

# Audit Findings

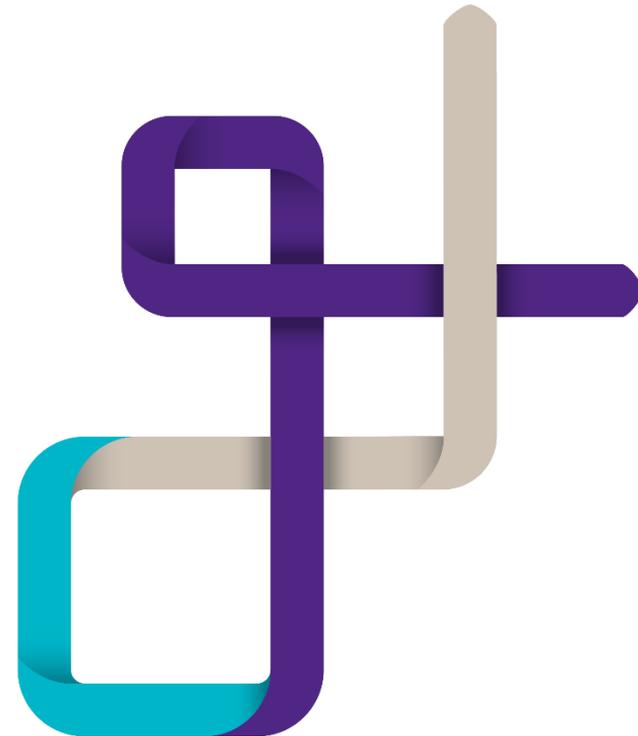
*Year ending 31 March 2018*

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

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Devon County Council

Audit Committee date: 27 July 2018



# Contents



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Section	Page
1. Headlines	3
2. Financial statements	5
3. Value for money	13
4. Independence and ethics	15

## Appendices

- A. Action plan
- B. Follow up of prior year recommendations
- C. Audit adjustments
- D. Fees
- E. Audit Opinion

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 for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.

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# Headlines

The table below summarises the key issues arising from the statutory audit of Devon County Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2018 for those charged with governance.

This Audit Findings Report summarises the audit work undertaken as at 19 July 2018. Our audit is still in progress and we will provide a verbal update to the Council's Audit Committee on 27 July 2018.

<b>Financial Statements</b>	<p>Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"> <li>the Council's financial statements give a true and fair view of the Council's financial position and of the group and Council's expenditure and income for the year, and</li> <li>have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.</li> </ul>	<p>Our audit work was undertaken on site during June and July 2018. Our findings are summarised in section two. The financial statements were produced to a high standard and we did not identify any adjustments that have resulted in an amendment to the Statement of Comprehensive Income and Expenditure.</p> <p>Adjustments made during the course of the audit are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p>
	<p>We are also required to report whether other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Subject to the residual testing being completed and the outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 27 July 2018, as detailed in Appendix E.</p> <p>The key outstanding items include:</p> <ul style="list-style-type: none"> <li>completion of the Pension Fund audit;</li> <li>receipt of management representation letter;</li> <li>review of the final set of financial statements;</li> <li>review of subsequent events to the date of our opinion;</li> <li>completion of journals testing;</li> <li>review of the Council's updated assessment on pensions guarantees;</li> <li>completion of testing for starters and leavers;</li> <li>completion of operating expenses detailed testing and work on the year end creditors;</li> <li>final file review by a review partner; this is an additional quality assurance arrangement Grant Thornton has for key audit assignments.</li> </ul>
		<p>The accounting treatment of LOBOs is currently the subject of consideration nationally and this exercise is being coordinated by the National Audit Office.</p> <p>We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent our knowledge of your organisation and with the financial statements we have audited.</p>

# Headlines

<b>Value for Money arrangements</b>	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"> <li>the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion')</li> </ul>	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Devon County Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised in section three.</p>
<b>Statutory duties</b>	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> <li>report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and</li> <li>certify the closure of the audit</li> </ul>	<p>We do not expect to be able to certify the conclusion of the audit yet as we have received one objection to the 2017/18 financial statements that we are in the process of considering. Further details are noted on page 12.</p>

## Acknowledgements

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.

