Grant Thornton

The Audit Findings for Devon County Council

Year ended 31 March 2020

25 February 2021

Contents

Your key Grant Thornton team members are:

Julie Masci
Engagement Lead
T: 029 2034 7506
E: julie.masci@uk.gt.com

David Bray
Senior Manager
T: 0117 305 7889
E: david.bray@uk.gt.com

Rory Mulgrew
Associate
T: 0117 305 7622
E: rory.a.mulgrew@uk.gt.com

Headlines

This table summarises the key findings and other matters 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 2020 for those charged with governance.

Covid-19	The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council. The Council focused on identifying key operational and strategic risks, using new interim working practices to ensure that functions could continue during 'lock down'. Our experience of working with the finance function has demonstrated that while functions continue to operate, these are inevitably taking more time to complete than in a normal year. Authorities were still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and with the target date for audited financial statements to 30 November 2020.	We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 28 April 2020 having previously discussed this issue with Officers. In that addendum we reported an additional financial statement risk in respect of Covid -19 and highlighted the impact on our VFM approach. Further detail is set out on page 7 of this report. Restrictions for non-essential travel has meant both Council and audit staff have had to adapt to ensure we have gained sufficient audit evidence for the balances within the financial statements. This has meant a greater reliance on video calling for many aspects of the audit, particularly in terms of the use of sharing of screens to watch transaction listings being run. Where information is normally provided in a spreadsheet format, we have undertaken additional levels of testing to ensure that the information provided has not been manipulated prior to being sent to the audit team. We are pleased to report that this process has worked well with both teams collaborating to identify solutions to hurdles presented by remote working. However, inevitably, the remote working has impacted on delivery and additional resources have been necessary on both sides to in order to complete the work. We recognise the additional challenges that this audit process has brought in working to ensure we deliver our audit to the required quality standards. We will be undertaking a post-audit debrief with Management in order to introduce further improvements and efficiencies in the accounts and audit process for 2020/21.

Headlines

This table summarises the key findings and other matters 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 2020 for those charged with governance.

Financial Statements	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, 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 • 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. We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	We commenced our post-statements remote audit in August and, as at 16 February 2021, our audit is substantially complete. Page 6 sets out the small number of residual areas where our work is being finalised. Our findings to date are summarised on pages 6 to 19. Audit adjustments are detailed in Appendix C and since the Audit Committee in November 2020 two amendments have been made to the Council's financial statements. Further details are set out in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of the recommendations from the prior year's audit are detailed in Appendix B. The draft financial statements were presented for audit in accordance with the agreed timetable of 1 August 2020. The statements were supported by good quality working papers and we received prompt responses to our queries, given the circumstances. However, this year we did encounter difficulties with agreeing the Council's financial statements to its general ledger and this work took longer than was anticipated. Subject to finalising the small number of remaining areas set out on page 6, our anticipated audit report opinion will be unqualified and will include an Emphasis of Matter paragraph highlighting the material uncertainties disclosed in the financial statements in respect of land and buildings valuations and also the County Council's share of the property assets held by the Devon Pension Fund.

Headlines

This table summarises the key findings and other matters 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 2020 for those charged with governance.

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	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 except for the serious failings identified by Ofsted in January 2020 during their inspection of Children's Social Care Services and which resulted in a judgement of 'inadequate' for overall effectiveness. We have updated our VFM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VFM risks in relation to Covid-19. We therefore anticipate issuing a qualified 'except for' value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 20 to 26.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code but are unable to issue our completion certificate until we complete our work in the following areas: • Whole of Government Accounts return; and • Opinion on the consistency of the Pension Fund financial statements with the Pension Fund Annual Report. We will complete this review by the date of the Audit Committee meeting on 25 February 2021 and will provide a verbal update to the Committee.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

Overview of the scope of our audit

This Audit Findings Report 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) and the Code, 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 control environment, including its IT systems and controls; and
- substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

We altered our audit plan, as communicated to you on 27 February 2020, to reflect our response to the Covid-19 pandemic. Further details on these changes are given on page 7.

Conclusion

Subject to the work being completed to our satisfaction, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 25 February 2021.

At the time of writing this report there are a small number of outstanding queries to resolve with Officers and we anticipate these will concluded by the Audit Committee. These queries relate to our sample testing on income and expenditure, debtors and creditors.

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.

Materiality levels remain the same as reported in our audit plan.

