

EXTERNAL AUDIT – AUDIT FINDINGS REPORT FOR DEVON COUNTY COUNCIL 2015/16
Report provided by Grant Thornton via the County Treasurer

Please note that the following recommendations are subject to confirmation by the Committee before taking effect.

Recommendation: that the Committee notes the attached report and findings within.

1. The attached report, provided by the Council's External Auditors (Grant Thornton), sets out the findings arising from the audit of the County Council's financial statements and the work undertaken in relation to the value for money conclusion.
2. It describes the work that the external auditors have undertaken to address the risks identified in the Audit Plan, which was presented to the Audit Committee in March 2016.

Mary Davis
Electoral Divisions: All
Local Government Act 1972
List of Background Papers

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Background Paper: None

The Audit Findings for Devon County Council

Year ended 31 March 2016

August 2016

Elizabeth Cave
Director

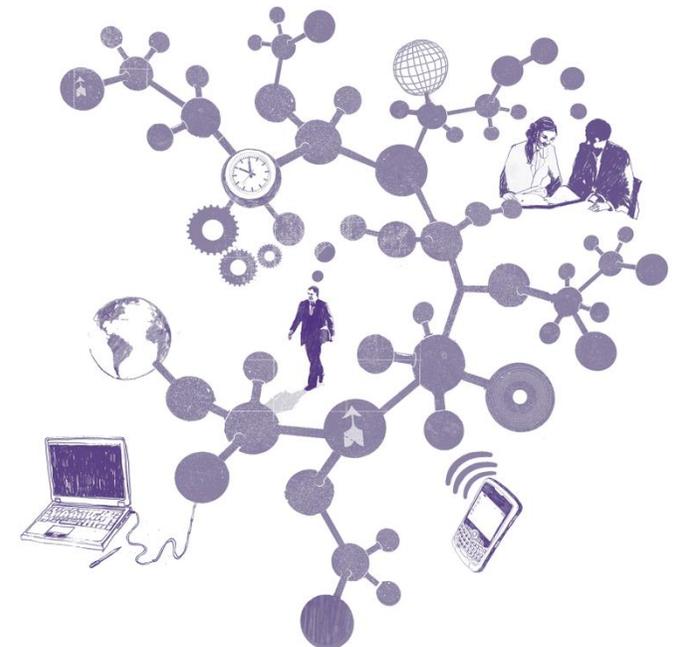
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30 August 2016

Dear Members of the Audit Committee

Audit Findings for Devon County Council for the year ending 31 March 2016

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

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

Elizabeth Cave

Director

Chartered Accountants

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Contents

Section	Page
1. Executive summary	4
2. Audit findings	8
3. Value for Money	22
4. Other statutory powers and duties	29
5. Fees, non-audit services and independence	31
6. Communication of audit matters	33

Appendices

A Action plan

Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Purpose of this report

This report highlights the key issues affecting the results of Devon County Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2016. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. .

We are also required consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

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

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

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

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

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 15 March 2016.

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

- an outstanding query on cash
- awaiting a direct confirmation for an investment
- completing quality control procedures and review
- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion
- Whole of Government Accounts

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable. This was two weeks earlier than in previous years

Key audit and financial reporting issues

Financial statements opinion

The draft financial statements for the year ended 31 March 2016 recorded the Council's cost of services of £561m. After taxation and technical adjustments the Consolidated Income and Expenditure Account (CIES) showed net income of £78m. We have identified no adjustments affecting the Council's reported financial position but have recommended a number of adjustments to improve the presentation of the financial statements. Details are recorded in section two of this report).

The key messages arising from our audit of the Council's financial statements are:

- the draft financial statements and the supporting working papers were prepared to a good standard
- we identified no material issues and no significant adjustments to the Consolidated Income and Expenditure Account or the Balance Sheet
- we have reviewed the pension accounts and as with the main accounts audit. No significant issues have been identified
- we have provided recommendations in relation to the review and authorisation of journals and the controls over payroll system amendments.

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

We anticipate providing an unqualified audit opinion in respect of the financial statements.

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes:

- if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit.