# Summary

## Overview of the scope of our audit

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), 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.

## Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- an evaluation of the Council's internal controls environment including its IT systems and controls;
- controls testing of the pensions, property, plant & equipment, operating expenses and employee remuneration systems; and
- substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

## Conclusion

As noted earlier, we have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 27 July 2018.

## Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. We updated the materiality calculations we reported in our audit plan on receipt of the Council's draft financial statements for the year ended 31 March 2018. We detail in the table below our assessment of materiality for the Council.

	Per Audit Plan (£)	Updated Materiality (£)	Comments
Materiality for the financial statements	£22.7m	£23.8m	This was based on the Council's gross expenditure on the provision of services in the year as we think this is of most interest to users of the Council's financial statements.
Performance materiality	£17m	£17.8m	This is 75% of the above materiality.
Trivial matters	£1.1m	£1.2m	This is 5% of the materiality for the financial statements.
Materiality for specific transactions, balances or disclosures	Related parties: £800k Senior Officer Remuneration £20k	No changes	We adopted a lower level of materiality due to increased levels of public interest in the disclosures. During our audited we focussed on any related party outside the normal course of business.

# Significant audit risks

## Risks identified in our Audit Plan

## Commentary

1

### Improper revenue recognition

Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.

This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

### Auditor commentary

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- there is little incentive to manipulate revenue recognition;
- opportunities to manipulate revenue recognition are very limited; and
- the culture and ethical frameworks of local authorities, including Devon County Council, mean that all forms of fraud are seen as unacceptable.

Therefore we do not consider this to be a significant risk for the Council.

2

### Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.

The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.

We identified management override of controls as a risk requiring special audit consideration.

### Auditor commentary

We have undertaken the following work in relation to this risk:

- gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness;
- obtained a full listing of journal entries, carried out a full analysis to identify and test unusual journal entries for appropriateness;
- evaluated the rationale for any changes in accounting policies or significant unusual transactions;
- reviewed unusual significant transactions;
- reviewed any significant related party transactions outside the normal course of business.

Our journals testing is still in progress but audit work to date has not identified any issues in respect of management override of controls.

# Significant audit risks

## Risks identified in our Audit Plan

## Commentary

3

### Valuation of property, plant and equipment

The Council revalues its land and buildings on an quinquennial basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.

We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.

### Auditor commentary

We have undertaken the following work in relation to this risk:

- reviewed the competence, expertise and objectivity of the management expert used;
- reviewed the instructions issued to valuation experts and the scope of their work;
- reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding; and
- tested that revaluations made during the year were input correctly into the Council's asset register.

Before we issue our opinion we will:

- evaluate 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;
- review the accounting entries for the revaluation reserve.

Our audit work to date has not identified any issues in respect of management override of controls.

4

### Valuation of pension fund net liability

The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.

We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.

### Auditor commentary

We have undertaken the following work in relation to this risk:

- identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement;
- reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation;
- gained 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; and
- reviewed the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary.

Our audit work has not identified any issues in respect of the valuation of the pension fund net liability.

# Reasonably possible audit risks

## Risks identified in our Audit Plan

## Commentary

1

### Employee remuneration

Payroll expenditure represents a significant percentage of the Council's operating expenses.

As the payroll expenditure comes from a number of individual transactions and an interface with different sub-systems there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention.

### Auditor commentary

We have undertaken the following work in relation to this risk:

- documented our understanding of processes and key controls over the transaction cycle;
- undertaken a walkthrough of the key controls to assess the whether those controls were in line with our documented understanding;
- reconciled payroll expenditure reported in the financial statements to total expenditure recorded in the payroll system; and
- performed substantive analytical procedures.

Before we issue our opinion we will complete our testing of starters and leavers.

Our audit work to date has not identified any issues in respect of employee remuneration.

2

### Operating expenses

Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.

We identified completeness of non- pay expenses as a risk requiring particular audit attention:

### Auditor commentary

We have undertaken the following work in relation to this risk:

- documented our understanding of processes and key controls over the transaction cycle;
- undertaken a walkthrough of the key controls to assess the whether those controls were in line with our documented understanding;
- evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness;
- agreed creditors balances to the ledger; and
- reviewed payments after the year end to ensure all liabilities have been identified.

