

# Devon County Council and Devon Pension Fund

## Audit Progress Report and Sector Update

**Year ending 31 March 2022**

Audit Committee 27 September  
2022



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Introduction

## Your key Grant Thornton team members are:

### Julie Masci

Key Audit Partner

E julie.masci@uk.gt.com

### Samantha Harding

Engagement Manager – Devon County Council

E sam.g.harding@uk.gt.com

### Mark Bartlett

Engagement Manager – Devon Pension Fund

E mark.bartlett@uk.gt.com

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications <https://www.grantthornton.co.uk/en/services/public-sector-services/>

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

# Progress at 27 September 2022 – Council

## Financial Statements Audit

We undertook our initial planning for the 2021/22 audit in June 2022, and interim audit at the same time. We began our work on your draft financial statements in August.

Our interim fieldwork included:

- Updating our review of the Council’s control environment
- Updating our understanding of financial systems
- Reviewing Internal Audit reports on core financial systems
- Understanding how the Council makes material estimates for the financial statements
- Early work on emerging accounting issues

The results of our work to date are included in this report.

In our June Progress Report, we gave details of our initial planning considerations ahead of the issue of our final plan at this Committee.

We will report our work in the Audit Findings Report and aim to give our opinion on the Statement of Accounts by January 2023.

The Accounts and Audit Regulations 2015 were amended by SI 2021 No. 263. The Department for Levelling Up, Housing and Communities (DLUHC) previously stated their intention to introduce secondary legislation to extend the deadline for publishing audited local authority accounts to 30 November 2022 for the 2021/22 accounts. This is enacted by The Accounts and Audit (Amendment) Regulations 2022 (SI 2022 No. 708) that came into force on 22 July 2022. The deadline for publishing audited local authority accounts for 2021/22 is extended to 30 November 2022 and thereafter changed to 30 September for years up to 2027/28.

## Value for Money

The new Code of Audit Practice (the “Code”) came into force on 1 April 2020 for audit years 2020/21 and onwards. The most significant change under the new Code was the introduction of an Auditor’s Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations, if required.

The new approach is more complex, more involved and is planned to make more impact.

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies auditors are required to issue our Auditor’s Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation. The extended deadline for the issue of the Auditor’s Annual Report is now no more than three months after the date of the opinion on the financial statements. We anticipate issuing our Auditor’s Annual Report in January 2023.

## Other areas

### Meetings

We met with Finance Officers in August as part of our quarterly liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

# Risks of significant VFM weaknesses

As part of our planning work, we considered whether there are any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. Our latest position on our risk assessment is set out below. We will keep our risk assessment under review and report more fully in our Auditors Annual Report.

## Risks of significant weakness

These risks require specific audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money.

Based on the work undertaken to date we have identified the following risks of significant weakness:

- The Council's response and actions implemented arising from Ofsted's inspection of Children's Social Care Services which took place in January 2020 and further visits in May 2021 and February 2022 .
- The plans the Council has to reduce the overspends against its Dedicated Schools Grant and to recover the cumulative deficit.
- In common with many other authorities, the current high inflation environment and cost of living crisis is placing significant strain on the Council's ability to deliver its planned 2022/23 outturn. In July 2022, the Council reported a projected overspend of £30 million against its budget with the potential for a further overspend of £10 million due to ongoing inflationary pressures. The Council recognises that immediate action is necessary to balance the budget through the remainder of the year.

We will continue to keep under review our risk assessment and will incorporate any new risks as they emerge.

# Progress at 27 September 2022 – Devon Pension Fund

## Financial Statements Audit 2020/21

We advised the County Council's Audit Committee in November 2021 that our work was substantially complete and that there were no matters of which we were aware that would require modification of our audit opinion.

Devon County Council is the administering authority for Devon Pension Fund and includes the Pension Fund's financial statements within its own financial statements.

As such, we cannot issue our opinion on the Pension Fund's financial statements until the audit for the County Council has been completed.

We have, however, been able to issue the assurance letters regarding the Pension Fund audit to the other Local Government auditors in Devon. These letters were issued in October 2021.

## Financial Statements Audit 2021/22

The Accounts and Audit (Amendment) Regulations 2021 push back the date by which principal authorities need to publish their draft financial statements to the first working day of August. The Department for Levelling Up, Communities and Housing (DLUHC) states that they intend, subject to consultation, to introduce secondary legislation to extend the deadline for publishing audited local authority accounts to 30 November 2022 for the 2021/22.

Our 2021/22 Audit Plan was presented to the June 2022 Audit Committee meeting.