Controls

Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

Findings

We draw your attention in particular to control issues identified in relation to:

- As reported in our audit plan, we found that large journals above £200k are not authorised by a separate individual when posted by a member of staff listed on the authoriser list. At that time we received assurances that the number of journals that would be affected was small.
- Review of year end journals identified a large number of journals above the threshold of £200,000 which did not require authorisation in the system by a separate individual. Based on this finding we have performed additional work in this area. We reviewed these journals and sought alternative forms of authorisation for all of them. For year end journals posted by the central finance team the Council provided alternative evidence of authorisation taking place. Journals posted by other teams were not always authorised.

Further details are provided within section two of this report.

Value for Money

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

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

Other statutory powers and duties

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

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

The way forward

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

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

Acknowledgement

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
August 2016

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Materiality

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

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

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

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

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	Within the right salary band
Disclosure of auditors' remuneration in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£1,000

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Devon County Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • 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. 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>Work performed:</p> <ul style="list-style-type: none"> • review of entity controls • testing of journal entries • review of accounting estimates, judgements and decisions made by management • review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management over-ride of controls. Given the weakness in journal controls we performed additional testing of journal entries and did not identify any significant issues related to management over-ride of controls.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

Audit findings against significant risks continued

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

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	<p>Valuation of property, plant and equipment The Council revalues its assets on a rolling basis over a five year period. All valuations are carried out by a qualified external valuer. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p>	<ul style="list-style-type: none"> Review of management's processes and assumptions for the calculation of the estimate. Review of the competence, expertise and objectivity of any management experts used. Review of the instructions issued to valuation experts and the scope of their work Discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions. Review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding. Testing of revaluations made during the year to ensure they were input correctly into the Council's asset register Evaluation of the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. 	<p>The Council has revalued a large proportion of its Property, Plant and Equipment in year with a valuation date as at 31 December 2015. The valuation was found to be carried out by a suitably qualified expert.</p> <p>The valuer has assessed £663.8 million of its Property, Plant And Equipment in 2015/16 of a total net book value of £839.7 million which covered land and buildings, surplus assets and assets held for sale. No issues arose from the testing performed.</p> <p>We are satisfied that the Council has demonstrated that the carrying value of all other property, plant and equipment valued in prior years is reasonable.</p>
4.	<p>Valuation of pension fund net liability The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.</p>	<ul style="list-style-type: none"> Documentation of the key controls that were put in place by management to ensure that the pension fund liability was not materially misstated. Walkthrough of the key controls to assess whether they were implemented as expected and mitigate the risk of material misstatement in the financial statements. Review of the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. Gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made. Review of the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>Our audit work has not identified any issues in respect of the pension fund net liability.</p>