Before we issue our opinion we will complete our testing of operating expenses incurred in the year and the significant creditor balances at the year end.

Our audit work to date has not identified any issues in respect of operating expenses.

## Other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan.

	Issue	Commentary	Auditor view
1	<b>Accounting for schools transferring to Academy status</b>	When a Council-owned school attains Academy status, Devon County Council grants a 125 year lease on the land and buildings to the newly formed Academy. The Council then removes the land and the buildings from its balance sheet, treating them as a disposal with zero proceeds. Whilst 125 years represents a significant proportion of the useful economic life of the buildings, we challenged whether this was appropriate for the land element.	We agree with the Council's view that the risks and rewards have been transferred to the Academy and that the land has non-material value to the Authority due to its restricted use in connection with the academy.
2	<b>Revision to the Council's minimum revenue provision (MRP) policy</b>	The Council changed its minimum revenue provision (MRP) policy in February 2018 as it anticipated changes to the national Capital Financing Framework. Revenue savings of £10.916m in 2017/18 have been transferred to a specific MRP reserve. Future use of this reserve will be considered in 2018/19.	<b>Auditor view</b> Our local financial reporting lead reviewed the Council's proposals ahead of the draft financial statements being prepared. We were satisfied that the arrangements complied with the relevant regulations.
3	<b>Reserves and balances</b>	The Council has a number of reserves such as 'budget management' and 'non schools budget carry forwards' that were not earmarked for specific purposes and we challenged whether these should form part of the General Fund.	<b>Auditor view</b> We were satisfied with the Council's rationale for these reserves.
4	<b>Critical judgements</b>	The Council's financial statements include details of critical judgements it has applied when applying its accounting policies.  We challenged whether judgements were critical and whether they would have a material effect on the accounts.	<b>Auditor view</b> The Council has agreed to review the critical judgements as part of its preparation for the 2018/19 financial statements.

# Accounting policies

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	<p>The Council's policy on revenue recognition is included in note 2 of the Statement of Accounts.</p> <p>Fees, charges and rents due from customers are accounted for as income at the date the Authority provides the relevant goods and services;</p> <p>Council tax and Non Domestic rates revenue is recognised when the following conditions have been satisfied:</p> <ol style="list-style-type: none"> <li>the amount of revenue can be measured reliably; and</li> <li>it is probable that the economic benefits or service potential associated with the transaction will flow to the authority.</li> </ol>	<p>The accounting policy is appropriate and complies with the Code of Practice on Local Authority Accounting (the Code).</p> <p>Income is not an area that requires significant judgement or estimation.</p> <p>The disclosure of the accounting policy is adequate.</p>	 <b>Green</b>
<b>Judgements and estimates</b>	<p>Key estimates and judgements include :</p> <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 type arrangements</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>• We have reviewed the accounting models the Council used to calculate the entries required in the accounts for the three current PFI type schemes in operation. We are satisfied that the transactions are fairly reflected in the Council's financial statements.</li> </ul> <p>As noted on page 9, the Council has agreed to review the critical judgements as part of its preparation for the 2018/19 financial statements.</p>	 <b>Green</b>

## Assessment

-  Marginal accounting policy which could potentially be open to challenge by regulators (Red)
-  Accounting policy appropriate but scope for improved disclosure (Amber)
-  Accounting policy appropriate and disclosures sufficient (Green)

## 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>	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.
② <b>Matters in relation to related parties</b>	We are not aware of any related parties or related party transactions which have not been disclosed.
③ <b>Matters in relation to laws and regulations</b>	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.
④ <b>Written representations</b>	A standard letter of representation has been requested from the Council, which is included in the 27 July Audit Committee papers. A specific representation has been requested from management in respect of the pension guarantees provided by the Council to external organisations.
⑤ <b>Confirmation requests from third parties</b>	We requested from management permission to send confirmation request to its bankers and external bodies with which the Council has short term investments. This permission was granted and the requests were sent. All of the responses that have been received were returned with positive confirmation. However not all responses had been received at the time of writing. We will provide an update to the Audit Committee and will undertake alternative audit procedures if necessary.
⑥ <b>Disclosures</b>	Our review found no material omissions in the Council's financial statements.
⑦ <b>Significant difficulties</b>	We received a good level of cooperation from the Council during the course of the audit. With the agreement of the Council we trialled a new way of obtaining all transactions in the Council's ledger. Unfortunately there were unforeseen complexities in the mapping of the data to the accounts and this led to a delay to the start of our detailed testing. Looking ahead to 2018/19, the fee proposed by PSAA reflects a 23% reduction compared to the current year. We have invested significantly in our audit technology and methodology to help achieve this. PSAA recognises that local authorities also have a role to play in ensuring audits can be delivered within the proposed fee envelope. We will work the Council to agree on the information and working paper requirements in advance of the 2018/19 audit.

