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li> <li>Reconcile the pay expenditure reported in the financial statements to total expenditure recorded in the payroll.</li> <li>Trend analysis analytical review</li> <li>Substantively test a sample of remuneration transactions</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p><b>Operating expenses</b></p>	<p>Non-pay expenditure represents a significant percentage of the Council's gross expenditure. Management uses judgement to estimate accruals of un-invoiced non-pay costs.</p> <p>We identified the completeness of non- pay expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> <li>Creditors understated or not recorded in the correct period (Operating expenses understated)</li> </ul>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle</li> <li>undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li> <li>Agree creditors to the ledger</li> <li>Substantive testing of significant creditor balances</li> <li>Review of after date payments to ensure all liabilities identified</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>During our review of post year end payments. we identified one error of £147k relating to capital expenditure which should have been accrued in the financial year 2016-17. We have considered and evaluated this error and are satisfied that reasonable assurance has been obtained over the completeness of operating expenses.</p>

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

# Audit findings against other risks continued

## **Going concern**

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK&I) 570).

We reviewed the management's assessment of the going concern assumption and the disclosures in the financial statements and concluded that the Council is a going concern is appropriate.



# Significant matters discussed with management

	Significant matter	Commentary
1.	<p>Devon County Council settled its claims in relation to the Dartington Primary School in the aggregate amount of £8,015,000. As is common in settlements of this nature, no admission of liability was made by any party. We discussed the appropriate accounting treatment of the £8m sum which the Council has treated it as a revenue receipt. This is because the sum is in relation to a capital asset and associated revenue costs which be replaced and funded by borrowing whilst the accounting treatment in the financial statements benefits the revenue account where £8m has been taken to reserves. We discussed with the Council whether the receipt should be capital and it was concluded that the accounting treatment of it being a revenue receipt was reasonable.</p>	<p>The accounting treatment is technically acceptable however the Council should consider whether it is appropriate to finance the rebuild of the school from internal borrowing given that an £8m settlement relating to this has been received.</p> <p><b>Management response</b></p> <p>The authority has already considered the financing of the rebuild as documented in the Outturn report to Cabinet in June of this year.</p>
2.	<p>It was not initially clear how cash for several bank accounts (with cash totalling £1.1m at year end) was accounted for.</p> <p>Management looked into the cash collection procedures and it was found that these accounts related to a number of areas where individuals and organisations pay-in cash and the cash balances are subject to weekly transfers to the Council's main bank account. We were informed by management that these balances are not accounted for as separate accounts but are accounted for as cash in transit on the main bank account. Management acknowledged that at the year end it is likely that small balances will be unaccounted for and posted to the new year but the amounts involved are trivial.</p>	<p>We are satisfied that there is not a control weakness, and, given the low value of balances held in these accounts we have accepted the accounting treatment. However we recommend that the cash in transit balances are clearly identified on the bank reconciliation at month end including which account they relate to and that procedure notes are updated to fully document the accounts held, the purpose for them and the processing procedures in place for each.</p> <p><b>Management response</b></p> <p>This is not a significant issue. However, it is recognised that greater understanding and transparency is needed to ensure appropriate overview of procedures during the absence of key members of staff.</p>





# Accounting policies, estimates and 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
<b>Revenue recognition</b>	<ul style="list-style-type: none"> <li>• The Council's policy on revenue recognition is included in note 1 of the Statement of Accounts.</li> <li>• Fees, charges and rents due from customers are accounted for as income at the date the Authority provides the relevant goods and services;</li> <li>• Council tax and Non Domestic rates revenue is recognised when the following conditions have been satisfied:                             <ul style="list-style-type: none"> <li>a) the amount of revenue can be measured reliably; and</li> <li>b) it is probable that the economic benefits or service potential associated with the transaction will flow to the authority.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• The accounting policy is appropriate and complies with the Code of Practice on Local Authority Accounting (the Code).</li> <li>• The disclosure of the accounting policy is adequate.</li> </ul>	 <b>Green</b>
<b>Judgements and estimates</b>	<ul style="list-style-type: none"> <li>• Key estimates and judgements include :                             <ul style="list-style-type: none"> <li>– Useful life of PPE</li> <li>– Revaluations</li> <li>– Impairments</li> <li>– PPE valuations</li> <li>– Valuation of pension fund net liability</li> <li>– Provisions</li> <li>– PFI</li> </ul> </li> </ul>	<p>We have reviewed the accounting areas where the Council has exercised judgement and used estimates. We found that:</p> <ul style="list-style-type: none"> <li>• Appropriate policies have been used</li> <li>• Accounting policies have been adequately disclosed</li> <li>• Areas where judgement had been used were supported by the work of an expert or a third party</li> <li>• The Authority's pension liability was estimated by Barnett Waddingham using a discount factor that was 0.1% above PwC's expected range (2.5% to 2.7%). The impact is a possible overstatement of the liability of 2% (£23,492k). This has been discussed with management where we challenged the rationale for management using the discount factor of 3.8% and considered it to be reasonable overall taking into account other assumptions used.</li> </ul>	 <b>Green</b>

