# Devon County Council Audit Plan

Year ending 31 March 2023

Devon County Council

11 September 2023

# Contents

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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 Council 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.

# Key matters

## National context

For the general population, rising inflation rates, in particular for critical commodities such as energy, food and fuel, is pushing many households into poverty and financial hardship, including those in employment. At a national government level, recent political changes have seen an emphasis on controls on spending, which in turn is placing pressure on public services to manage within limited budgets.

Local Government funding continues to be stretched with increasing cost pressures due to the cost of living crisis, including higher energy costs, increasing pay demands, higher agency costs and increases in supplies and services. Local authority front-line services play a vital role in protecting residents from rising costs; preventing the most vulnerable from falling into destitution and helping to build households long-term financial resilience. At a local level, councils are also essential in driving strong and inclusive local economies, through their economic development functions and measures like increasing the supply of affordable housing, integrating skills and employment provision, and prioritising vulnerable households to benefit from energy saving initiatives. Access to these services remains a key priority across the country, but there are also pressures on the quality of services. These could include further unplanned reductions to services and the cancellation or delays to major construction projects such as new roads, amenities and infrastructure upgrades to schools, as well as pothole filling.

Our recent value for money work has highlighted a number of governance and financial stability issues at a national level, which is a further indication of the mounting pressure on audited bodies to keep delivering services, whilst also managing transformation and making savings at the same time.

In planning our audit, we will take account of this context in designing a local audit programme which is tailored to your risks and circumstances.

## Audit Reporting Delays

In a report published in January 2023 the NAO have highlighted that since 2017-18 there has been a significant decline in the number of local government body accounts including an audit opinion published by the deadlines set by government. The NAO outline a number of reasons for this and proposed actions. In our view, it is critical to early sign off that draft local authority accounts are prepared to a high standard and supported by strong working papers.

# Key matters

## Our Responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out further in our Audit Plan, has been agreed with the Council's Director of Finance and Public Value. (The S. 151 Officer).
- We will consider your arrangements for managing and reporting your financial resources as part of our audit in completing our Value for Money work.
- Our value for money work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness, including actions taken to address recommendations.
- We will continue to provide you and your Audit Committee with sector updates providing our insight on issues from a range of sources and other sector commentators via our Audit Committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretation , discuss issues with our experts and create networking links with other audited bodies to support consistent and accurate financial reporting across the sector.
- We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures. We have identified a significant risk in regards to management override of control– refer to page 8.

# Introduction and headlines

## Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Devon County Council ('the Council') for those charged with governance. Our planning is well progressed but not complete, so this is an indicative plan. We will keep our opinion and VFM risk assessments under continuous review as planning concludes. Where appropriate, we will update our risk assessment to reflect emerging risks or findings and report this to the Council.

## Respective responsibilities

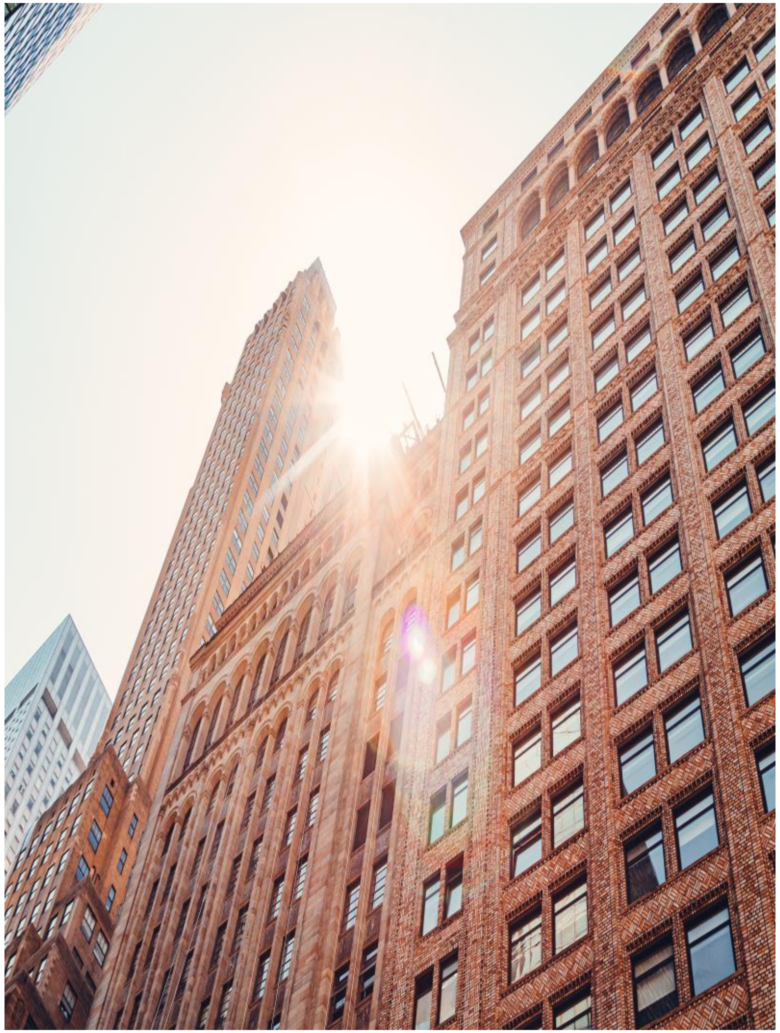
The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Devon County Council. We draw your attention to both of these documents.

## Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council's financial statements that have been prepared by management with the oversight of those charged with governance the Audit Committee; and we consider whether there are sufficient arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. 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 audit approach is based on a thorough understanding of the Council's business and is risk based.



# Introduction and headlines

## Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- management override of control
- valuation of land and buildings
- valuation of the pension fund liability

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

## Materiality

As we have now received the draft 2022/23 accounts, we have based materiality on the draft 2022/23 accounts. We have determined materiality for the final accounts audit to be £20.9m

We are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance.

Clearly trivial has been set at £950,000 (PY £895,000).

## Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has identified the following risks of significant weakness:

- The Council’s response to Ofsted’s inspection of Children’s Social Care Services and the weaknesses identified in the service provision in childrens services.
- Financial pressures within Special Educational Needs and Disabilities (SEND) and the significant and increasing deficit.
- Financial pressures within the Council resulting from the current macro-economic environment.

We will continue to update our risk assessment until we issue our Auditor’s Annual Report.

## New Auditing Standards

There are two auditing standards which have been significantly updated this year. These are ISA 315 (Identifying and assessing the risks of material misstatement) and ISA 240 (the auditor's responsibilities relating to fraud in an audit of financial statements). We provide more detail on the work required later in this plan.

## Audit logistics

Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor’s Annual Report.

Our planning and interim work took place in March 2023 with our final visit commencing in September 2023.

Our proposed fee for the audit will be £145,629 (PY estimated: £157,904) for the Council, subject to the Council delivering a good set of financial statements and working papers and there being no significant financial reporting or accounting matters requiring additional audit time and/or specialist input.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

# Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

| Risk | Reason for risk identification | Key aspects of our proposed response to the risk |
| --- | --- | --- |
| ISA240 revenue risk | Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. | 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:<br>there is little incentive to manipulate revenue recognition;<br>opportunities to manipulate revenue recognition are very limited; and<br>the culture and ethical frameworks of local authorities, including Devon County Council, mean that all forms of fraud are seen as unacceptable.<br>We therefore do not consider this to be a significant risk for Devon County Council. |
| Risk of fraud related to expenditure recognition PAF Practice Note 10 | In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition. | Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states:<br>"As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition". Public sector auditors therefore need to consider whether they have any significant concerns about fraudulent financial reporting of expenditure which would need to be treated as a significant risk for the audit.<br>We have rebutted this presumed risk for Devon County Council because:<br>- expenditure is well controlled and the Fund has a strong control environment;<br>- there is no incentive for management to mis-represent expenditure; and<br>- the Council has clear and transparent reporting of its financial plans and financial position to those charged with governance.<br>We therefore do not consider this to be a significant risk for Devon County Council. |

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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) 315)

# Significant risks identified

| Risk | Reason for risk identification | Key aspects of our proposed response to the risk |
|---|---|---|
| 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 will:<br>Evaluate the design effectiveness of management controls over journals.<br>Analyse the journals listing and determine the criteria for selecting high risk unusual journals.<br>Test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration.<br>Gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence.<br>Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions. |

Management should expect engagement teams to challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies referenced to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