## Other responsibilities under the Code

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

Issue	Commentary
① <b>Other information</b>	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified and we plan to issue an unqualified opinion in this respect – refer to appendix E</p>
② <b>Matters on which we report by exception</b>	<p>We are required to report on a number of matters by exception in a numbers of 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 other information of which we are aware from our audit</li> <li>• If we have applied any of our statutory powers or duties</li> </ul> <p>We have nothing to report on these matters.</p>
③ <b>Specified procedures for Whole of Government Accounts</b>	<p>As the Council exceeds the specified group reporting threshold we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <p>This work has a deadline of 31 August 2018 and has not yet completed.</p> <p>We will provide an update on the outcome of this work to a future meeting of the Council's Audit Committee.</p>
④ <b>Certification of the closure of the audit</b>	<p>We will not be able to certify the completion of the 2017/18 audit of Devon County Council in our auditor's report, as detailed in Appendix E, as we are still dealing with an objection from a Local Government objector and we have yet to complete our work on the WGA consolidation pack as noted above.</p>

# Value for Money

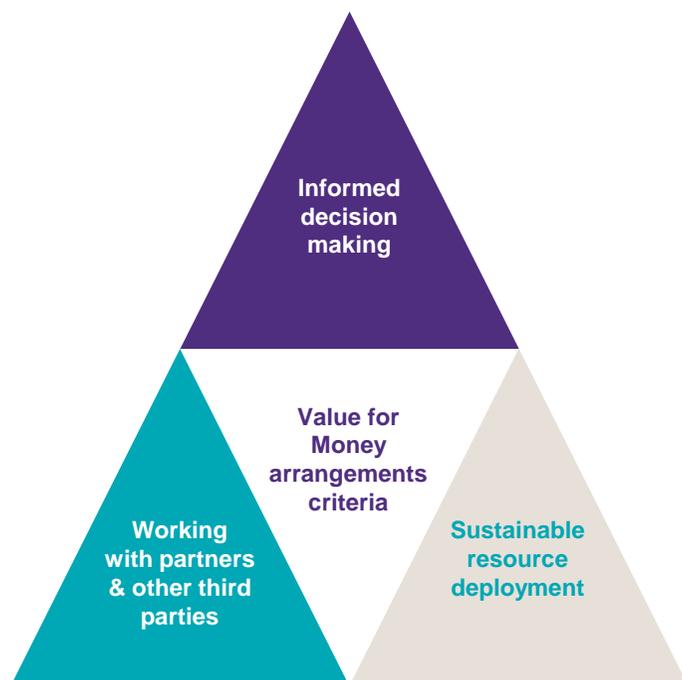
## Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance 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.”*

This is supported by three sub-criteria, as set out below:



## Risk assessment

We carried out an initial risk assessment in January 2018 and identified one significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan which we presented to the Audit Committee on 28 March 2018.

The risk was the delivery of the Council’s medium term financial plan, which at the time our risk assessment was undertaken, was reliant on its transformational programme, which was expected to become operational from 2019/20.

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 risk we identified from our initial and ongoing risk assessment. Where our consideration of the significant risk 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.

## 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 E.

## 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.

## Key findings

We set out below our key findings against the significant risk we identified through our initial risk assessment.

### Significant risk from the audit plan

#### Strategic Financial Planning

The ongoing challenge of meeting the savings outlined by Central Government continue to put pressures on Local Government finances. At the time we undertook our planning, we envisaged that the delivery of the Council's medium term financial plan would be reliant on its transformational programme, which was expected to become operational from 2019/20.