Audit findings against significant risks continued

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
5.	<p>Better Care Fund</p> <p>The Council has entered into a s75 pooled budget arrangement as of 1 April 2015 with NHS South Devon and Torbay CCG and NHS Northern Eastern and Western Devon CCG.</p> <p>The accounting arrangements for this are complex and there is a risk of material misstatement.</p>	<ul style="list-style-type: none"> We have gained an understanding of the Council's assessment of where control lies and the accounting entries made by the Council and confirm We have gained an understanding of the s75 agreements in place that govern the pooled budget. We worked with the Council to gain an understanding of the Council's assessment of where control lies and the expected accounting entries to be made by the Council and confirmed this is in line with accounting standards and the code. We have reviewed the design and implementation of the Council's controls over the Better Care Fund (BCF) pooled budget. We have tested the accounting entries made in respect of the BCF pooled budget to check they are consistent with our understanding of the arrangement and that transactions and balances recorded are consistent with those recorded by counterparty organisations, and are in accordance with accounting standards. 	<p>Our work has confirmed that the accounting treatment is appropriate given the nature of the financial relationships. The arrangement has been accounted for as a joint operation where each partner shows in its accounts its share of expenditure, assets and liabilities of the Better Care Fund.</p> <p>We have relied on substantive testing audit work that was carried out as part of the South Devon and Torbay CCG audit.</p>
6.	<p>New PFI Scheme – South West Devon Waste Partnership</p> <p>The Council entered into a new PFI waste partnership arrangement with Plymouth City Council and Torbay Council (the Partnership) in 2015/16.</p>	<ul style="list-style-type: none"> Discussed with the Council the proposed accounting treatment and justification of this. Gained an understanding of the agreements in place that govern the scheme and the Council's proposed accounting treatment and justification of this assessment and confirm this is in line with accounting standards and the code Reviewed the PFI model to be used by the Council Tested the accounting entries made in respect of the PFI arrangement to check they are consistent with our understanding of the arrangement and the model. 	<p>Our audit work concluded that:</p> <ul style="list-style-type: none"> the accounting treatment for the scheme was reasonable the figures produced by the PFI operator's financial model were materially accurate The transactions in the financial statements were consistent with the financial model and our understanding, and The accounting entries were compliant with the Code.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Operating expenses</p>	<ul style="list-style-type: none"> Creditors understated or not recorded in the correct period (Operating expenses understated) 	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding Agreed creditors to the ledger Substantive testing of significant creditor balances Review of after date payments to ensure all liabilities have been identified 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p>Employee remuneration</p>	<ul style="list-style-type: none"> Employee remuneration accruals understated (Remuneration expenses not correct) 	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding Performed a trend analysis review Substantively tested a sample of remuneration transactions 	<p>Our audit work has not identified any significant issues in relation to the risk identified and reasonable assurance has been obtained over the risk identified.</p> <p>However as reported in our audit plan we identified from our walkthrough testing that for authorisations of changes to payroll data, signatures are not checked against an authorised signatory list. The effect of this is payroll data can be amended without the proper authorisation and inappropriate changes to the system could be made.</p> <p>We are aware that the Council has instructed retrospective checks to identify that changes are valid and no issues have arisen from checks performed.</p> <p>As part of our audit work we have performed sample testing and whilst no errors in the financial reporting were found, we did review transactions which were a result of payroll changes not being administered in a timely fashion. We identified a number of cases where staff changes were processed late resulting in retrospective adjustments to employees pay.</p>

Matters discussed with management

	Matter	Commentary
1.	Classification of investment	We have discussed with management the accounting treatment classification of an £9.4m investment. On the basis that there is no withdrawal notice required we have queried whether it should be classified as a short term rather than a long term investment. The Council's view is that due to the expectation that it will be held for a period greater than 12 months then it is appropriate for it to be classified as a long term loan and not as a short term cash or cash equivalent.
2.	Group accounting assessment	The Council has reviewed its group bodies and formed an assessment that there is no requirement to provide Group accounts per the requirements of the accounting Code. We have reviewed the Council's assessment and concur with this view.
3.	Conversion to academy schools on 1 st September 2016	Within the notes to the accounts the Council has disclosed conversions of schools to academies as a post balance sheet event. The Council is aware that there are nine primary schools that could potentially become academies on 1st September 2016 and DCC will receive official notification from the Department for Education by Friday 2nd September. The potential maximum financial impact of these potential conversions on Note 6 – events after the reporting date has been assessed by the Council as a £5.5m reduction in land and buildings. On the basis that this amount is not material, the Council does not intend to update the notes to the accounts once this is confirmed.

Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> • The Council's policy on revenue recognition is included in note 1 of the Statement of Accounts. • Fees, charges and rents due from customers are accounted for as income at the date the Authority provides the relevant goods and services; • Council tax and Non Domestic rates revenue is recognised when the following conditions have been satisfied: <ul style="list-style-type: none"> a) the amount of revenue can be measured reliably; and b) it is probable that the economic benefits or service potential associated with the transaction will flow to the authority. 	<ul style="list-style-type: none"> • The accounting policy is appropriate and complies with the Code of Practice on Local Authority Accounting (the Code). • Income is not an area that requires significant judgement or estimation. • The disclosure of the accounting policy is adequate. 	

Assessment

Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
Judgements and estimates	<ul style="list-style-type: none"> • Key estimates and judgements include : <ul style="list-style-type: none"> – Useful life of PPE – Revaluations – Impairments – PPE valuations – Valuation of pension fund net liability – Provisions – PFI 	<p>We have reviewed the accounting areas where the Council has exercised judgement and used estimates. We found that:</p> <ul style="list-style-type: none"> • Appropriate policies have been used • Accounting policies have been adequately disclosed • Areas where judgement had been used were supported by the work of an expert or a third party • We have reviewed the accounting models the Council used to calculate the entries required in the accounts for the three current PFI schemes in operation. We have compared these to our standard accounting model to provide some independent evidence over the accuracy of the estimate used. In all three cases there are differences, however these are below our level of materiality and therefore we consider that no further action is required. 	●
Going concern	<p>The County Treasurer, as 151 officer has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.</p>	<p>We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements.</p>	●
Other accounting policies		<p>We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.</p>	●