**Assessment**

# Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
<b>Going concern</b>	The County Treasurer, s151 officer has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.	 <b>Green</b>
<b>Other accounting policies</b>		We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.	 <b>Green</b>

**Assessment**

## Other communication requirements



We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Audit Committee. 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 procedures.</li> </ul>
2.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>From the work we carried out, we have not identified any related party transactions which have not been disclosed.</li> </ul>
3.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.</li> </ul>
4.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Council, which is included in the Audit Committee papers</li> </ul>
5.	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We requested from management permission to send (a) confirmation request(s) to all institutions where the Council holds cash balances. This permission was granted and the requests were sent. Of these requests all were returned with positive confirmation.</li> </ul>
6.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements</li> </ul>



## Other communication requirements continued

	Issue	Commentary
7.	<b>Matters on which we report by exception</b>	<ul style="list-style-type: none"> <li>• We are required to report on a number of matters by exception.</li> </ul> <p>We have not identified any issues we would be required to report by exception in the following areas:</p> <ul style="list-style-type: none"> <li>• If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit</li> <li>• The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Group/Council acquired in the course of performing our audit, or otherwise misleading.</li> </ul>
8.	<b>Specified procedures for Whole of Government Accounts</b>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the specified group reporting threshold we are required to examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <p>This work is not yet completed and the planned timescale for the work has been agreed with officers for the end of August. We have explored the possibilities for including this work as part of the audit fieldwork, however guidance from the treasury has not been available to enable this work to be completed earlier than the agreed timescale.</p>

# Internal controls


	Assessment	Issue and risk	Recommendations
1.		<ul style="list-style-type: none"> <li>We found that the bank reconciliation at the year end did not take into account the total amounts in the ledger of cash and cash equivalents. Due to the early closure of the ledger, the Council amended the way they posted the bank transactions that cleared on the last day of the year. However two departments (exchequer and technology) were both involved in making adjustments for these entries and no overall reconciliation of the final amounts in the ledger was completed. This has led to an uncleared suspense account balance of £2.4m which overstated creditors, and overstatements of bank balances by £1.1m and debtor balances by £1.3m.</li> <li>Bank reconciliations are a fundamental part of control and if they are not fully completed and reviewed there is a risk of mis-statement due to error or fraud.</li> </ul>	<ul style="list-style-type: none"> <li>We recommend the Council reviews its reconciliation process to ensure all transactions before and after the year end are considered as part of the reconciliation.</li> </ul>
2.		<ul style="list-style-type: none"> <li>We found that there were balances held within the ledger suspense accounts as at the year end of £2.6m including the £2.4m referred to in point 1 above.</li> </ul>	<ul style="list-style-type: none"> <li>We recommend that all suspense accounts are cleared to zero at the year end.</li> </ul>

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

**Assessment**  
 Significant deficiency – risk of significant misstatement  
 Deficiency – risk of inconsequential misstatement


"The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal control 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. The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

## Internal controls (continued)

	Assessment	Issue and risk	Recommendations
3.		<ul style="list-style-type: none"> <li>The Head of Financial Management &amp; Processes has system administrative rights in the P2P application and is able to both raise purchase orders and approve them. Whilst we understand that this is not done in practice, our understanding is that there is no system control in place to actually prevent this from happening.</li> </ul>	<ul style="list-style-type: none"> <li>We recommend that the Council reviews the users' administrative rights and consider whether appropriate controls are in operation.</li> </ul>