Nationally, the continued pressure from Adult and Children's services has resulted in significant overspends and further enforces the need to identify alternative methods of achieving councils' financial positions in the future.

### Audit work and Findings

We completed the following work:

- Reviewed the latest medium term financial strategy (MTFS)
- Considered the year end position for 2017/18, including delivery of planned savings
- Considered the ongoing funding challenging and how gaps in the MFTS will be addressed going forward

The Council was able to transfer £12m into reserves and achieve a surplus of £15,000. It was able to do this as it delivered in the region of £20.8m in savings and achieved additional funding such as the Better Care Fund and was overspent in just one area, Children's services.

The Council has been working within a number of areas to identify new ways of working that will deliver savings through the transformation programme. However, the funding gaps within the MTFS are not reliant on transformation programme and for the short term the Council continues to be able to deliver its savings through more traditional approaches.

### Conclusion

The Council's MTFS in 2019/20 is not reliant on its transformation programme and it anticipates that its savings can be met by traditional approaches in 2019/20. The outturn position for 2017/18 also provided an opportunity to increase the level of reserves and provide a short-term safety net should the savings gaps not be identified. The Council recognises that given the savings that have been achieved to date, future savings will be increasingly difficult to achieve.

The Council continues to make steady progress with its transformation programme. The Council has ensured Members are engaged and anticipates that savings from this programme will be identified in 2019/20 with more significant savings being achieved in 2020/21. This should enable the Council to begin to include transformation programme savings within the MTFS and demonstrate that the approach is delivering value for money. The process is a bottom-up, pilot based approach and as such the Council expects that a much higher percentage of savings should be achievable as the Council will have accurately quantified the savings using the pilots projects.

The Council should continue to actively monitor progress to ensure it identifies and begins to deliver savings in 2019/20.

# Independence and ethics

## Independence and ethics

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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

## Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified.

Service	£	Threats	Safeguards
<b>Audit related</b>			
Certification of Teachers Pensions return.	£4,200	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £4,200 in comparison to the total fee for the audit of £105,281 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of school-centred initial teacher training (SCITT).	£3,700	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £3,700 in comparison to the total fee for the audit of £105,281 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year.

# Action plan

We have identified two recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. 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	Issue	Recommendations
1	 <p>The Council's financial statements include details of critical judgements it has applied when applying its accounting policies. In our view not all of these judgements were critical as they would have a material effect on the accounts.</p>	<p>The Council should review its critical judgements in 2018/19 to ensure that they are appropriate and do have a material impact on the Council's accounts.</p> <p><b>Management response</b></p> <p>The content of Critical Judgements has accumulated over a number of years, partly as a result of previous audit recommendations. The Council will review critical judgements in 2018/19.</p>
2	 <p>The Council continues to make steady progress with its transformation programme. These savings are likely to become a key part of the Council's medium term financial plan.</p>	<p>Monitor progress against the transformation programme to ensure it is having the desired impact on both service delivery and financial savings to the Council and its key partners.</p> <p><b>Management response</b></p> <p>Agreed.</p>

## Controls

-  High – Significant effect on control system (Red)
-  Medium – Effect on control system (Amber)
-  Low – Best practice (Green)

# Follow up of prior year recommendations

We identified the following issues in the audit of Devon County Council's 2016/17 financial statements, which resulted in 7 recommendations being reported in our 2016/17 Audit Findings report. We are pleased to report that management have implemented all of our recommendations.