	Amount	Qualitative factors considered
Materiality for the financial statements	£16.5m	Equates to 1.5% of the prior year gross expenditure for the year.
Performance materiality	£12.4m	Equates to 75% of materiality figure
Trivial matters	£0.8m	Equates to 5% of materiality figure
Senior Officer Remuneration	£20k	This is a lower to reflect the interest in this disclosure.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Covid– 19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to: • remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation • volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates • financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and • disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • worked with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications on our audit approach. No changes were made to materiality levels previously reported. • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arose; • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances; • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; and • discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence. The Council responded well to the challenge of remote working and was able to produce draft financial statements on 1 August 2020. This was in accordance with the agreed timetable and was ahead of the national deadline (31 August 2020), although it was two months later than in the previous year. The Council identified a material uncertainty in relation to land and building valuations and disclosed this within its draft financial statements. The Council has since extended this disclosure to reflect similar material uncertainties to those with its directly owned land and buildings to the property investments held by Devon Pension Fund that are attributable to the County Council within its net liability related to the Defined Benefit Pension Scheme calculation. We will refer to both of these material uncertainties in our audit opinion. The financial challenges into the medium term have also increased due to the lost income, additional costs and the uncertainty of future Government funding in respect of Covid-19.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
The revenue cycle includes fraudulent transactions Under ISA (UK) 240 there is a rebuttable 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.	Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at the Authority, when producing our audit plan we determined that the risk of fraud arising from revenue recognition could 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. We therefore did not consider this to be a significant risk for Devon County Council. We have reconsidered this as part of our audit work on the financial statements and no new information has come to light to change our original assessment.
Management over-ride 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. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated the design effectiveness of management controls over journals; • undertaken testing to ensure the completeness of the journals listing; • analysed the journals listing and determined the criteria for selecting high risk unusual journals; • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. There are no matters we wish to report to the Audit Committee based on the work undertaken.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of land and buildings The Authority revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£1.4 billion) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	We have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • written to the valuer to confirm the basis on which the valuations were carried out; • engaged our own valuer to assess the instructions to the Council's valuer, their reports and the assumptions that underpinned the valuations; we have reviewed their feedback and are satisfied that there are no issues that would impact on our strategy or that we need to report to Those Charged with Governance; • reconciled the valuation report to the financial statements; and • tested a sample of revaluations made during the year to see if they had been input correctly into the Council's asset register; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding and reviewed the evidence underpinning a sample of revaluations; • engaged support from our valuation auditor's expert to assess the methodology used by the Council's valuer to value the two Energy from Waste (EfW) plants; and • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. As part of our increased challenge to management on the valuation of property, plant and equipment we sought a deeper understanding on the basis of valuation for the two energy from waste plants. As a result of this challenge, Management sought additional advice from its valuer who provided an updated valuation which was approximately £19m higher than the original valuation. The financial statements were amended accordingly. Please see page 13 for additional commentary on the work undertaken in this area. Appendix C (page 33) covers the amendment's to the Council's financial statements. As highlighted previously in this report, we are intending to include an emphasis of matter paragraph in the audit opinion to reflect the uncertainty surrounding land and building valuations at the year end. In line with RICS guidance, the valuer employed by the Council included a material uncertainty in their final valuation report. Officers reflected this uncertainty in the financial statements in the section 'assumptions made about the future and other major sources of estimation uncertainty'. The emphasis of matter paragraph refers to this disclosure in the accounts and draws attention to it for the readers of the financial statements and reflects the increased uncertainty in global markets created by Covid-19. This is in line with other local councils.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of the pension fund net liability The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represented a significant estimate in the financial statements. The pension fund net liability was considered a significant estimate due to the size of the numbers involved (£1 billion in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • sought and obtained assurances from the auditor of the Devon Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. Please also see pages 14 and 15 of this report for further work undertaken on the Pension Fund liability.

Other audit risks

Risks identified in our Audit Plan	Auditor commentary
Incomplete or inaccurate financial information transferred to the new payroll system In 2019/20, the Authority implemented a new payroll system. When implementing a new significant financial system, it is important to ensure that sufficient controls have been designed and operate to ensure the integrity of the data. There was also a risk over the completeness and accuracy of the data transfer from the previous payroll system. We therefore identified the completeness and accuracy of the transfer of financial information to the new payroll system as a risk.	We have: • understood the procedures used by the Council to ensure the effectiveness of the new payroll system; • assessed the controls the Council put in place to ensure the accurate transfer of data from the previous system and reviewed the work undertaken by the Council; • gained an understanding of the Council's system for accounting for payroll expenditure; • reconciled payroll expenditure reported in the financial statements to total expenditure recorded in the payroll system; and • performed substantive analytical procedures on the payroll transactions undertaken in 2018/19 and 2019/20, which, in part, compared the outputs from the 'new' system to that of the 'old' system. Based on the work undertaken, we are satisfied that the Council adopted an effective process for the transfer of the financial information to the new payroll system and there are no matters that we wish to report to the Audit Committee. However, Internal Audit noted a number of issues in their initial review of the new payroll system. Although we are satisfied that these issues would not have a material impact on the financial statements, it is important for the Council to ensure that these recommendations have been implemented. See the action plan in Appendix A.
International Financial Reporting Standard (IFRS) 16 Leases – (issued but not adopted) The public sector has implemented this standard from 1 April 2020. It replaced IAS 17 Leases, and the three interpretations that supported its application (IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). Under the new standard the current distinction between operating and finance leases is removed for lessees and, subject to certain exceptions, lessees will recognise all leases on their balance sheet as a right of use asset and a liability to make the lease payments. In accordance with IAS 8 and paragraph 3.3.4.3 of the Code disclosures of the expected impact of IFRS 16 should be included in the Authority's 2019/20 financial statements. The Code adapts IFRS 16 and requires that the subsequent measurement of the right of use asset where the underlying asset is an item of property, plant and equipment is measured in accordance with section 4.1 of the Code.	In order to reduce the pressure across the whole of the Public Sector as a result of the outbreak of Covid-19, the implementation of IFRS 16 has been delayed by a year to 1 April 2021. However, audited bodies still need to include disclosure in their 2019/20 financial statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases. Officers have included narrative around the implementation within the note entitled 'accounting standards that have been issued but have not yet been adopted'. In our view, appropriate disclosure has been included within the Council's financial statements.

Significant findings – 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 and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
Dedicated Schools Grant The Council had a cumulative overspend of £19.8m as 31 March 2020 as its expenditure exceeded the funding provided. As noted on page 6, the materiality for the financial statements is £16.5m and so this overspend is material.	The Council has offset the overspend on its Dedicated Schools Grant (DSG) against the other schools balances by setting up a deficit reserve. The Council has included the following disclosure within its financial statements: *"There is an overspend of £19.8 millions in the High Needs Block of the Dedicated Schools Grant which has been carried forward as a negative ringfenced balance in the balance sheet."* There are other references to this overspend within the financial statements and, in our view, the County Council has been transparent in the way in which it has reported this matter.	We are of the view that where overspends arise against DSG and are to be carried forward as a call against the schools' budget in future years, these should form part of the un-earmarked general fund. This is because expenditure is required to be recognised in the year in which it is incurred and forms part of the 'Surplus / Deficit on Provision of Services' within the Comprehensive Income and Expenditure Statement and is therefore accounted for as a charge to General Fund. The Schools & Early Years Finance Regulations 2020 do not allow for expenditure to be reversed out of the General Fund (i.e. they do not provide for a 'statutory override' creating an unusable reserve) in 2019/20. However, we are aware that discussions are in progress at a national level and that a public consultation is planned on the treatment of any overspends on the DSG going forward. Whilst our view on the accounting treatment differs to that of the Council, we are satisfied that Devon County Council has made appropriate disclosures within its financial statements and that the disclosure of this balance within the note covering the General Fund Balances, Schools and Earmarked Reserves is not misleading to the readers of the financial statements and does not distort the Council's reported financial position. See also page 23 of this work for our commentary of the impact of this overspend on the Council's financial standing.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Other - £716m	Other land and buildings comprises specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings which are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council engages an external valuer to complete the valuation of properties on a five yearly cycle, although in practice the key assets are revalued more frequently than the maximum permissible cycle of five years. In 2019/20 £595m of assets were revalued which is approximately 83% of the total gross book value of the Council's land and buildings. In line with RICS guidance, the Council's valuers disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in its financial statements.	As noted on page 9, we have undertaken a significant amount of audit work this year in the valuations of the County Council's land and buildings, including challenging assumptions and agreeing source data. As a result of this challenge, Management sought additional advice from its valuer who provided an updated valuation which was approximately £19m higher than the original valuation. The financial statements were amended accordingly. Our work is now concluded in this area and overall we are satisfied with the basis on which management have derived their estimates.	Green

