Grant Thornton

The Annual Audit Letter for Devon County Council and Pension Fund

Year ended 31 March 2020

21 June 2021

Contents

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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Devon County Council (the Council) and the Pension Fund for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 25 February 2021.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £16.5m, which is 1.5% of the Council's gross expenditure for the prior year. We determined materiality for the audit of the Pension Fund's financial statements to be £40.1m, which is 1% of the total net assets at 31 March 2020.
Financial Statements opinion	We gave an unqualified opinion on the Council's and Pension Fund's financial statements on 3 March 2021. We included a emphasis of matter paragraph in our auditors report in respect of the uncertainty over valuations of the Council's land and buildings and property investments within its share of the Pension Fund. We included a similar paragraph in our auditors report for the Pension Fund in respect of property investments, all due to the Covid-19 pandemic. This does not affect our opinion that the statements give a true and fair view of the Council's and Pension Fund's financial position and the income and expenditure for the year.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO on 21 June 2021. There was a delay in the completion of this work after we issued our opinion on the Council's financial statements for the year ended 31 March 2020 as the Council needed to investigate mismatches with a Government department. These were satisfactorily resolved.
Use of statutory powers	We have not exercised any of our additional statutory powers or duties.

Executive Summary

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure 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 therefore qualified our value for money conclusion in our audit report to the Council on 3 March 2021.
Certificate	We certified that we have completed the audit of the financial statements of Devon County Council in accordance with the requirements of the Code of Audit Practice on 21 June 2021.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
June 2021

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council's and Pension Fund's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's financial statements to be £16.5m, which is 1.5**%** of the Council's gross expenditure in the previous year. We used this benchmark as, in our view, the users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We determined materiality for the audit of the Pension Fund's financial statements to be £40.1m, which is 1% of the total net assets. We used this benchmark as, in our view, the users of the Pension Fund's financial statements are most interested in where the Fund has invested the monies necessary to cover future pension obligations

We also set a lower level of specific materiality for senior officer remuneration of £20k.

We set a lower threshold of £800k for the Council and £2m for the Pension Fund above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's and Pension Fund's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements (Council)

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
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 : • worked with management to understand the implications the response to the Covid-19 pandemic had on the Council'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; and • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment.	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 subsequently 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 referred 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.

Audit of the Financial Statements (Council)

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
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 ISA240 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.	At the planning stage we therefore did not consider this to be a significant risk for Devon County Council. We 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 : • 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 based on the work undertaken.

Audit of the Financial Statements (Council)

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
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 : • 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; • 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. 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 disclosures within the financial statements. We included an emphasis of matter paragraph in our audit opinion which refers to this disclosure in the accounts and draws attention to it for the readers of the financial statements. This reflects the increased uncertainty in global markets created by Covid-19 and is in line with other local councils.

Audit of the Financial Statements (Council)

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
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: • evaluated the design of the controls put in place by management to ensure that this liability is not materially misstated; • evaluated the instructions issued by management to their expert 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; • tested the consistency of the pension fund asset and liability and disclosures in the financial statements with the actuary's report; • assessed the reasonableness of the actuarial assumptions made by reviewing the report of our auditor's expert and performed the additional procedures suggested by them; • sought 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.; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; and • gained an understanding from the Actuary of the experience items following the most recent triennial review.	The Pension Fund's financial statements disclosed 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 referred to this disclosure as an 'emphasis of matter'. Our opinion was not qualified in this respect.

Audit of the Financial Statements (Pension Fund)

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work on the Pension Fund.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Covid–19 The global outbreak of Covid-19 has led to unprecedented uncertainty for all organisations. We expect current circumstances will have had an impact on the production and audit of the financial statements for the year ended 31 March 2020, including: • remote working arrangements and redeployment of staff to critical front line duties may have impacted 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 have increased the uncertainty of assumptions applied by management to valuations, and the reliability of evidence we can use to corroborate these estimates; • for instruments classified as fair value through profit and loss there may be a need to review the Level 1-3 classification of the instruments if trading has reduced to such an extent that quoted prices are not readily and regularly available; • whilst the nature of the Fund and its funding position means the going concern basis of preparation is appropriate, management may need to consider 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: • worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications on our materiality calculations and audit approach; • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise; • evaluated the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic, including management's assessment of the impact of Covid-19 upon forecast cashflows; • evaluated whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely; • evaluated whether sufficient audit evidence can be obtained to corroborate management's fair value hierarchy disclosure; • evaluated whether sufficient audit evidence can be obtained to corroborate significant management estimates such as Level 3 asset valuations; and • discussed with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence.	The Fund responded well to the challenge of remote working and were able to produce draft financial statements in accordance with the agreed timetable, albeit this was a month later than in previous years. The Pension Fund has disclosed that a material uncertainty exists in respect of property assets held by the Fund and we referred to this in our audit opinion as an 'emphasis of matter'. Our opinion was not qualified in this respect.