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

**Assessment**

-  Significant deficiency – risk of significant misstatement
-  Deficiency – risk of inconsequential misstatement

"The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal control 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. The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

# Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	<ul style="list-style-type: none"> <li>In the prior year, review of year end journals identified a large number of journals above the threshold of £200,000 which did not require authorisation in the system by a separate individual</li> </ul>	<ul style="list-style-type: none"> <li>The Council implemented a control to ensure that journals above the threshold of £200,000 are reviewed and authorised by a separate individual</li> </ul>

**Assessment**

- ✓ Action completed
- X Not yet addressed

# Adjusted misstatements

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts 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 in detail below along with the impact on the key statements and the reported net expenditure for the year.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £000
1 Balances included in suspense account have been classified as Creditors. This balance relates to both cash received as at 31 March 2017 and debtors. Proposed adjustment is:	£nil	£	£Nil
DR Creditors £2,445,057		2,445,057	
CR Debtors £1,310,101		(1,310,101)	
CR Cash £1,134,956		(1,134,956)	
2 Balances included in Cash and Cash Equivalents should have been classified as Short Term Investments Proposed adjustment is:	£nil	£	£Nil
DR Short Term Investments £30,000,000		30,000,000	
CR Cash £30,000,000		(30,000,000)	
<b>Overall impact</b>	<b>£nil</b>	<b>£nil</b>	<b>£nil</b>



## Misclassifications and disclosure changes

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

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	N/A	Expenditure and Funding Analysis	A request was made to move this to the notes to the accounts so it is appropriately covered by the audit opinion
2 Misclassification	2,729	Note 13 Asset under construction	A recycling centre was misclassified as an asset under construction as at 31 March given it went into operation before the year end and therefore should be included under land and buildings
3 Disclosure	(3,745)	Note 13 - Other Land and Buildings - Assets reclassified to Held for Sale-	This movement does not relate to Assets Held for Sale and therefore is be disclosed under other movements in cost or valuation

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## Section 3: Value for Money

01. Executive summary

02. Audit findings

**03. Value for Money**

04. Other statutory powers and duties

05. Fees, non-audit services and independence

06. Communication of audit matters

## Background

We are required by section 21 of the Local Audit and Accountability Act 2014 (the Act) and the NAO Code of Audit Practice (the Code) to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2016. AGN 03 identifies one single criterion for auditors to evaluate:

*In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.*

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

## Risk assessment

We carried out an initial risk assessment in March 2017 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 16 March 2017.

- Delivery of planned recurrent savings – the Council set a balanced budget after identifying £34.3 million of savings to be delivered in year.
- Financial sustainability and identification of recurrent savings for 2017/18 and beyond - the latest medium term financial strategy outlined £40.6 million of savings for 2018/19 to 2020/21 which still needed to be found.
- Service transformation projects- the Council has started a programme delivering significant changes to the way in which services are delivered. The programme requires a number of key projects and investments, which are significant both in scale and financial terms.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

### **Significant qualitative aspects**

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- Delivery of planned recurrent savings – the Council delivered a balanced budget despite the significant pressures on Adult Services and not delivering all the savings it planned to. However, regular monitoring of savings during the year allowed the Council to manage its budget closely to achieve an expected outturn.
- Financial sustainability & identification of recurrent savings for 2017/18 and beyond- the Council has developed a medium term financial strategy from 2017/18 to 2020/21 where there is a balanced budget for 2017/18 with no savings gaps. Further savings remain to be identified from 2018/19 onwards. Work on the next MTFS is in progress and, following the announcement of additional Better Care Fund funding for Adult Social Care as at the year end, guidance is awaited on how this can be used before the MTFS is refreshed.
- Service Transformation project- the Council has started a transformation programme scoping in year some of the key areas to implement transformation with the view to finalising a transformational plan in the 2017/18 financial year. The Council has made some progress however significant work needs to be done in order to deliver the required savings in the medium term and arrangements need to be made for monitoring the programme to ensure delivery.
- We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on pages 29 to 31.

### **Overall conclusion**

Based on the work we performed to address the significant risks, we concluded that:

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

The text of our report, which confirms this can be found at Appendix B.