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentiallymaterially misstated (Red)
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptionswe consider optimistic (Amber)
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious (Yellow)
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious (Green)

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Net pension liability – £1,050m	The Council's net pension liability at 31 March 2020 is £1,050m (PY £1,050m) comprising the Devon Pension Fund benefit pension scheme obligations. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £51m net actuarial gain during 2019/20.	We have carried out the following work in relation to this estimate: • assessed management's expert, Barnett Waddingham, to be competent, capable and objective; • performed additional tests in relation to the actuary on contribution figures, benefits paid and investment returns to gain assurance over the 2019/20 roll forward calculation carried out by the actuary and have no issues to note; • gained assurance over the reasonableness of the Council's share of LGPS pension assets; • reviewed the adequacy of disclosure of the estimate in the draft financial statements; and • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; and • sought and obtained assurances from the auditor of the Devon Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. The Pension Fund's financial statements disclose a material uncertainty regarding the valuations of property investments at the year end. Given the significant share of the Pension Fund assets that are attributable to Devon County Council, there is a similar material uncertainty associated with the Council's pension net liability and a new disclosure was included with the Council's accounts. Our audit opinion will refer to these disclosures as an 'emphasis of matter'. Clarification has recently been received on the restitution for McCloud and implications of the Goodwin case on pension liabilities. Expectations were that pension liabilities will be lower than was originally estimated in actuarial reports produced for 31 March 2020. Devon County Council's actuaries included an estimate for the costs of the McCloud judgement at 31 March 2020 of £13.9m, which is not material. The Council is of the view that the liability cannot be materially misstated due to the above clarification. We concur with this view.	● Green

Assessment

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated (red)
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic (amber)
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious (yellow)
- ● We consider management's process is appropriate and key assumptions are neither optimistic or cautious (green)

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Net pension liability – £1,050m	The Council's net pension liability at 31 March 2020 is £1,050m (PY £1,050m) comprising the Devon Pension Fund benefit pension scheme obligations. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £51m net actuarial gain during 2019/20.	We also used PwC as our auditor's expert to assess the actuary and the assumptions made by them. The table below summarises where Devon County Council fall in the acceptable ranges set by PwC:	Green

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.35%	2.35%	(Green)
Pension increase rate	1.9%	1.85% to 1.95%	(Green)
Salary growth	2.9%	2.9% (assumes 1% above CPI)	(Green)
Life expectancy – Males at 65 (current pensioners)	22.9 years	21.4 to 23.3 years	(Green)
Life expectancy – Females at 65 (current pensioners)	24.1 years	23.7 to 24.7 years	(Green)
Life expectancy – Males at 65 (future pensioners)	24.3 years	22.8 to 24.7 years	(Green)
Life expectancy – Females at 65 (future pensioners)	25.5 years	25.2 to 26.2 years	(Green)

Please also see page 10 of this report for further work undertaken on the Pension Fund liability.

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentiallymaterially misstated (red)
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptionswe consider optimistic (amber)
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious (yellow)
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious (green)

Significant findings – matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary	Auditor view
Material uncertainties re property valuations	The Council identified a material uncertainty in relation to land and building valuations and disclosed this within its draft financial statements. The Council has since extended this disclosure to reflect similar material uncertainties to those with its directly owned land and buildings to the property investments held by Devon Pension Fund that are attributable to the County Council within its net liability related to the Defined Benefit Pension Scheme calculation.	We concur with this additional disclosure and will refer to this in our opinion as stated on page 4.

Significant findings – going concern

Our responsibility

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) 570).

Going concern material uncertainty disclosures

2020 has been a challenging year due to the Covid-19 pandemic and officers have had to respond quickly to the impact that this has had on the operations and finances of the Council in a rapidly changing environment whilst, in the main, working remotely from colleagues and Members.

As noted on page 22 of this report, taking into account all the funding received, the Council is forecasting a shortfall associated with Covid-19 of approximately £4m. If further funding is not received, then any shortfall will have to be met from reserves.

Looking ahead to 2020/21, as at month four – and as reported to the Cabinet in September 2020 – the Council is forecasting an overspend of £4.5m for the year although this position is considered to be manageable. Despite this, pressures remain in the key demand-led areas such as Adult's and Children's Services.

While this is a challenging situation, we agree with management's judgment that no additional disclosures are needed in relation to going concern, as there are in their judgement, no material uncertainties surrounding the Council's adoption of the going concern assumption.

Going concern commentary	Auditor commentary
Management's assessment process Management produced as assessment of whether there was a material uncertainty about the Council's ability to continue as a going concern and this was considered by the Audit Committee in July 2020. Management's view was that there was no material uncertainty.	In making this assessment management had clearly considered the following factors: • the outturn for 2019/20, recognising that the position in 2020/21 would be influenced by what had happened in the prior financial year; • the level of reserves available to the County Council. At 31/3/20 The General Fund and Earmarked General Fund balance was £170m compared to the net cost of services of £650m. The position of Devon compared to its peers does not give any cause for concern in this respect; • cash currently available – at 31/3/20 the Council had cash and cash equivalents of £58m, with short term investments of £106m. • other comparative data – under the CIPFA Financial Resilience Indicators Devon County Council scored highest on the 'reserves sustainability measure'.
Concluding comments	Management's assessment was 'high level' and we sought additional assurances, particularly around cash flow forecasts. We agree with management's judgment that no additional disclosures are needed in relation to going concern, as there are in their judgement, no material uncertainties surrounding the Council's adoption of the going concern assumption.