# Significant risks identified

| Risk | Reason for risk identification | Key aspects of our proposed response to the risk |
|---|---|---|
| Valuation of land and buildings | The Council re-values its land and buildings on a five-yearly rolling basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.<br>Additionally, management will need to ensure the carrying value of assets not revalued as at 31 March 2023 in the Council's financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used.<br>We identified the valuation of land and buildings, particularly the assumptions used by the valuer in calculating the revaluations, as a significant risk. | We will:<br>Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work.<br>Evaluate the competence, capabilities and objectivity of the valuation expert.<br>Write to the valuer to confirm the basis on which the valuation was carried out.<br>Evaluate the reasonableness of the key assumptions made by the valuer in determining the valuations.<br>Engage our own valuation expert, Wilks Head and Eve, to provide commentary on:<br>the instruction process in comparison to requirements from CIPFA/IFRS/RICS; and<br>the valuation methodology and approach, resulting assumptions adopted and any other relevant points<br>further review of specific asset valuations if required.<br>Challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding.<br>Test revaluations made during the year to see if they have been input correctly to the Council's asset register.<br>Evaluate 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. |

# Significant risks identified

| Risk | Reason for risk identification | Key aspects of our proposed response to the risk |
|---|---|---|
| Valuation of the pension fund net liability | The Council's pension fund net liability, as reflected in the balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.<br>The pension fund net liability is considered to be a significant estimate due to the size of the numbers involved (£262 million) in the Councill's balance sheet) and the sensitivity of the estimate to changes in key assumptions.<br>The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of Practice for Local Government Accounting (the applicable financial framework). We have therefore concluded tat there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used by the actuary in their calculation.<br>The source data used by the actuary to produce the IAS 19 estimates is provided by the administering authority and employers. We do not consider this to be a significant risk as it is easily verifiable.<br>The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increases and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount rate, where our consulting actuary has indicated that a 0.1% change in the assumption would have approximately a 1.9% effect on the liability.<br>We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in the calculations. With regard to these assumptions we have therefore identified the valuation of the Council's pension fund liability as a significant risk. | We will:<br>Update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls.<br>Evaluate the instructions issued by management to their management expert (actuary) for this estimate and the scope of the actuary's work.<br>Assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation.<br>Assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability.<br>Test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary.<br>Undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (using our auditor's expert) and performing any additional procedures suggested by our expert.<br>Obtain assurances from the auditor of 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. |

# Other matters

## Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2021/22 financial statements, consider and decide upon any objections received in relation to the 2021/22financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
  - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

## Other material balances and transactions

Under International Standards on Auditing, 'irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure'. All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

# Progress against prior year audit recommendations

We identified the following issues in our 2021/22 audit of the Council's financial statements, which resulted in 3 recommendations being reported in our 2021/22 Audit Findings Report. We will follow up on the implementation of our recommendations during the course of the audit.

| Issue and risk previously communicated |
|---|
| **Journal authorisation**<br>As reported on page 7, we have identified a significant control weakness regarding the processes in place for all journals above £200k.<br>We wrote to the Council seeking clarification over the arrangements in place and used this response to determine our approach to journals testing. The Council should introduce enhanced controls over the authorisation of its journals to ensure there is adequate Segregation of Duties and appropriate IT access controls. |
| **Related Party Disclosures**<br>We identified that not all members interests annual declarations were returned.<br>There is a risk of interests not being recorded and reported appropriately.<br>The Council should ensure that all members return their interests confirmations. |
| **Asset lives**<br>Our testing identified that 20 assets under construction completed and transferred to infrastructure during the year were not assigned a useful life. This resulted in depreciation not being charged.<br>This results in depreciation being undercharged during the year.<br>Management should ensure that assets reclassified when brought into use are assigned a useful life to ensure that depreciation is appropriately charged. |

# Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

| Matter | Description | Planned audit procedures |
| --- | --- | --- |
| 1 | **Determination**<br>We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. Materiality has been calculated at £20.9m, which equates to 1.4% of your gross expenditure reported in the draft financial statements. | We determine planning materiality in order to:<br>– establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements<br>– assist in establishing the scope of our audit engagement and audit tests<br>– determine sample sizes and<br>– assist in evaluating the effect of known and likely misstatements in the financial statements |
| 2 | **Other factors**<br>An item does not necessarily have to be large to be considered to have a material effect on the financial statements. | An item may be considered to be material by nature where it may affect instances when greater precision is required.<br>We have not identified any areas where we consider that a lower materiality is required. |

# Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

| Matter | Description | Planned audit procedures |
|---|---|---|
| 3 | **Other communications relating to materiality we will report to the Audit Committee**<br>Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. | We report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.<br>In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £950,000 (PY £895,000). If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities. |

# Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

| | Amount (£) | Qualitative factors considered |
|---|---|---|
| Materiality for the financial statements | 20,900,000 | This was set at 1.4% of the Council's gross expenditure. |
| Performance materiality | £14,630,000 | This is set at 70% of materiality and based on the level of deficiencies in control environment in prior years. |
| Trivial matters | £1,045,000 | Based on 5% of materiality. |

# IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs. We say more about ISA 315 Revised on slide 21.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

| IT system | Audit area | Planned level IT audit assessment |
| --- | --- | --- |
| Finest | Financial reporting | ITGC assessment (design and operating effectiveness) |
| iTrent | Payroll | Testing of system data |

# Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2023

The National Audit Office -issued its latest Value for Money guidance -to auditors in January 2023 . The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body's arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:

### Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.

### Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services.

### Governance

How the body ensures that it makes informed decisions and properly manages its risks.

We are currently in the process of finalising our 2020/21 and 2021/22 combined Value for Money work. Once concluded we will undertake our planning in this area and report on any risks of significant weaknesses to those charge with governance. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's annual report.

# Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

## Risks of significant weakness

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

### 1. Ofsted's inspection of Children's Social Care Services

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 the Council developed a Statement of Action in response to the issues raised. Further visits by OFSTED continue to highlight weaknesses in arrangements.

We will review the progress the Council has made against these actions and will also be cognisant of any future inspections or follow-up visits / reports from Ofsted.

### 2. Financial pressures within Special Educational Needs and Disabilities (SEND)

Financial pressures within this area mean that the Council has reported an overspend of £38.9m relating to its Dedicated Schools Grant as at the end of 2022/23. This overspend is slightly higher than the figure reported in 2021/22. The cumulative deficit now stands at £125.4m.

We will review the plans the Council has to reduce the annual expenditure in this area and, ultimately, to recover the cumulative overspend.

### 3. Financial pressures in delivering the 2022/23 budget

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 has mobilised to identify and deliver cost savings resulting in an underspend at year end of £156,000 after contributions and carry forwards of £2 million.

We will review the Council's response to address the financial pressures within the current budget and as part of medium term financial planning.

## Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:

### Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

### Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

### Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

# Audit logistics and team

**Planning and risk assessment**

**Audit committee**
28 September 2023
**Audit Plan**

**Year end audit**
September to December 2023

**Audit committee**
February 2024
**Draft Auditor's Annual Report**

**Audit committee**
February 2024
**Audit Findings Report/Draft Auditor's Annual Report**
**Audit opinion**

### Peter Barber, Key Audit Partner

Provides oversight of the delivery of the audit including regular engagement with Governance Committees and senior officers

### Sam Harding, Audit Manager

Plans, manages and leads the delivery of the audit, is your key point of contact for your finance team and is your first point of contact for discussing any issues.

## Audited Entity responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audited bodies. Where the elapsed time to complete an audit exceeds that agreed due to an entity not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to an entity not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

## Our requirements

To minimise the risk of a delayed audit, you need to :

- ensure that you produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the Report of the Director of Finance and Public Value and the Chief Executive and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

# Audit fees and updated Auditing Standards including ISA 315 Revised

In 2017, PSAA awarded a contract of audit for Devon County Council to begin with effect from 2018/19. The fee agreed in the contract was £100,865. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2022/23 audit. For details of the changes which impacted on years up to 2021/22 please see our prior year Audit Plans.