The audit of the financial statements started in July 2022 and is currently in progress. We had planned to present our Audit Findings Report to the September 2022 Audit Committee meeting, however our work is not sufficiently progressed and we will now be presenting the report to the November 2022 meeting.

# Audit Deliverables

2021/22 Deliverables	Planned Date	Status
<p><b>Audit Plan</b></p> <p>We are required to issue a detailed audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2021/22 financial statements and to report on the Authority's value for money arrangements in the Auditor's Annual Report</p>	September 2022	Completed
<p><b>Interim Audit Findings</b></p> <p>We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.</p>	September 2022	Completed
<p><b>Audit Findings Report</b></p> <p>The Audit Findings Report will be reported to the January Audit Committee.</p>	January 2023	Not yet due
<p><b>Auditors Report</b></p> <p>This includes the opinion on your financial statements.</p>	January 2023	Not yet due
<p><b>Auditor's Annual Report</b></p> <p>This report communicates the key outputs of the audit, including our commentary on the Authority's value for money arrangements.</p>	January 2023	Not yet due
2021/22 Audit-related Deliverables	Planned Date	Status
<p><b>Teachers Pensions Scheme – certification</b></p> <p>This is the report we submit to Teachers Pensions based upon the mandated agreed upon procedures we are required to perform.</p>	TBC	Not yet due

# Audit Deliverables – Devon Pension Fund

2020/21 Deliverables	Planned Date	Status
<p data-bbox="120 309 338 339"><a href="#">Auditors Report</a></p> <p data-bbox="120 357 826 387">This includes the opinion on your financial statements.</p>	October 2022	Pending completion of County Council audit- see page 8
2021/22 Deliverables	Planned Date	Status
<p data-bbox="120 659 264 689"><a href="#">Audit Plan</a></p> <p data-bbox="120 707 1509 770">We are required to issue a detailed audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Pension Fund's 2021/22 financial statements.</p>	June 2022	Completed
<p data-bbox="120 831 421 861"><a href="#">Audit Findings Report</a></p> <p data-bbox="120 879 1111 909">The Audit Findings Report will be reported to the November Audit Committee.</p>	November 2022	Not yet due
<p data-bbox="120 979 338 1010"><a href="#">Auditors Report</a></p> <p data-bbox="120 1027 826 1058">This includes the opinion on your financial statements.</p>	November 2022	Not yet due



# Results of Interim Audit Work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	<b>Work performed</b>	<b>Conclusions and recommendations</b>
<b>Internal audit</b>	We have reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.	Our review of internal audit work has not identified any weaknesses which impact on our audit approach.
<b>Entity level controls</b>	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> <li>• Communication and enforcement of integrity and ethical values</li> <li>• Commitment to competence</li> <li>• Participation by those charged with governance</li> <li>• Management's philosophy and operating style</li> <li>• Organisational structure</li> <li>• Assignment of authority and responsibility</li> <li>• Human resource policies and practices</li> </ul>	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.
<b>Review of information technology controls</b>	<p>We performed a high level review of the general IT control environment, as part of the overall review of the internal controls system.</p> <p>IT (information technology) controls were observed to have been implemented in accordance with our documented understanding.</p>	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.

	<b>Work performed</b>	<b>Conclusions and recommendations</b>
<b>Walkthrough testing</b>	<p>We are in the process of undertaking walkthrough tests of the Council's controls operating in areas where we consider that there is a significant risk of material misstatement to the financial statements. These are journals, land and building valuations and pension fund liability.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding.</p>	<p>Our work to date has not identified any weaknesses which impact on our audit approach.</p>
<b>Journal entry controls</b>	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy. In our prior year audit, we identified that batch journals posted from '200' user identity codes did not require authorisation, representing a risk that these journals could be erroneous or fraudulent postings that may not be identified.</p> <p>We are focussing testing in this area.</p> <p>We also identified some examples of weaknesses in the approval process, resulting in effective self authorisation.</p>	<p>As in the previous year, we have identified a weakness in the authorisation process for the '200' batch journals. We are undertaking additional testing in this area.</p>

# Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

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Public Sector

A dark purple rectangular button with the text "Local government" in white, sans-serif font, centered within the button.

Local  
government

# Response to local audit consultation – Department for Levelling Up, Housing and Communities (“DLUHC”)

The Department for Levelling Up, Housing and Communities (“DLUHC”) has published its response to the local audit consultation. This follows the “Redmond Review”, which reported in September 2020.

The response confirms plans to establish a new regulator, the Audit Reporting and Governance Authority (ARGA), as the system leader for local audit within a new, simplified local audit framework.

Ahead of ARGA’s establishment, a shadow system leader arrangement will start at the Financial Reporting Council (FRC) from September 2022.