Other matters for communication

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	Auditor commentary
Matters in relation to fraud	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.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	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.
Written representations	A letter of representation has been requested from the Council which is included in the Audit Committee papers and also in Appendix F to this report.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to all institutions where the Council holds cash or investment balances and those who lend the Council money. This permission was granted and the requests were sent. Confirmation was not received from one institution and so have completed alternative procedures in respect of the two investments with that organisation. Satisfactory assurances have been provided by the Pension Fund auditor.
Disclosures	Our work has not identified any material omissions in the financial statements.
Audit evidence and explanations/significant difficulties	Subject to the small amount of residual testing set out on page 6, all information and explanations requested from management have been provided. However, this year we did encounter difficulties with agreeing the Council's financial statements to its general ledger and this work took longer than was anticipated.

Other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. Our review of the Council's Annual Governance Statement identified that the most recent Ofsted Inspection (see page 26) had not been referred to and we suggested that the Annual Governance Statement was updated to reflect this weakness.
Matters on which we report by exception	We are required to report on a number of matters by exception in a numbers of areas: • 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; • if we have applied any of our statutory powers or duties. See above re our observation on the Council's Annual Governance Statement.
Specified procedures for Whole of Government Accounts	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. 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. This work has not yet commenced as it needs to be informed by the audit of the Council's financial statements.
Certification of the closure of the audit	We are unable to certify the closure of the 2019/20 audit of Devon County Council in the audit report, as detailed in Appendix E, due to the following: • whole of Government Accounts return; and • opinion on the consistency of the Pension Fund financial statements with the Pension Fund Annual Report. We will complete this review by the date of the Audit Committee meeting on 25 February 2021 and will provide a verbal update to the Committee.

Value for Money

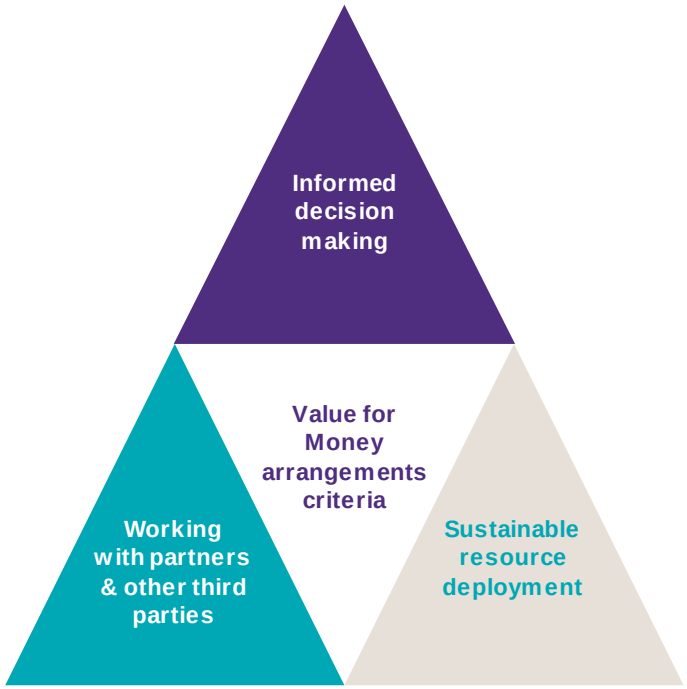
Background to our VFM approach

We are required to satisfy ourselves that the Council has made 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. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. 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."

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



Risk assessment

We carried out an initial risk assessment in January 2020 and identified two 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 27 February 2020.

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.

As noted in the addendum to our audit plan dated 28 April 2020, we have not identified any new VFM risks in relation to Covid-19 in 2019/20, given the date of the pandemic and its proximity to the Council's year end.

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.

Value for Money

Our work

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:

- the Council's budget for 2020/21, its medium term financial plan and the work the Council has done towards 'closing the gap' in future years, including any future reliance on reserves and the savings being delivered by the transformation programme 'doing what matters'; and
- the Ofsted inspection undertaken in 2019 and the actions taken by the Council to address the Ofsted and CQC findings in 2018/19.

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 22 to 26.

Overall conclusion

In January 2020 an Ofsted inspection identified that there were serious failings in the Children's Social Care Services and rated the services overall as inadequate. Senior leaders where not aware of the failures to protect some of the most vulnerable children and young people from harm and the service to care leavers was assessed as inadequate.

This matter is evidence of weaknesses in proper arrangements and we intend to issue an 'except for conclusion' with regards to:

- understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management, including where relevant, business cases supporting significant investment decisions.

The text of our proposed report can be found at Appendix E.

Recommendations for improvement

Based on the findings arising from our work we have identified a number of recommendations for improvement.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A.

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.

Value for Money

Key findings

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

Significant risk in our audit plan	**Financial resilience** Local Authorities are still experiencing significant financial challenges and the one-year settlement for 2020/21 (compared to the previous four year settlement) makes financial planning over the medium term difficult. For Devon County Council, the 2020/21 budget requires savings of £7.5m to be delivered and a net reduction in reserves of £3.4m in order to achieve a balanced budget. We will review the budget for 2020/21 and the Council's medium term financial plan and will assess any future reliance on reserves and the savings being delivered by the transformation programme 'doing what matters'.
Findings	**Covid-19** Since the issue of our Audit Plan the Council has been significantly affected by the Covid-19 pandemic. The impact began in late March so the effect on the VFM arrangements was limited in 2019/20, but we have considered the effect on the Council's medium term financial strategy and business continuity planning. In January 2020, the Council reviewed and updated its business continuity plans. Its approach already included topic-specific plans such as a flu pandemic and it has introduced a wide range of Covid-19 specific policies and guidance. Governance structures and decision making procedures have also been introduced to ensure effective and timely decisions could be made. As far as the Covid-19 spending is concerned, the Council received £22.5m from the Government in March 2020.Of this, £843,000 has been used to offset the costs incurred in 2019/20 the remaining £21.7m has been carried forward to 2020/21 where the remaining costs will be incurred. In 2020/21 the Council continues to receive financial support, the most significant of which is the Local Authority Covid Support Grant. Taking into account all the funding received, the Council is forecasting a shortfall associated with Covid-19 of approximately £4m. If further funding is not received then any shortfall will have to be met from reserves. **2019/20 Outturn** In 2019/20 the Council experienced significant budget pressures within Adults and Children's Services, which is consistent with both previous years and other upper tier and unitary councils. Despite these significant pressures, the draft financial statements show that the Council achieved a small underspend of £33,000 in the year. In 2019/20 the Council aimed to deliver savings of £13.4m, however it only delivered savings in the region of £8.6m, which is approximately two thirds of the original expectations. Adult Social Care and Commissioning, Highways, Infrastructure and Waste and Corporate services were the three areas recording the highest proportion of savings not achieved. The Council has maintained its general reserve balance of £14m and has increased its earmarked reserves by £8.8m to £120m.