### **Recommendations for improvement**

We discussed findings arising from our work with management and have agreed recommendations for improvement as follows.

- Whilst progress has been made with regard to reporting variances and non delivery of savings, the Council should increase its transparency providing further details in terms of reporting the delivery of planned savings
- The Council should refresh its medium term financial strategy and budget to take into account new social care funding and the latest demand for Adult and Childrens' services.
- The Council should introduce a framework with key milestones for monitoring progress of its transformational programme and ensure that it has detailed delivery plans for savings and when they are realistically to be achieved
- Management's response to these can be found in the Action Plan at Appendix A.

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
<p><b>Delivery of planned recurrent savings</b> The Council set a balanced budget for 2016/17 after identifying £34.3 million of savings that were needed to achieve a balanced budget for the year. To achieve these savings whilst maintaining provision of service presents a challenge. There is a risk of not achieving the required savings in year resulting in potential overspends in budget for current and future years.</p>	<p>We reviewed the arrangements for monitoring and managing delivery of the 2016/17 budget and savings plans. We will review the Council's arrangements for 2017/18 budget setting including identification of savings plans.</p>	<p>The Council delivered an outturn position as forecast for 2016/17 and of the savings identified in its budget achieved £26.8m of a total £34.3million which was previously identified.</p> <p>The Council monitors its savings plans in year through the budget management group which is attended by Senior Finance Officers. If there are any significant variations, these are reported and escalated to members accordingly. There is clear evidence of this having occurred during the course of the financial year which demonstrates a step forward and progress in terms of reporting variances and budget difficulties. Despite this there is scope to improve the transparency of reporting savings delivery further against planned outcomes.</p> <p>As in previous years, the main budget pressure during the financial year has been on Adult Services where the Council had an overspend of £6.9 million in 2016/17 taking into account a one off benefit of £4m relating to procurement activity and underspend in the Better Care Fund. Given the budget pressures the Council did not achieve all of its expected savings which totalled £34.3 million at the start of the year. A total of £7.8m of savings was written out of the plans during the year, however new one off savings of £4m were used to offset this along with the Council achieving underspends in other areas in order to deliver an outturn position as originally forecasted.</p> <p>The non delivery of planned savings resulted in a significant shortfall and this has led to the Council revising planned recurrent savings for future years in the latest Medium Term Financial Plan published in February. Relying on compensating in year underspends are only a short term measure and use of one off measures results in increasing financial pressures to deliver more recurrent savings in the future.</p> <p>Overall despite the significant pressures on Adult Services which resulted in savings not being achieved, the Council has delivered its targeted outturn. While not all planned savings were achieved, regular monitoring has allowed the Council to implement new savings plans and achieve underspends in other areas to ensure the outturn was delivered. On this basis, we have concluded that the risk was sufficiently mitigated and the Council has adequate arrangements in place. However the non delivery of some savings in 2016/17 has resulted in increasing pressures going forward.</p>