The consultation response also announces:

- Plans to make audit committees compulsory for all councils, with each audit committee required to include at least one independent member. This will create greater transparency and consistency across local bodies.
- ARGA will take over statutory responsibility for preparing and issuing the Code of Audit Practice (from the National Audit Office).
- A post-implementation review of the new Value for Money arrangements. The Code is a key part of the local audit system, and it is important to ensure that it helps to facilitate effective local audit. To allow time for the new arrangements to bed in the response proposes this is completed within three years.

The full response can be found here:

[Government response to local audit framework: technical consultation - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/government-response-to-local-audit-framework-technical-consultation)



# The Value of Internal Audit – CIPFA

One of the key elements of good governance is an independent and objective internal audit service. Some organisations engage fully and reap significant benefits from the assurance, insight and expertise they bring whilst others pay lip-service to them and see their work as an administrative burden.

CIPFA's recent report, [Internal Audit: Untapped Potential](#), lifts the lid on internal audit in public services. For some chief financial officers and chief executives, this report confirms the value and contribution of internal audit teams with 87% of respondents recognising the contribution internal audit makes to their organisation. However, some leadership teams saw internal audit as providing a basic service at minimal cost.

Getting the most out of the function requires honest conversations and long-term planning. Maintaining appropriate skills and knowledge within the function is necessary to ensure high quality internal audit in public services are retained.

## Culture and governance

The Audit Committee should monitor the delivery of internal audit and their output will be a key part of the annual work-plan. However, internal audit is not a substitute for risk management and should enhance the overall assurances received by management. Executives and Officers should engage with internal audit recommendations to ensure the organisation gains maximum value from reviews.

## Capacity

Reducing internal audit days can lead to a lack of 'corporate grip' and not identifying issues at an early stage. This report raises concerns over the capacity of internal audit across the public sector. The profession needs to be valued and invested in to make it more attractive to new blood and for bodies to be able to attract the best candidates to their service.

## Expectations

To maximise the impact of internal audit, a clear and aligned strategic audit plan and annual audit plan should be in place. This should be agreed with all stakeholders.

## Future plans

Internal audit needs to adapt to the changing landscape, including risks such as climate change, digital and technological developments, cyber-security and ongoing financial and service pressures within their planning processes. For financial resilience and medium- and long-term financial strategies internal audit can provide vital independent assurance to decision makers to allow them to take on more risk and be more ambitious. Leadership teams need to be clear on what assurances they will require going forward.

For more information, [Rob Whiteman](#) share his views on this report.



# Good practice in annual reporting – NAO

The National Audit Office (NAO) has published this guide which sets out good practice principles for annual reporting with examples from public sector organisations

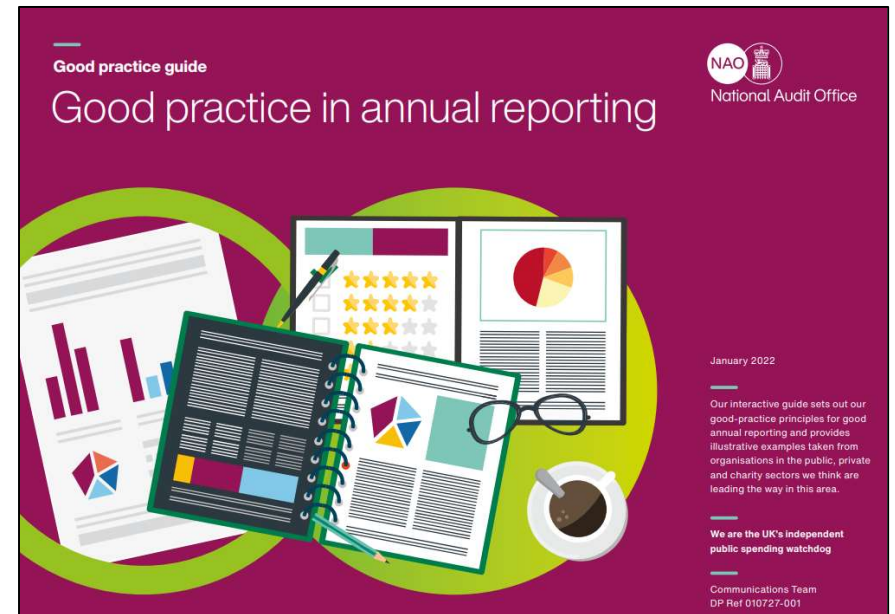
The NAO comment that the guide sets out “good-practice principles that we believe underpin good annual reporting. These principles are: Supporting Accountability; Transparency; Accessibility; and the need for the report to be Understandable.”