Audit of the Financial Statements (Pension Fund)

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work on the Pension Fund.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
The revenue cycle includes fraudulent transactions Under ISA (UK) 240 there was a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption could be rebutted if the auditor concluded that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we determined that the risk of fraud arising from revenue recognition could be rebutted, because: • there was little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition were very limited; and • the culture and ethical frameworks of local authorities, including Devon Pension Fund, meant that all forms of fraud are seen as unacceptable.	We did not consider this to be a significant risk for Devon Pension Fund.
Management override of controls Under ISA (UK) 240 there was a non-rebuttable presumed risk that the risk of management over-ride of controls was 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: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • 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 to report based on the work undertaken.

Audit of the Financial Statements (Pension Fund)

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work on the Pension Fund.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of Level 3 Investments The Fund revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represented a significant estimate by management in the financial statements due to the size of the numbers involved (£158 million at 31 March 2019) and the sensitivity of this estimate to changes in key assumptions. Under ISA 315, significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. Management utilised the services of investment managers as valuation experts to estimate the fair value as at 31 March 2020. We therefore identified valuation of Level 3 investments as a significant risk.	We: • evaluated management's processes for valuing Level 3 investments; • reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments; • independently requested year-end confirmations from investment managers; • for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreed these to the fund manager reports at that date. We reconciled those values to the values at 31 March 2020 with reference to known movements in the intervening period; • tested revaluations made during the year to see if they had been input correctly into the Pension Fund's asset register; and • where available reviewed investment manager service auditor reports on design effectiveness of internal controls.	There are no matters to report based on the work undertaken.

Audit of the Financial Statements (Pension Fund)

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work on the Pension Fund.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Actuarial Present Value of Promised Retirement Benefits The Fund disclosed the Actuarial Present Value of Promised Retirement Benefits within its Notes to the Accounts. This represented a significant estimate in the financial statements. The Actuarial Present Value of Promised Retirement Benefits is considered a significant estimate due to the size of the numbers involved (£7.4 billion in 2018/19) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Fund's Actuarial Present Value of Promised Retirement Benefits as a significant risk, which was one of the most significant assessed risks of material misstatement.	We: • updated our understanding of the processes and controls put in place by management to ensure that the Fund's Actuarial Present Value of Promised Retirement Benefits was not materially misstated and evaluate 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 Fund's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Fund to the actuary to estimate the liability; • tested the consistency of disclosures with the actuarial report from the actuary; and • undertook 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.	There are no matters to report based on the work undertaken.

Audit of the Financial Statements

Audit opinion
We gave an unqualified opinion on the Council's and Pension Fund's financial statements on 3 March 2021.

Preparation of the financial statements
The Council presented us with draft financial statements in August 2020 (July 2020 for the Pension Fund) in accordance with the agreed timescale.

The finance team responded promptly and efficiently to our queries during the course of the audits, although undertaking the audit remotely inevitably took longer.

Issues arising from the audit of the financial statements
We reported the key issues from our audit to the Council's Audit Committee on 25 February 2021.

No additional matters came to light between that Committee meeting and 3 March 2021 when we issued our opinion on the County Council's and Pension Fund's financial statements.

Annual Governance Statement and Narrative Report
We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in the draft Statement of Accounts in August 2020.

Our review of the Council's original Annual Governance Statement identified that the most recent Ofsted Inspection (see page 20) had not been referred to and we suggested that the Annual Governance Statement was updated to reflect this weakness. This was done and we confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council and that they were prepared in line with the CIPFA Code and relevant supporting guidance.