Assessment	Recommendation previously communicated	Update on actions taken by the Council
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.	We did not identify any issues during the course of our 2017/18 audit. Looking back at previous years, this appears to have been an isolated incident.
2	✓ All suspense accounts should be cleared to zero at the year end.	There were no suspense account balances at 31 March 2018.
3	✓ The cash in transit balances should be clearly identified on the bank reconciliation at month end, including which account they relate to, and procedure notes updated to fully document the accounts held, the purpose for them and the processing procedures in place for each.	We did not identify any issues during the course of our 2017/18 audit. Looking back at previous years, this appears to have been an isolated incident.
4	✓ The Council should review the controls over P2P system to ensure that there is appropriate segregation of duty.	We have reviewed the P2P transactions for the administrator and are satisfied that there are no segregation of duty issues.
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.	We reviewed this area as part of our Value for Money Conclusion work in 2017/18. Although the Council is not as dependent upon the transformation programme in the short term as it once was, there is a need to keep the momentum and to monitor progress against the transformation programme. This will ensure it is having the desired impact on both service delivery and financial savings to the Council and its key partners.
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.	The Council updated its medium term financial strategy in 2018 and we reviewed this as part of our Value for Money Conclusion work. We sought to understand the major changes since the previous version of the strategy and did not identify any concerns.
7	✓ The Council should increase its transparency by providing further details in terms of reporting the delivery of planned savings.	See response to recommendation 5, above.

#### Assessment

- ✓ Action completed
- X Not yet addressed

# Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted 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 The Council found that the transactions for one school had not been included within its financial statements. Although the amounts are not material, the Council made the adjustments in order to ensure that its financial statements were consistent with its WGA return.	Children's services – income and expenditure both increased by £4.507m	None	None
<b>Overall impact</b>	<b>No net effect</b>	<b>£0</b>	<b>£0</b>

## Misclassification 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.

Disclosure change	Detail	Adjusted?
Subsequent events	The Council updated its subsequent events note to reflect the schools which have attained Academy status since the year end.	✓

# Audit Adjustments

## Impact of unadjusted misstatements

No adjustments were identified during the 2017/18 audit which have not been made within the final set of financial statements.

There are no unadjusted errors from previous years.

## Fees

We confirm below our final fees charged for the audit and provision of non-audit services in 2017/18.

### Audit Fees

	Proposed fee	Final Fee	Per Accounts (note 31)	Commentary
<b>Council Audit</b>	105,281	105,281	105,281	
<b>2017/18 Grant Certification</b>				
Teachers Pensions return	4,200	TBC	4,200	This work will be completed later in 2018 and we will provide an update to a future meeting of the Audit Committee.
School-centred initial teacher training (SCITT) claim	3,700	TBC	3,700	This work will be completed later in 2018 and we will provide an update to a future meeting of the Audit Committee.
<b>Objection Costs</b>				
Fee for 2015/16 objection	-	22,058	7,000	We invoiced the Council for this work in 2018 on completion of the work. Devon County Council included £15,000 in its 2016/17 financial statements and the balance in 2017/18.
Expected fee for 2016/17 objection	7,993	TBC	6,000	We have completed this work and are awaiting approval from PSAA before we can invoice the Council.  The Council included an estimate of £6,000 for this work in its 2017/18 financial statements.
<b>Total audit fees (ex VAT)</b>	<b>£121,174</b>	<b>£TBC</b>	<b>£126,181</b>	

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

### Non Audit Fees

No non-audit related services have been undertaken for the Council.

# 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

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Devon County Council (the 'Authority') for the year ended 31 March 2018 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, and notes to the financial statements, including a summary of significant accounting policies. 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 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2018 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 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.

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the County Treasurer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- The County Treasurer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### Other information

The County Treasurer is responsible for the other information. The other information comprises the information included in the Statement of Accounts and Annual Governance Statement set out on pages 1 to 178, [the Narrative Report and the Annual Governance Statement], other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

### Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, and Annual Governance Statement [the Narrative Report and the Annual Governance Statement] for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 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 Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

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

### Responsibilities of the Authority, the County Treasurer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the statement of accounts [set out on page 20], the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the County Treasurer. 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 2017/18, which give a true and fair view, and for such internal control as the County Treasurer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the County Treasurer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the Authority.

The Audit Committee is Those Charged with Governance.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### Report on other legal and regulatory requirements - Conclusion on the Authority's 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 criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

#### Responsibilities of the Authority

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.

### **Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 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.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects 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 criterion 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 2018.

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 be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

### **Report on other legal and regulatory requirements - Delay in certification of completion of the audit**

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2018. We are satisfied that this work 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 2018.

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2018 in accordance with the requirements of the Local Audit and Accountability Act 2014 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 Local Audit and Accountability Act 2014. 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 2018.

Jon Roberts  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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