Value for Money

Key findings

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

Significant risk in our audit plan	**Financial resilience (cont'd)**
Findings	**Dedicated Schools Grant (DSG)** However, whilst the Council has maintained its general reserve balance of £14m and has increased its earmarked reserves by £8.8m to £120m, it has a negative reserve for the Dedicated Schools Grant (DSG) SEND service of £19.8m at the year end. In 2018/19 there was an overspend of approximately £5.2m, of which £2.8m was taken to reserves and £2.4m carried forward to 2019/20. Looking ahead to 2020/21, this deficit is continuing, and the latest forecast is for the deficit to be £26.8m by 31 March 2021, giving a total forecast deficit of £46.6m. The Council is aware that an action plan is required and is in consultation with schools as to how this deficit could be reduced. The Council has not yet begun discussions with the Department for Education until a way forward has been agreed with the schools, but anticipate it might be able to begin these discussions in December 2020. Urgent action is required to prevent the deficit increasing. **Medium Term Financial Strategy (MTFS)** The Council's Medium Term Financial Strategy and 2020/21 budget were agreed in February 2020. Due to the significant uncertainty the Council has decided not to amend its 2020/21 budget but is actively monitoring its financial position against its planned budget. 2021/22 and beyond will be reconsidered and updated later in the year to form part of the Council's budget setting processes in 2021. The Council will follow the same timetable as previous years. As at month four, and as reported to Cabinet in September 2020, the financial position has deteriorated slightly and the Council forecasts an overspend of £4.5m for the year. This overspend can be accommodated if the planned contribution to reserves is not made. The Council is again experiencing increased costs within Adult Care and Health Services, Children's Services and Highways, Infrastructure Development and Waste. The most significant being within Adult Care and Health Services and Children's Services due to increased demand and planned savings not being achievable due to Covid-19. 2020/21 remains a challenging year for the Council.

Value for Money

Key findings

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

Significant risk in our audit plan — **Financial resilience (cont'd)**

Findings

Savings required 2020/21 onwards

The MTFS agreed in February 2020 identified the following savings:

	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
Savings required	7,499	17,788	13,143	15,105
Savings identified	7,499	1,364	0	0
Savings to be found	0	16,424	13,143	15,105

The Council recognised at month two that the savings required in 2020/21 are at significant risk of delivery and anticipates that only £2.089m are deliverable. The majority (89%) of non-deliverable savings are within Adult Social Care and Commissioning. This position is unchanged as at month four.

The Council recognises that a large proportion of the budgeted savings are not achievable and this financial pressure is being covered by Covid-19 funding from the Government. Management action is being taken to address the overspend as Government funding is only expected for a finite period.

However, this lack of delivery will increase the pressure in 2021/22 as the savings required in that year are substantial and a significant proportion have yet to be identified.

Transformation 'doing what matters'

The Council continues to develop and test its approach in a number of high cost and high demand areas. Although aspects of the change have been delayed due to the Covid-19 pandemic, benefits such as cost avoidance and value have been identified from the programme, such as redesign of the SEND Transport Service and reduction in the cost of highways safety defects. These savings have not been quantified and have therefore not been included within the MTFS. In our view this is a prudent approach.

However, scaling and embedding the transformation remains a key challenge for the Council and has been delayed as a result of the Covid-19 pandemic, although prior to that progress was slower that originally envisaged.

Value for Money

Key findings

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

Significant risk in our audit plan	Financial resilience (cont'd)
Findings	Whist monitoring the transformation programme to maintain momentum and provide a strong focus on demonstrating outcomes and financial benefits should continue, the Council should also ensure that the transformation programme contributes to the savings required in 2021/22. This could be achieved by ensuring there is an agreed plan which includes savings targets which are incorporated in the medium term financial strategy
Conclusion	Although the Council faces significant financial uncertainty as a result of the Covid-19 pandemic, it has arrangements in place to carefully monitor and manage the spend and has sufficient reserves to ensure financial resilience in the short to medium term. In order to reduce the financial pressure going forward it needs to begin considering its savings plans for 2021/22 and beyond. We consider that adequate arrangements are in place to ensure financial resilience.

Value for Money

Key findings

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

Significant risk in our audit plan	In 2018/19, Ofsted and the Care Quality Commission (CQC) carried out a Joint Local Area Inspection and Ofsted undertook a two day focussed visit. Both visits identified the need for action by the Council. As part of our work in 2019/20 we will follow up on actions taken by the County Council to address the Ofsted and CQC findings. We will also be alert to any further inspection reports that may be issued in 2020.
Findings	**Ofsted inspection** In January 2020, an Ofsted inspection of Children's Social Care Services was undertaken. This identified that there are serious failings in the services provided to children and reached the following judgements: • The impact of leaders on social work practice with children and families – Inadequate • The experiences and progress who need help and protection – Requires improvement to be good • The experience and progress of children in care and care leavers – Inadequate • Overall effectiveness – Inadequate As a result a Statutory Direction under Section 497A(4B) of the Education Act 1996 was issued. This inspection supersedes the focused visits undertaken in May 2019. The inspection report has been presented to virtual meetings for Scrutiny and to the Children's Services Overview Group. Actions are underway and arrangements have been adapted due to the Covid-19 pandemic. In respect of the joint inspection for children with SEND requirements, the Council amended its Statement of Action which was accepted by Ofsted. The Council has been making progress although the requirements for children and young people with autism remain a challenge. A re-inspection is anticipated but this has been delayed due to Covid-19 disruption.
Conclusion	Due to the findings determined by Ofsted from its inspection, we have concluded that Council does not have adequate arrangements in place for the Children's Social Care Services. Senior leaders where not aware of the failures to protect some of the most vulnerable children and young people from harm and the service to care leavers was assessed as inadequate. We are therefore proposing an 'except for' VFM conclusion is this respect.