The NAO further comment “The best annual reports we have seen use these principles to tell the “story” of the organisation. It is important that stakeholders, including the public and Parliament, are able to hold an organisation to account. To do this effectively, stakeholders need to properly understand the organisation’s strategy, key risks that might get in the way of delivering this strategy and the effectiveness of their management, and the amount of taxpayers’ money that has been spent to deliver the outcomes the organisation seeks to achieve.”

The guide draws on examples of good practice from within each of the six sections of an Annual Report:

- Strategy
- Risk
- Operations
- Governance
- Measures of success
- Financial performance
- External factors

Although the guide does not include any local authority examples, those included, and the underlying principles, are equally relevant to all public facing organisations.



The guide can be found here:

[Good practice in annual reporting - National Audit Office \[NAO\] Report](#)

# Audit and Risk Assurance Committee effectiveness tool – NAO

The National Audit Office (NAO) has published this tool which supports Audit Committees in assessing their effectiveness.

The NAO comment “Audit and Risk Assurance Committees (ARACs) play a crucial role in supporting the effective governance of central government departments, their agencies and arm’s-length bodies.

ARACs are operating in a highly challenging context. Government organisations are managing many short- and long-term risks and are required to be resilient to a number of pressures. This has created an environment where ARACs need to be dynamic and responsive to the changing risk profiles and demands of their organisations. ARACs can see this as an opportunity to work out how they can most proactively work with the Board and accounting officer.

Against this background, the NAO’s effectiveness tool provides a way for ARACs to assess their effectiveness against more than just the basic requirements. It provides aspects of good practice to give ARACs greater confidence and the opportunity to meet the requirements of their role.

The NAO’s effectiveness tool is a comprehensive way for ARACs to assess their effectiveness on a regular basis.”

The tool covers:

- Membership, independence, objectivity and understanding
- Skills and experience
- Roles and responsibilities
- Scope
- Communication and reporting

Although the tool is designed for central government Audit Committees it is also relevant to local government.



The guide can be found here:

[Audit and Risk Assurance Committee effectiveness tool - National Audit Office \(NAO\) Report](#)

# Guide for audit and risk committees on financial reporting and management during COVID-19 – NAO

The National Audit Office (NAO) has published this guide which aims to help audit and risk committee members discharge their responsibilities in several different areas, and to examine the impacts on their organisations of the COVID-19 outbreak

The NAO comment “Audit and risk committees are integral to the scrutiny and challenge process. They advise boards and accounting officers on matters of financial accountability, assurance and governance, and can support organisations, providing expert challenge, helping organisations focus on what is important, and how best to manage risk.

Each organisation will have existing risk management processes in place, but risk appetite may have changed as a result of COVID-19, for the organisation to operate effectively and respond in a timely manner. This may result in a weakening of controls in some areas, increasing the likelihood of other risks occurring. Organisations will need to consider how long this change in risk appetite is sustainable for.”

The guide includes sections on:

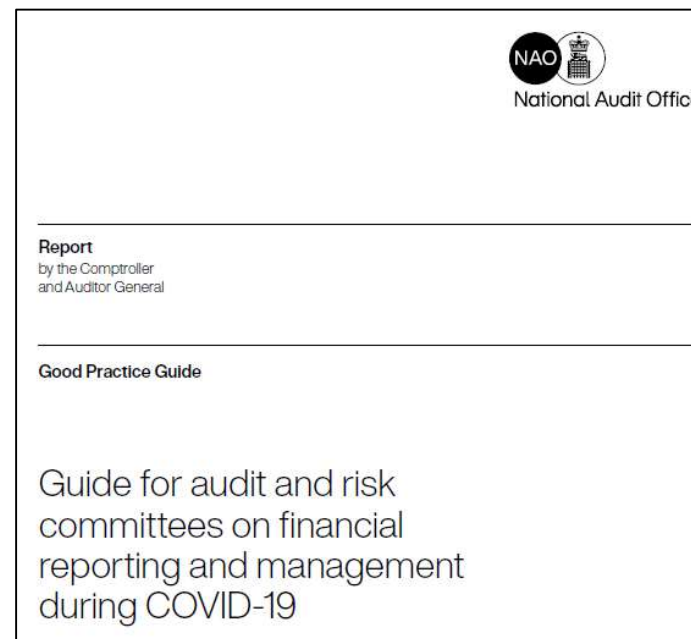
- Annual reports
- Financial reporting
- The control environment
- Regularity of expenditure

The guide can be found here:

<https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/>

The guide includes a number of key questions covering areas such as:

- Property valuations
- Pension scheme valuations
- Completeness of liabilities
- Events after the reporting period
- Control environment
- Fraud and error







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