Whole of Government Accounts (WGA)
We carried out work in line with instructions provided by the NAO . We issued an assurance statement which did not identify any issues for the group auditor to consider on 21 June 2021. There was a delay in the completion of this work after we issued our opinion on the Council's financial statements for the year ended 31 March 2020 as the Council needed to investigate mismatches with a Government department. These were satisfactorily resolved.

Certificate of closure of the audit
We certified that we have completed the audit of the financial statements of Devon County Council in accordance with the requirements of the Code of Audit Practice on 21 June 2021.

Value for Money conclusion (Council only)

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the 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.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the Council in February 2021, we agreed recommendations to address our findings.

Overall Value for Money conclusion

We are satisfied that, in all significant respects, except for the matter we identified overleaf, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

Value for Money conclusion (Council only)

Value for Money Risks

Risks identified in our audit plan	Commentary	Findings and conclusions
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'.	**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. 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. This is consistent with previous years and other councils. Despite these pressures, 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, 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.	Please see page 19.

Value for Money conclusion (Council only)

Value for Money Risks

Risks identified in our audit plan	Commentary	Findings and conclusions
Financial resilience (cont'd) 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'.	**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. 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.	Please see page 19.

Value for Money conclusion (Council only)

Value for Money Risks

<table>
<tr><th>Risks identified in our audit plan</th><th>Commentary</th><th>Findings and conclusions</th></tr>
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Financial resilience (cont'd)

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'.
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<td>
Savings required 2020/21 onwards

The MTFS agreed in February 2020 identified the following savings:
<table>
<tr><th></th><th>2020/21 £000</th><th>2021/22 £000</th><th>2022/23 £000</th><th>2023/24 £000</th></tr>
<tr><td>Savings required</td><td>7,499</td><td>17,788</td><td>13,143</td><td>15,105</td></tr>
<tr><td>Savings identified</td><td>7,499</td><td>1,364</td><td>0</td><td>0</td></tr>
<tr><td>Savings to be found</td><td>0</td><td>16,424</td><td>13,143</td><td>15,105</td></tr>
</table>
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.
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<td>Please see page 19.</td>
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Value for Money conclusion (Council only)

Value for Money Risks

Risks identified in our audit plan	Commentary	Findings and conclusions
Financial resilience (cont'd) 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'.	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	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 conclusion (Council only)

Value for Money Risks

Risks identified in our audit plan	Commentary	Findings and conclusions
Ofsted and CQC inspections 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.	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.	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 therefore issued an 'except for' VFM conclusion is this respect.

A. Reports issued and fees

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

The final fees are subject to approval by Public Sector Audit Appointments Ltd (PSAA)

Reports issued	Date
Audit Plans	February 2020
Addendum to Audit Plans	April 2020
Audit Findings Reports (interim)	November 2020
Audit Findings Reports (final)	February 2021
Annual Audit Letter	June 2021

Audit fees	County Council Fee	Pension Fund Fee
Scale Fee	81,066	22,024
Additional proposed audit fee at planning stage	17,850	1,250
Total proposed audit fees (excluding VAT) at planning	**£98,916**	**£26,274**
Further additional fees proposed at completion	14,834	7,591
Total proposed audit fees (excluding VAT) on completion	**£113,750**	**£33,865**

Our Audit Plans for the County Council and Pension Fund dated 27 February 2020 included proposed additions 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 referred to above of £98,916.

Since the presentation of the audit plan, we have added a significant risk to each 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 for the County Council and £3,941 for the Pension Fund. 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.

For the Pension Fund, the fee at planning was also increased by £2,650 in respect of the additional work that was required to review the material additional contribution made in the year by one of the scheduled bodies and by £1,000 for the valuation of derivatives as the Financial Reporting Council (FRC) increased the requirements in this complex area.

A. Reports issued and fees

The non-audit fees for the year are:

Non-audit fees for other services	County Council	Pension Fund
Audit Related Services – Certification of Teachers' Pension Return	4,200	0
Audit Related Services IAS 19 Assurances	0	10,000
Non- Audit Related Services	nil	nil
Total non- audit fees (excluding VAT)	**£4,200**	**£10,000**

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council and Pension Fund. The table above summarises all non-audit services which were identified. We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.