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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Independence and ethics

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 service was identified.

We set out below the threats to our independence and the safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Teachers Pension Return (2019/20 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 £98,916 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.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is typically done after the audit fieldwork has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants. In 2019/20, due to the revised audit timetable, we are using a separate team to undertake this work.

Action plan

We have identified six 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 2020/21 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 and risk	Recommendations
(Amber)	We encountered difficulties with agreeing the Council's financial statements to its general ledger and this work took longer than was anticipated.	The Council should ensure that the evidence to agree the financial statements to the ledger is available at the start of the audit. **Management response** The issue is more complex than the recommendation indicates. Comprehensive evidence that the financial statements agreed to the Ledger was available this year as in previous years prior to the start of the Audit. The difficulties the auditors encountered were, management believe, in relation to the use of their own software to try and recreate the County Council's accounts from over 6 million transactions. The County Council believes there is learning required for both the County Council and Grant Thornton on this issue and will continue to work with audit colleagues to make this more effective in future years.
(Amber)	Internal Audit noted a number of issues in their initial review of the payroll system. We are satisfied that these would not have a material impact on the Council's financial statements.	The Council should ensure that Internal Audit's recommendations regarding the new payroll system have been implemented. **Management response** Internal audit recommendations have been agreed and implemented in all but one case. The exception relates to online starters forms: we are working with the software provider to provide a secure solution as part of the recruitment module currently being implemented. In the meantime, we have additional controls in place to mitigate the risk.
(Red)	The Dedicated Schools Grant (DSG) was in deficit at the year end (£19.8m) and this position is worsening in 2020/21.	The Council should urgently develop a recovery plan for the DSG and agree this with the schools' forum and the Department for Education. **Management response** A recovery plan for the DSG is already in development, in line with the new DfE template, and will be forwarded to the DfE and schools forum in due course.

Risk rating

- High priority (red)
- Medium priority (amber)
- Low priority (green)

Action plan

Assessment	Issue and risk	Recommendations
(Red)	The Ofsted inspection identified that Children's Social Care Services were inadequate overall.	The Council's action plan to address the issues identified by Ofsted should be reported to Members. **Management response** On Ofsted the action plan has been reported to members and regular progress updates are provided by the Improvement Director. The Independent Chair of the Improvement Partnership attended the November Children's Overview and Scrutiny to provide further independent assurances
(Amber)	The Council faces a significant financial challenge in 2021/22 as savings for that are yet to be fully identified. This position is compounded by the impact that Covid-19 has had on the achievement of savings planned for 2020/21 and the fact that management focus has been diverted to deal with the impacts of the pandemic on service delivery.	The Council should focus on the identification its 2021/22 savings plans to ensure that these can be actioned promptly in 2021. **Management response** The Council has a good track record of developing savings plans and delivering a balanced budget. Work on the 2021/22 budget is well advanced and the Draft Target budget will be taken to Cabinet in December in line with the Budget timetable. The development of a longer term Savings Programme is made significantly harder by the lack of information from Central Government on its funding plans for Local Government over the short and medium term.
(Amber)	The purpose of the transformation programme is not universally understood across the Council. It is not contributing to planned savings within the MTFS and has yet to deliver quantifiable savings.	The purpose of the transformation programme should be reaffirmed and an agreed plan developed for 2021/22 onwards. In order to ensure service improvements and cost avoidance schemes are translated into cashable savings the plan should include agreed areas of focus and savings targets which can be incorporated into the MTFS. **Management response** Organisational Change and Finance will be working together to provide high support and high challenge to the organisation to deliver service improvements in order to demonstrate and evidence better outcomes at lower cost. Previous work showed improvements in the efficiency and effectiveness within the areas of work supported and highlighted a wider scope of opportunity for the organisation as a whole.

Risk rating

- High priority (red)
- Medium priority (amber)
- Low priority (green)

Follow up of prior year recommendations

We identified the following issues in the audit of Devon County Council's 2018/19 financial statements, which resulted in five recommendations being reported in our 2018/19 Audit Findings report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Disclosure of estimates in the financial statements** The disclosures did not contain all of the estimates within the financial statements e.g. the valuation of land and buildings. We recommended that the Council should review its disclosure relating to estimates in 2019/20 to ensure that they are complete and only cover areas where there is a significant risk of a material adjustment being required in the previous year.	The disclosure related to estimation uncertainty, Note 5, were amended in 2018/19 to include the valuation of land and buildings. The Council also removed reference to provisions and debtors in that year on the grounds that it did not consider these estimates to be material. The disclosures in 2019/20 also include the material uncertainty regarding the valuations of the land and buildings owned by the County Council and for its share of the property-based investments held by the Devon Pension Fund.
✓	**Critical judgements applied regarding accounting policies** In our view, the disclosures were not all critical judgements that management had applied regarding the Council's accounting policies. We recommended that the Council should review its critical judgements in 2019/20 to ensure that they are appropriate and do have a material impact on the Council's accounts.	The Council has reduced the number of 'critical judgements' disclosed within its financial statements from eight to two. The narrative for those remaining 'critical judgements' has been improved considerably to provide greater information to the reader of the accounts regarding the judgement applied and the impact of this on the financial statements.