Assessment

Other communication requirements

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

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit Committee and we have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures
2.	Matters in relation to related parties	<ul style="list-style-type: none"> From the work we carried out, we have not identified any related party transactions which have not been disclosed
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> 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. Of these requests all but one were returned with positive confirmation. We are still awaiting responses for one investment.
6.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements
7.	Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Group/Council acquired in the course of performing our audit, or otherwise misleading. <p>We have not identified any issues we would be required to report</p>
8.	Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the specified group reporting threshold we are required to examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <p>This work is not yet completed and the planned timescale for the work has been agreed with officers for the end of August. We have explored the possibilities for including this work as part of the audit fieldwork, however guidance from the treasury has not been available to enable this work to be completed earlier than the agreed timescale.</p>

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances. We considered and walked through the internal controls for Employee Remuneration, Operating Expenses , Journals and Property , Plant And Equipment as set out on pages 10,11 and 13 above.

The matters that we identified during the course of our audit are set out in the table below. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

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
1.		<p>Controls over review of journals</p> <ul style="list-style-type: none"> As reported in our audit plan, we found that large journals above £200k are not authorised by a separate individual when posted by a member of staff listed on the authoriser list. At that time we received assurances that the number of journals that would be affected was small. Review of year end journals identified a large number of journals above the threshold of £200,000 which did not require authorisation in the system by a separate individual. Based on this finding we have performed additional work in this area. We reviewed journals and sought alternative evidence of authorisation for all journals over £200,000. For year end journals posted by the central finance team, a management control was implemented from April onwards and we saw evidence that these were authorised. For journals posted by other teams these were not always authorised. The lack of control during the year is considered to be a deficiency but given the additional controls introduced at year end it is not considered a significant deficiency. We understand that the control has been implemented going forward for the 2016/17 financial reporting period. 	<ul style="list-style-type: none"> In our audit plan we raised the recommendation that journals above a threshold determined by the Council should be authorised by a separate individual regardless of who has posted the journal. All large journals should be reviewed and authorised by a separate individual

Assessment

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

Internal controls (continued)

	Assessment	Issue and risk	Recommendations
2.		<p>Controls over employee remuneration</p> <ul style="list-style-type: none"> As reported in our audit plan, for authorisations of changes to payroll data, signatures are not checked against an authorised signatory list. The effect of this is payroll data can be amended without the proper authorisation and inappropriate changes to the system could be made. The Council has carried out retrospective checks to identify that changes are valid and no issues have arisen from the checks performed. 	<ul style="list-style-type: none"> Changes to payroll data should be checked to ensure any changes made are valid and appropriate

Assessment

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

Adjusted misstatements

There were no adjusted misstatements to the draft accounts that have been identified during the audit process.

Misclassifications and disclosure changes

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

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	35,713	Note 37.1 pension contributions to be paid	Disclosure error of contributions to be paid in the next financial year. Amount should be £37.713 million. Figure per draft accounts is £35.508 millions
2 Disclosure	(14,353)	Note 15 Financial Instruments	Cash overdraft figure per draft accounts in Note 15 is £11,365m which is not consistent with Cash and cash equivalents Note 18.
3 Disclosure	Various	Note 34.5 Partnerships	The Council identified disclosure amendments for the Council's contribution and total expenditure for some of the Health- Section 75 partnerships and other partnerships

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non-audit services and independence

06. Communication of audit matters

Background

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

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

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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

Risk assessment

We carried out an initial risk assessment in March 2016 and identified three significant risks, which we communicated to you in our Audit Plan dated 15 March 2016.

We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

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

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

Significant qualitative aspects

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

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

- the arrangements for agreeing and monitoring the Council's medium term financial plan and the robustness of the Council's financial planning assumptions which include savings plans to support its future financial sustainability
- the Council's arrangements for managing the overspend in children's social care and arrangements for monitoring and managing delivery of the 2015/16 budget and savings plans
- Arrangements for delivery of strategic priorities in relation to the Better Care Fund and how the Council is working with partners to identify, manage and monitor the associated risks

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 later in this section.