**Key findings**

Significant risk	Work to address	Findings and conclusions
<p><b>Financial sustainability and identification of recurrent savings for 2017/18 and beyond</b></p> <p>Whilst the Council has set a balanced budget for 2016/17 and 2017/18, and has increased council tax by the maximum permitted, finding additional savings in future years continues to be an increasing significant challenge. The latest medium term financial strategy (MTFS) outlined that £40.6 m of savings for 2018/19 to 2020/21 still need to be found. To achieve this whilst maintaining provision of service presents a challenge.</p> <p>Following the Budget announcement in March 2017 of increased funding for adult and social care, this may require the Council's medium term financial strategy to be refreshed accordingly.</p> <p>There was a risk that recurrent savings are not identified and achieved to fill the savings gap identified.</p>	<p>We reviewed the Council's arrangements for updating, agreeing and monitoring its Medium Term Financial Strategy. Specifically we will consider the robustness of the financial planning assumptions and arrangements for ensuring the financial projections including future savings are realistic and achievable.</p>	<p>The Council has a strong track record of delivering to budget and has produced a balanced budget for 2017/18 which relies on bridging a gap of £22.2m through new savings. The Council has a medium term financial strategy for the period 2017/18 to 2020/21 approved by the Council in February 2017 which includes savings plans identified and gaps. This is supported by a rolling 4 year plan which provides details of individual savings plans and owners and is updated on a regular basis. In producing the MTFS the Council has carried out a risk assessment of potential variation of services budgets in the medium term and the required contingencies detailing the level of reserves required.</p> <p>The main budget pressure in 2017/18 and going forward as in the previous year is spending on Adult Social Care. The Council have provided a £18.7m increase in the Adult and Social Care budget in 2017/18 compared to the prior year primarily funded by the recently announced Adult Social Care precept which is estimated to provide £10.2m, however this will cease to be available in 2019/20 underlying the need for transformation change of services which the Council has started to plan. Similarly, the Council budget for 2017/18 contains a one off Adult social care support grant funding available in 2017/18 of £3.6m which is not available in future years.</p> <p>With regard to the £22.2m savings gap in 2017/18, this was originally £33m and is to be partly filled by a planned transfer from earmarked reserves of £11.6m generated from the changes to the Minimum Revenue Provision (MRP) policy changed in the 2015/16 financial year. Whilst an acceptable strategy, the 2017/18 balanced budget is reliant on delivery of recurrent savings and transfers from reserves which leads to greater pressures in the medium term and underlines the need for transformation programmes to make an impact and deliver the savings required. The Council has been benefitting from one off non recurrent situations including the change in MRP policy and the legal settlement in relation to Dartington School. The school settlement has led to £8m being placed in reserves during the 2016/17 financial year.</p> <p>Despite the challenges, recent announcements to increase the Better Care Fund (BCF) to fund Adult Social care may ease the burden in the medium term where savings are still to be identified. However as at 31 March 2017, it was unclear how this additional funding is able to be spent and is contingent on agreement with BCF health partners and the specific strategies and targets of the BCF which may restrict the use of such funds. As at 31 March 2017, this was still to be determined and it is recommended that the Council revisits their MTFS and budget to take into account of this new social care funding, the latest demand for Adult and Childrens' services and replacement savings which are to be found.</p> <p>Overall, we have concluded that the Council had suitable arrangements during the course of the year for managing this risk however, the Council's financial position remains high risk as at 31 March 2017 and is dependent on delivery of recurrent savings.</p>

## Key findings

Significant risk	Work to address	Findings and conclusions
<p><b>Service transformation projects</b> The Council's has embarked on a programme delivering significant changes to the way in which services are delivered. The programme requires a number of key projects and investments, which are significant both in scale and financial terms. There is a risk that the transformational programme does not produce the required level of change and therefore does not deliver the financial savings needed in the required timeframe.</p>	<p>We reviewed the project management and risk assurance arrangements established by the Council in respect of the transformational programme and related significant projects, to establish how the Council is identifying, managing and monitoring these risks against planned outcomes.</p>	<p>The Council has started the transformational programme by scoping some of the key areas to implement transformation. The Council are planning to manage existing demand creating efficiencies as well as look to reduce anticipated demand in the future. The transformational programme remains at a very early stage with much to do to deliver the required transformational programme which hope to deliver savings the Council requires in the medium term. The Council has started working on an organisational plan and it is expected that this will contain a finalised transformational plan.</p> <p>Of the areas identified for transformation, the most advanced is linked to the adult social care which has the most significant budget pressures. The Council has started initial discussions with health partners in parts of the County to collaborate more with the view to change how health and social care for adults is managed and delivered.</p> <p>The Council is planning to scope a number of themes and areas where services require transformation. There is still much to be done to deliver the required transformational programme and savings. In part reflecting the early stage of the transformational programme, the Council needs to implement more robust arrangements for monitoring and managing the transformational project with timelines agreed. Given the financial pressures, it is imperative that the Council continues to make financial savings in the coming years and the transformational programme is key to this.</p> <p>The Council needs to accelerate the pace of the programme to allow consultation and planning of savings in advance of the required delivery time. It is recommended that the Council has a framework with key milestones for monitoring progress to allow consultation and planning of savings in advance and it has detailed delivery plans for savings required in the medium term and by when.</p> <p>The Council has made some progress in scoping the areas for transformational change, however this remains a significant risk. There still is significant work to be done in this area to realise the savings needed. As at 31 March 2017, the transformational plan had not been finalised. Whilst the Council has made arrangements for delivering transformational change in year, methods for monitoring progress were still to be determined and there is a need to agree timelines for delivery. The production of the transformational plan will be a key step and hopefully will assist in the transformational projects progressing at a faster pace which is needed to deliver the required savings in the medium term.</p>

**Significant difficulties in undertaking our work**

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

**Significant matters discussed with management**

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

**Any other matters**

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.