Assessment

✓ Action completed

X Not yet addressed

Follow up of prior year recommendations

We identified the following issues in the audit of Devon County Council's 2018/19 financial statements, which resulted in five recommendations being reported in our 2018/19 Audit Findings report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
In progress	**Progress against the transformation programme** The Council's transformation programme was still underway but had not delivered any savings to date nor was it expected to do so in 2019/20. We recommended that the Council should 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.	The Council continues to look for new ways to transform and improve the way that services are delivered which improve outcomes for service users and reduce costs. However, scaling up and embedding the approach across the Council remains a challenge and progress has been further impeded by the Covid-19 pandemic.
In progress	**Demand management** The Council had taken action to manage demand in adult's and children's services. We recommended that the Council should monitor the impact of the actions to manage the demand for adult's and children's services.	Managing demand remains a key challenge for the Council in both Adult's and Children's social care services. Both services have seen an increase in demand due to the Covid-19 pandemic, although the Council is actively monitoring demand both services are both working to reduce the demand.
No longer relevant	**Ofsted and CQC Findings** In 2018/19 Ofsted and the CQC carried out a Joint Local Area Inspection and Ofsted undertook a two day focussed visit. Both visits identified the need for action by the Council. We recommended that the Council should ensure: • that an adequate response is developed for the Joint Local Area Inspection findings; and • that progress against the Ofsted / CQC findings are monitored.	An adequate response was developed by the Council for the Joint Local Area Inspection and progress was monitored and reported to Members. However, a detailed inspection was undertaken by Ofsted as discussed earlier on page 26 and these findings supersede those reported previously.

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 ending 31 March 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
An updated valuation of the Exeter Energy from Waste plant was provided (see pages 9 and 13).	£0	Dr PPE £18,910 Cr Capital Adjustment Account £11,855 Cr Revaluation Reserve £ 7,055	£0
March 2020 salary deductions of £12.3m were treated as outstanding payments rather than creditors. Cash balances and creditors were both therefore understated by this amount.	£0	No net effect	£0
Overall impact	**£0**	**£18,910**	**£0**

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 or misclassification	Detail	Adjusted
Material uncertainty – Pension Fund investments	The Council has extended its disclosures to reflect similar material uncertainties to those with its directly owned land and buildings to the property investments held by Devon Pension Fund that are attributable to the County Council within its net liability related to the Defined Benefit Pension Scheme calculation.	✓
Contingent liabilities	The Council deleted references to breaches of the data protection act to reflect the fact that the Information Commissioner's Office had decided to take no enforcement action and hence there was no possibility of a liability for the County Council.	✓
Annual Governance Statement	The Council updated its Annual Governance Statement to reflect the weaknesses identified by Ofsted.	✓

Audit adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
When correcting the valuation of the Exeter EfW plant (see page 33) the Council only amended the figures for Property, Plant and Equipment, the Revaluation Reserve and the Capital Adjustment Account and but chose not to adjust for other non-material changes to the financial statements on the grounds of materiality. The valuation at 31 March 2020 was correctly stated in the accounts.	The correct asset valuations at 31 March 2020 have been used. There are non-material differences between the new valuations at 1 April 2018 and 31 March 2019 with the revised balance sheet and the Council has not updated the depreciation charged in the year on the basis that it is not material. Management will present a paper to the February 2021 Audit Committee setting out the Council's approach in more detail.			Not material.
Overall impact	**£0**	**£0**	**£0**	

Impact of prior year unadjusted misstatements

The table below provides details of the one adjustment identified during the prior year audit which had not been made within the final set of 2018/19 financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
CCLA Investment The Council had an investment of £10m at 31 March 2019 in a Pooled Property Fund for Local Authorities managed by an independent Fund Manager, CCLA. The Council has treated this as an equity investment whereas our view is that this is not an equity investment as participating Local Authorities have the right to get their investment back from the Fund Manager. The difference in treatment impacts on the way unrealised losses need to be accounted for.	There is no impact on the Comprehensive Income and Expenditure Statement or the Statement of Financial Position as there is a mandatory statutory override requiring local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds to be effective from financial year commencing 1 April 2018 for five years. There is only an effect on the disclosures within the Council's financial instruments.			The investment was not material.
Overall impact	**£0**	**£0**	**£0**	

Fees

We confirm below our final fees charged for the audit.

Audit fees	Proposed Fee
Council Scale Fee	81,066
Additional proposed audit fee at planning stage	17,850
Total proposed audit fees (excluding VAT) at planning	**£98,916**
Further additional fees proposed at completion	14,834
Total proposed audit fees (excluding VAT) on completion	**£113,750**

Our Audit Plan date 27 February 2020 included £17,850 of proposed addition fees to the scale fee to take account of the additional scepticism required on the audit and the raising of the bar by our regulator. This is reflected in the total proposed audit fees at planning above of £98,916

Since the presentation of the audit plan, we have added a significant risk to the audit following the impact of Covid-19. We have now reflected on the time taken to discharge our responsibilities this year because of this and are proposing a further increase in fees of £14,834 in addition to those proposed at the planning stage of the audit. This brings the total proposed audit fee up to £113,750. Further details on the breakdown is provided on the next page.

This further charge has not been entered into lightly but reflects only a proportion of the significant additional work we have had to undertake this year to discharge our responsibilities.

We have been discussing this issue with PSAA over the last few months and note these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with commercial audit deadlines being extended by 4 months and NHS deadline by a month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached https://www.frc.org.uk/covid-19-guidance-and-advice (see guidance for auditors) sets out the expectations of the FRC.

Please note that these proposed additional fees are subject to approval by PSAA in line with the Terms of Appointment.

Non-audit fees for other services (see page 28)	Proposed fee	Final fee
Audit Related Services – Certification of Teachers' Pension Return	4,200	4,200
Total non- audit fees (excluding VAT)	**£4,200**	**£4,200**

Appendix D

The table below shows the proposed variations to the original scale fee for 2019/20 subject to PSAA approval