Overall conclusion

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

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources. The text of our report, which confirms this can be found at Appendix B.

Key findings

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

Significant risk	Work to address	Findings and conclusions
<p>Better Care Fund The Council is seeking to deliver wide ranging changes and greater integration to ensure the financial sustainability of adult health and social care services. Working with partners from different organisations and service areas with potentially conflicting priorities, the project is complex and high profile.</p>	<p>We reviewed project management and risk assurance frameworks established by the Council to establish how it is identifying, managing and monitoring risks associated with the Better Care Fund.</p>	<p>During 2015/16 the Council has worked collaboratively with health and social care partners to delivery the Better Care Fund Strategy. Devon County Council is the administering authority for the Better Care fund budget of £60m. Governance arrangements are in place to administer the fund with sub teams set up to consider delivery as well as financial aspects of the Fund. This is as well as having oversight from the Joint Coordinating Commissioning Group and the Health and Well Being Board. There is a clear framework and risk sharing has been defined.</p> <p>The strategic aims of the Council and its partners in 2015/16 included reducing emergency admissions to hospitals and enabling people to leave hospital in a timely way. In the next 2 to 5 years, the BCF is looking to increase dementia diagnosis as well as investing in activities that keep people healthier for longer. During the course of the year, the performance target to reduce hospital admissions by 3.5% was not met in the final quarter of 2014/15 and quarter 1,2 and 3 of 2015/16. Given the target has not been met over the 12 month period there has ben a reduction in the Better Care Fund budget of £4.1m which has been passed to providers of healthcare. For diagnosis of dementia, the rate had steadily been increasing throughout the year, although delays in the agreement around the national indicator impacted on the reporting.</p> <p>Overall, it is early stages for the implementation of the Better Care Fund given 2015/16 was the first year however more work is needed to be done to achieve its objectives. The Council has demonstrated closer working with partners which should assist in the Better Care Fund achieving its aims going forward.</p>

Significant risk	Work to address	Findings and conclusions
<p>Medium term financial planning and transformational change Whilst the Council has set a balanced budget for 2015/16 and 2016/17, and has increased council tax by the maximum permitted, finding additional savings in future years remains a significant challenge. The latest medium term financial plan outlines that £36.9m of savings for 2017/18 onwards still need to be found. To achieve this whilst maintaining provision of service presents a challenge. The Council is engaging with external parties to identify opportunities for savings and transformational change. There is a risk of not achieving the required savings and the proposed transformational plans will be insufficient to bridge the gap in the medium term.</p>	<p>We reviewed the Council's arrangements for updating, agreeing and monitoring its Medium Term Financial Plan. Specifically we considered the robustness of the financial planning assumptions and arrangements for ensuring the financial projections are realistic and achievable.</p> <p>Our review will also consider the transformational change programme and the arrangements in place for delivery.</p>	<p>The Council has a strong track record of delivering to budget and has a balanced budget for 2016/17.</p> <p>The Council has a medium term financial plan for the period 2016/17 to 2019/20 approved by the Council in February 2016 which includes savings plans identified and gaps. This is supported by a rolling 4 year plan which provides details of individual savings plans and owners and is updated on a regular basis. The next update is planned in August 2016. Savings plans identified in the Medium term financial plan are robust. The Council has reduced the savings required for Children's and Adult services given the demand pressures and high costs and have factored this into the medium term financial plan identifying other savings as required.</p> <p>Despite having plans in place the Council has to continue to achieve significant savings in the medium term whilst meeting current demand for services. In order to achieve the required savings, the Council has started a transformational change programme however this is at a very early stage and more work needs to be done to achieve the required savings particularly in 2018/19 which, based on projections, will be particularly challenging.</p> <p>The Council has a £23m Budget management contingency, half of which has originated from the MRP change (Debt and PFI). This is expected to be used in 2017/18 to maintain current services taking into account future demand in a particularly challenging year. The contingency fund will allow services to be maintained whilst the Vanguard strategic review takes place and has time to develop to have an expected impact in 2018/19.</p> <p>Overall, we have concluded that the Council has appropriate arrangements in place to manage the risk. The Council has proper arrangements in place to ensure it plans finances effectively in the medium term to support its strategic functions.</p>