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## Section 4: Other statutory powers and duties

01. Executive summary

02. Audit findings

03. Value for Money

**04. Other statutory powers and duties**

05. Fees, non audit services and independence

06. Communication of audit matters

We set out below details of other matters which we, as auditors, are required by the Act and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	<b>Public interest report</b>	<ul style="list-style-type: none"><li>• We are considering whether to issue a public interest report as requested by the Objector to the 2015-16 accounts. As at 8 August 2017 we have not identified any other matters that would require a public interest report to be issued.</li></ul>
2.	<b>Written recommendations</b>	<ul style="list-style-type: none"><li>• We have not made any written recommendations that the Council is required to respond to publicly</li></ul>
3.	<b>Application to the court for a declaration that an item of account is contrary to law</b>	<ul style="list-style-type: none"><li>• We have not used this duty</li></ul>
4.	<b>Issue of an advisory notice</b>	<ul style="list-style-type: none"><li>• We have not used this duty</li></ul>
5.	<b>Application for judicial review</b>	<ul style="list-style-type: none"><li>• We have not used this duty</li></ul>

We have received objections to the 2015/16 accounts and the 2016/17 accounts which are being considered, our work in relation to these is ongoing.

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## Section 5: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

**05. Fees, non audit services and independence**

06. Communication of audit matters

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

### Fees

	Proposed fee £	Final fee £
Council audit	105,281	TBC
<b>Total audit fees (excluding VAT)</b>	<b>105,281</b>	<b>TBC</b>

We have received an objection to the 2015/16 accounts in relation to payments to Devon Partnership Trust for delegated responsibilities under the Care Act 2014. Our work is ongoing in relation to this and the estimated fee to date is £15,000. We also have received another objection in relation to the 2016/17 accounts

### 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 Auditing Practices Board's Ethical Standards and 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.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table below summarises all non-audit services which were identified.

### Fees for other services

Service	Fees £
<b>Audit related services:</b>	
• Certification of Teachers' Pension end of year certificate	<b>4,200</b>
• Certification of School-centred initial teacher training (SCITT) annual returns	<b>3,700</b>
• Certification of Local Transport Plan Major Projects grant return	<b>4,000</b>
<b>Non-audit services total</b>	<b>11,900</b>

# Independence and non-audit services

We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place

Service provided to	Fees	Threat?	Safeguard
Certification of Teachers' Pension return for Devon County Council	4,200	<ul style="list-style-type: none"> <li>Self- interest</li> </ul>	This is potentially a recurring fee and therefore a self-interest threat exists. However, the level of this recurring fee taken on its own is not considered to be a significant threat to independence as the fee for this work in comparison to the total planned fee for the audit (£105,281) for the Council and in particular to Grant Thornton UK LLP overall turnover. Furthermore, the work relates to audit related services for which there is a fixed fee and no contingent element to the fee. These factors are deemed to adequately mitigate the perceived self-interest threat to an acceptable level.
Certification of Local Transport Plan Major Projects grant return	4,000	<ul style="list-style-type: none"> <li>Self- interest</li> </ul>	This is potentially a recurring fee and therefore a self-interest threat exists. However, the level of this recurring fee taken on its own is not considered to be a significant threat to independence as the fee for this work in comparison to the total planned fee for the audit (£105,281) for the Council and in particular to Grant Thornton UK LLP overall turnover. Furthermore, the work relates to audit related services for which there is a fixed fee and no contingent element to the fee. These factors are deemed to adequately mitigate the perceived self-interest threat to an acceptable level.
Certification of School Centred Initial Teacher training grant for Devon County Council	3,700	<ul style="list-style-type: none"> <li>Self- interest</li> </ul>	This is potentially a recurring fee and therefore a self-interest threat exists. However, the level of this recurring fee taken on its own is not considered to be a significant threat to independence as the fee for this work in comparison to the total planned fee for the audit (£105,281) for the Council and in particular to Grant Thornton UK LLP overall turnover. Furthermore, the work relates to audit related services for which there is a fixed fee and no contingent element to the fee. These factors are deemed to adequately mitigate the perceived self-interest threat to an acceptable level.
<b>TOTAL</b>	<b>£11,900</b>		

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## Section 6: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

**06. Communication of audit matters**

# Communication to those charged with governance

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

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, 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 Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

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 at the time of our appointment. 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 NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). 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.