The major change impacting on our audit for 2022/23 is the introduction of ISA (UK) 315 (Revised) - Identifying and assessing the risks of material misstatement ('ISA 315'). There are a number of significant changes that will impact the nature and extent of our risk assessment procedures and the work we perform to respond to these identified risks. Key changes include:

- Enhanced requirements around understanding the Council's IT Infrastructure, IT environment. From this we will then identify any risks arising from the use of IT. We are then required to identify the IT General Controls ('ITGCs') that address those risks and test the design and implementation of ITGCs that address the risks arising from the use of IT.
- Additional documentation of our understanding of the Council's business model, which may result in us needing to perform additional inquiries to understand the Council's end-to-end processes over more classes of transactions, balances and disclosures.
- We are required to identify controls within a business process and identify which of those controls are controls relevant to the audit. These include, but are not limited to, controls over significant risks and journal entries. We will need to identify the risks arising from the use of IT and the general IT controls (ITGCs) as part of obtaining an understanding of relevant controls.
- Where we do not test the operating effectiveness of controls, the assessment of risk will be the inherent risk, this means that our sample sizes may be larger than in previous years.

These are significant changes which will require us to increase the scope, nature and extent of our audit documentation, particularly in respect of your business processes, and your IT controls. We will be unable to determine the full fee impact until we have undertaken further work in respect of the above areas. However, for an authority of your size, we estimate an initial increase of £5,000. We will let you know if our work in respect of business processes and IT controls identifies any issues requiring further audit testing. There is likely to be an ongoing requirement for a fee increase in future years, although we are unable yet to quantify that.

The other major change to Auditing Standards in 2022/23 is in respect of ISA 240 which deals with the auditor's responsibilities relating to fraud in an audit of financial statements. This Standard gives more prominence to the risk of fraud in the audit planning process. We will let you know during the course of the audit should we be required to undertake any additional work in this area which will impact on your fee.

Taking into account the above, our proposed work and fee for 2022/23 is detailed overleaf and has been agreed with the Director of Finance and Public Value.

# Audit fees

| | Estimated Fee 2020/21* | Estimated Fee 2021/22* | Proposed Fee 2022/23 |
|---|---|---|---|
| Devon County Council Audit | £141,916 | £157,904 | £145,629 |
| Total audit fees (excluding VAT) | £141,916 | £157,904 | £145,629 |

### Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

### Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

* Subject to final approval by the Council and PSAA Ltd

# Audit fees – detailed analysis

| | |
|---|---|
| **Scale fee published by PSAA 2022-23** | **£95,879** |
| *Value for Money audit – new NAO requirements* | £20,000 |
| *Use of expert – land and buildings valuation* | £5,000 |
| Additional audit procedures arising from a lower materiality | £3,750 |
| Additional Requirements – Payroll Change of Circumstances (Information Provided by the Entity) IPE Testing | £500 |
| *Increased audit requirements of revised ISA 540* | £6,000 |
| *Enhanced audit procedures on journals testing* | £3,000 |
| *Increased audit requirements of revised ISA 315* | £5,000 |
| *Infrastructure* | £2,500 |
| *Increased FRC challenge* | £1,500 |
| Local risk factors | £2,500 |
| **Total estimated audit fees 2022/23 (excluding VAT)** | **£145,629** |

All variations to the scale fee will need to be approved by PSAA

# Independence and non-audit services

## Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

# Independence and non-audit services

## Other services

The following other services provided by Grant Thornton were identified.

[The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

| Service | Fees £ | Threats | Safeguards |
|---|---|---|---|
| Audit related | | | |
| Certification of Teachers Pension Scheme return | 7,500 | Self-Interest (because this is a recurring fee) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee  for this work is £xx in comparison to the total fee for the audit of £145,629 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. |
| Non-audit related | | | |
| Subscription to CFO insights | 6,250 | Self-Interest (because this is a recurring fee) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee  for this work is £xx in comparison to the total fee for the audit of £145,629 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. |

# Communication of audit matters with those charged with governance

| 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 including significant risks and Key Audit Matters | • | |
| Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons | • | • |
| 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 | • | • |
| Significant matters in relation to going concern | • | • |
| Significant findings from the audit | | • |
| Significant matters and issue arising during the audit and written representations that have been sought | | • |
| Significant difficulties encountered during the audit | | • |
| Significant deficiencies in internal control identified during the audit | | • |
| Significant matters arising in connection with related parties | | • |
| Identification or suspicion of fraud( deliberate manipulation) involving management and/or which results in material misstatement of the financial statements ( not typically council tax fraud) | | • |
| Non-compliance with laws and regulations | | • |
| Unadjusted misstatements and material disclosure omissions | | • |
| Expected modifications to the auditor's report, or emphasis of matter | | • |

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

### Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Grant Thornton

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