Significant risk	Work to address	Findings and conclusions
<p>Financial outturn During the year, the Council has forecast an overspend in the People's 2015/16 budget of £8.8m. Across the Council, in People and Place services, there has been considerable budgetary pressure and as a consequence in recent years overspends have occurred on both sides of the business. Given the demands on the service during the year, the challenge to spend within budget remains.</p>	<p>We will review the Council's arrangements for 2016/17 budget setting including identification of savings plans. We will review arrangements for monitoring and managing delivery of the 2015/16 budget and savings plans.</p>	<p>The Council has dealt with significant budget pressures during 2015/16. The People services directorate had an overspend of £9.8m which was primarily driven by the increase in demand for services and higher costs of care for Children's Social work and Child protection.</p> <p>Despite the challenges faced, the Council during the course of the year managed its budget which was in balance . This was achieved primarily by a change in the Minimum revenue provision which was considered by Members at the Corporate Scrutiny Committee and approved by the Council in February 2016 . This has resulted in a £9.5 million benefit for 2015/16 and will also reduce budgetary pressures as benefits will continue to accrue to the revenue account for a further 15 years; although of a reducing amount. Years 18 to 50 will see an increase in the charge to the revenue account.</p> <p>The Council manages its planned savings during the year as part of its budgetary control. It is not clear what the Council has delivered against its planned savings for 2015/16. In our view, to improve accountability, performance against planned savings should be monitored and reported against individual savings plans.</p> <p>The Council has set a balanced budget for 2016/17, however early indications suggest budgetary pressures in Adult and Children's services remain in 2017/18. The Council has been prudent in its budget setting for 2016/17 and has built in appropriate risk based contingencies however if demand in these areas continue to increase, this will present a significant challenge.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements in place to ensure it plans finances effectively to support its strategic functions.</p>

Significant difficulties in undertaking our work

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

Significant matters discussed with management

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

Any other matters

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

Section 4: Other statutory powers and duties

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

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

	Issue	Commentary
1.	Public interest report	<ul style="list-style-type: none">• We have not identified any matters that would require a public interest report to be issued
2.	Written recommendations	<ul style="list-style-type: none">• We have not made any written recommendations that the Council is required to respond to publicly
3.	Application to the court for a declaration that an item of account is contrary to law	<ul style="list-style-type: none">• We confirm we have not used this duty
4.	Issue of an advisory notice	<ul style="list-style-type: none">• We confirm we have not used this duty
5.	Application for judicial review	<ul style="list-style-type: none">• We confirm we have not used this duty

We have received an objection on the accounts which is being considered.

Section 5: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

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

Fees

	Proposed fee £	Final fee £
Council audit	105,281	TBC*
Total audit fees (excluding VAT)	105,281	TBC*

Fees for other services

Service	Fees £
Audit related services:	
• Certification of Teachers' Pension end of year certificate	4,200
• Certification of School-centred initial teacher training (SCITT) annual returns	3,700
Non-audit services	7,900

* There was additional work required in relation to the Energy from Waster PFI scheme. This additional fee is being discussed with officers before approval is requested from Public Sector Audit Appointments Ltd (PSAA) and the final fee will be confirmed in the Annual Audit Letter.

*Revised fee is also being discussed with officers for additional work performed on journals and employee remuneration testing

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 6: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Communication to those charged with governance

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

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Rec No.	Recommendation	Management response	Implementation date & responsibility
1	Journals above a threshold determined by the Council should be authorised by a separate individual regardless of who has posted the journal.	As previously agreed.	1 April 2016 Responsible officer - Mark Fairchild
2	The Council should ensure all line managers are aware of the requirements to provide timely information to HR and the payroll team for any changes in situation for an employee which impacts their pay to prevent overpayment or incorrect employee remuneration.	Agreed	1 October 2016 Responsible officer - Jacky Wilson
3	The Council should monitor and report performance and achievement of savings against the planned individual savings for a given period.	Savings plans are monitored on a regular basis and reported to Cabinet on an exceptions basis as part of the regular budget monitoring process.	On going
4	The Council should ensure timelines and responsibilities are agreed to ensure the development and delivery of its transformation plan	Support for the transformation is underway.	1 December 2016 Responsible officer - John Smith



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