Our communication plan	Audit Plan	Audit Findings
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		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

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# Appendices




**A. Action Plan**

**B. Audit Opinion**









## A. Action plan

Rec no.	Recommendation	Management response	Implementation date and responsibility
1 	The Council should review its year end procedures to ensure all transactions before and after the year end are considered as part of the overall reconciliation of the cash and cash equivalents balance.	All balances are considered as part of the reconciliation. The change in procedures due to the earlier closedown timetable has made this more difficult and did lead to a departure from best practice. However, this did not lead to an increased risk of misstatement due to fraud.	Head of Financial Management and Processes Ongoing
2 	All suspense accounts should be cleared to zero at the year end	All suspense accounts are managed and controlled and will continue to be, however, with the earlier close timetable it is not pragmatic to expect all accounts to be cleared to zero and provided all accounts are managed and reviewed and balances insignificant then this should be adequate.	
3 	We recommend that the cash in transit balances are clearly identified on the bank reconciliation at month end including which account they relate to and that procedure notes are updated to fully document the accounts held, the purpose for them and the processing procedures in place for each.	Agreed	Head of Exchequer, CFCS & VAT  December 2017
4 	The Council should review the controls over P2P system to ensure that there is appropriate segregation of duty	P2P Access is controlled independently by ICT. Users rights are defined by various Active Directory (AD) groups on their network accounts. These can only be amended by ICT as the P2P team have no access to network accounts.  There is a generic requestor group which everyone belongs to, allowing PO's to be raised. PO approval is controlled by 6 different AD Groups, each conferring a different authorisation limit.  While there is currently no formal monitoring process to identify documents processed by the system managers, a listing has been provided for audit. This will be produced regularly in future, reviewed by management and included in the audit working papers	Head of Financial Management and Processes Ongoing

**Priority**  
 High – Significant effect or risk  
 Medium – Effect/ risk  
 Low – Best practice

## A. Action plan

Rec no.	Recommendation	Management response	Implementation date and responsibility
5 	The Council should introduce a framework with key milestones for monitoring progress of its transformational programme and ensure that it has detailed delivery plans for savings and when they are realistically to be achieved	Agreed for Transformational Programme.	Head of Organisational Development December 2017
6 	The Council should refresh its medium term financial strategy and budget to take into account new social care funding and the latest demand for Adult and Children's services.	As discussed this is already underway	
7 	Whilst progress has been made with regard to reporting variances and non delivery of savings, the Council should increase its transparency providing further details in terms of reporting delivery of planned savings	Agreed	Senior Assistant County Treasurer Ongoing

**Priority**  
 High – Significant effect or risk  
 Medium – Effect/ risk  
 Low – Best practice

# 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 (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). 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 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's 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 Responsibilities for the Statement of Accounts, 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 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards 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 Narrative Report, and the Annual Governance Statement 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 present a true and fair view of the financial position of the Authority as at 31 March 2017 and of its expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

### Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report, and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

### Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.

## B: Draft Audit opinion (continued)

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

#### **Respective responsibilities of the Authority and auditor**

The Authority is responsible for putting in place proper arrangements for securing 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 20(1)(c) of the Act to be satisfied that the Authority has made 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 the Authority's arrangements for securing economy, efficiency and effectiveness in its 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 issued by the Comptroller and Auditor General in November 2016, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criteria as that 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 2017.

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 has put in place proper arrangements for securing 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 issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

#### **Delay in certification of completion of the audit**

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2017 in accordance with the requirements of the Act and the Code of Audit Practice until we have completed our consideration of an objection brought to our attention by a local authority elector under Section 27 of the Act. We are satisfied that this matter does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Elizabeth Cave  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Hartwell House  
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Bristol  
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XX September 2017



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