Audit area	£	Rationale for fee variation
Scale fee	81,066	
Raising the bar	2,500	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity. As outlined earlier in the Plan, we have also reduced the materiality level, reflecting the higher profile of local audit. This will entail increased scoping and sampling.
Pensions – valuation of net pension liabilities under IAS 19	3,500	We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
PPE Valuation – work of experts	9,350	We have therefore engaged our own audit expert – (Wilks, Head and Eve) and increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations. The increase stated includes the fee payable to the auditor's expert. We estimate that the cost of the auditors expert will be in the region of £5,000.
New Accounting Standards	2,500	You are required to respond effectively to new accounting standards and we must ensure our audit work in these new areas is robust. This year we will be responding to the introduction of IFRS16. There is a requirement, under IAS8, to disclose the expected impact of this change in accounting treatment in the 2019/20 financial statements.
Revised planning fee	**98,916**	
Covid-19	14,384	Over the past nine months the current Covid-19 pandemic has had a significant impact on all of our lives, both at work and at home. The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes: • Revisiting planning - we needed to revisit our planning and refresh risk assessments, materiality and testing levels. This resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS1 particularly in respect to material uncertainties. • Management's assumptions and estimates - there is increased uncertainty over many estimates including pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management. • Financial resilience assessment – we have been required to consider the financial resilience of audited bodies. Our experience to date indicates that Covid-19 has impacted on the financial resilience of all local government bodies. This has increased the amount of work that we need to undertake on the sustainable resource deployment element of the VFM criteria necessitating enhanced and more detailed reporting in our ISA260. • Remote working – the most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working, including managing around agreed dates for receiving the accounts in light of knock on implications of other sector audits, and delays in responses during audit fieldwork. These are understandable and arise from the availability of the relevant information and/or the availability of key staff (due to shielding or other additional Covid-19 related demands). In many instances the delays are caused by our inability to sit with an officer to discuss an issue. Gaining an understanding via Teams or phone is more time-consuming.
Total proposed audit fees on completion	**113,750**	

Fees

Below we reconcile the fees set out on the previous page to the disclosure in Note 30 of the Council's financial statements.

Area	Fee per page 36 of this report	Fee per Note 30 of financial statements
Scale Fee set by Public Sector Audit Appointments (PSAA)	81,066	81,066
Variation to the above agreed within Audit Plan (approved by PSAA)	17,850	
Additional allowance of 15% for the factors related to Covid-19	14,834	
Variation to 2018/19 audit fee reported in 201819 Audit Findings Report (approved by PSAA)		9,000
2017/18 objection fee (see below)		(5,352)
Pension Fund Assurance Letters (see below)		1,693
Total fees	**£113,750**	**£90,607**
Certification of Teachers' Pension Return	4,200	4,200

2017/18 Objection

In the 2019/19 financial statements, the Council included an estimate for the costs of dealing with an objection relating to 2017/18. The estimate was £10,000 whereas the actual fee was £4,648

Pension Fund Assurance Letters

We provide assurance to the auditors of fourteen other organisations who are admitted bodies of the pension scheme in respect of our work on the Pension Fund audit. We invoiced the Pension Fund for these assurance letters provided to the auditors and set this out in our Audit Findings Report for the Devon Pension Fund.

This amount relates to the proportion of that fee that was recharged by the Pension Fund to the County Council.

Audit opinion

We anticipate we will provide the Council with an audit report that will include an emphasis of matter in respect of the material uncertainty associated with the valuation of the Council's own land and buildings and also the Council's shared of the property investments held by the Devon Pension Fund.

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 2020 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 2019/20.
In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2020 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; 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.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the County Treasurer and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Authority's future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the Authority's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

Audit opinion

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.

In our evaluation of the County Treasurer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the Authority's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Authority will continue in operation.

Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings and property investments

We draw attention to Note 5 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's land and buildings, assets held for sale and the Authority's share of the pension fund's property investments as at 31 March 2020. As, disclosed in note 5 to the financial statements, the Council's Valuer has declared a 'material valuation uncertainty' in the valuation report, highlighting the uncertain impact of Covid-19 on the existence and degree of reliability of market evidence. Equally, as at the year end the Pension Fund considers that it can attach less weight to previous market evidence for comparison purposes and less certainty – and a higher degree of caution – should be attached to valuations than would normally be the case and a material valuation uncertainty was therefore disclosed in some of the pension fund's property valuation reports.

Our opinion is not modified in respect of this matter. To be updated to match Note 5.

Other information

The County Treasurer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements, our auditor's report thereon and our auditor's report on the pension fund financial statements. 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 audit 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.

Audit opinion

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 Edition' 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 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 issue a report 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 make 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 make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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 23, 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 2019/20, for being satisfied that they 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 there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Audit opinion

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. 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

Qualified conclusion

On the basis of our work, having regard to the guidance issued by the Comptroller & Auditor General in April 2020, except for the effects of the matter described in the basis for qualified conclusion section of our report we are satisfied that, in all significant respects Devon County Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Basis for qualified conclusion

Our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources identified the following matters:

- In January 2020, an Ofsted inspection of Children's Social Care Services was undertaken. This identified that there were serious failings in the services provided to children and the overall effectiveness was assessed as 'inadequate'. The following need to improve:
  - the quality of social care practice, to assess, support and protect children who experience neglect;
  - service to care leavers, including the sufficiency of accommodation and support for young people and the assessment of risk and safety planning for them; and
  - strategic oversight and grip on areas for improvement and oversight of senior leaders, including case audits and supervision
- As a result of this inspection outcome, a Statutory Direction under Section 497A(4B) of the Education Act 1996 was issued.

These matters identify weaknesses in the Council's arrangements for understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management.

Audit opinion

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 April 2020, 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 2020.

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 2020. 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 2020.

Use of our report

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.

[Signature]

Julie Masci, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Bristol [Date]

Letter of Representation

Grant Thornton UK LLP, Bristol

[Date] – {TO BE DATED SAME DATE AS DATE OF AUDIT OPINION]

Dear Sirs

Devon County Council
Financial Statements for the year ended 31 March 2020

This representation letter is provided in connection with the audit of the financial statements of Devon County Council for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and applicable law.
We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.
iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements.
vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
vii. Except as disclosed in the financial statements:

    a. there are no unrecorded liabilities, actual or contingent
    b. none of the assets of the Council has been assigned, pledged or mortgaged
    c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

Letter of Representation

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report.
xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report, and attached, relating to the revaluation of the Exeter Energy from Waste plant. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions..
xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
xiv. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that *current and future sources of funding or support will be more than adequate for the Council's needs*. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

xvi. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
b. additional information that you have requested from us for the purpose of your audit; and
c. access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.

xvii. We have communicated to you all deficiencies in internal control of which management is aware.
xviii. All transactions have been recorded in the accounting records and are reflected in the financial statements.
xix. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xx. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council, and involves:
a. management;
b. employees who have significant roles in internal control; or
c. others where the fraud could have a material effect on the financial statements.

xxi. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
xxii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
xxiii. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.
xxiv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Letter of Representation

Annual Governance Statement

xxv. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

xxvi. The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 25 February 2021.

Grant Thornton