# The Audit Findings for Devon County Council

**Year ended 31 March 2023**

**16 February 2024**

# 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.

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents will be discussed with management and the Audit Committee.

Name: Peter Barber
For Grant Thornton UK LLP
16 February 2024

# 1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Devon County Council Signature ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2023 for the attention of those charged with governance.

## Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- 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
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We commenced our post-statements audit in early September 2023 and as 16 February 2024 our audit is substantially complete. Our findings are summarised on pages 5 to 23.

Our work to date has identified one adjustment to the financial statements that has resulted in a £9.3m adjustment, reducing the deficit on the provision of services in the Council's Comprehensive Income and Expenditure Statement.

We have recommended a small number of other audit adjustments to improve the presentation of the financial statements as detailed in Appendix D. We have also raised recommendations for management as a result of our audit work in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix C.

The draft financial statements were submitted for audit in line with the agreed national timetable and were supported by good quality working papers. Generally, we received good cooperation from Finance officers at the Council, however there were instances where we experienced delays in receiving sample evidence and query responses, resulting in the audit process taking longer than we would expect. We would like to put on record our appreciation for this support throughout the audit process.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion [Appendix G] or material changes to the financial statements.

Subject to completing our remaining audit procedures set out on page 5, receiving responses to our outstanding queries and having regard to any further national guidance, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on the 28 February 2024.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated financial statements audit report opinion will be unmodified. Our work on the Council's value for money (VFM) arrangements is now complete. The outcome of our VFM work is reported in our commentary on the Council's arrangements in our Auditor's Annual Report (AAR) to be presented to the Audit Committee on 28 February 2024.

# 1. Headlines

| Value for Money (VFM) arrangements | |
|---|---|
| Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.<br>Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:<br>• Improving economy, efficiency and effectiveness;<br>• Financial sustainability; and<br>• Governance | We have completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report. We identified two significant weaknesses in the Council's arrangements and so are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Our findings are set out in the value for money arrangements section of this report (Section 3). |
| **Statutory duties** | |
| The Local Audit and Accountability Act 2014 ('the Act') also requires us to:<br>• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and<br>• to certify the closure of the audit. | We have not exercised any of our additional statutory powers or duties.<br>We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion. |
| **Significant matters** | We did not encounter any significant difficulties or identify any significant matters arising during the vast majority of the audit. However, resourcing constraints within the Council, resulted in delays in receiving some of the requested audit evidence. At the time of drafting this report our key contact, the Head Accountant had been signed off for 6 weeks (anticipated return in March 2024). We have had good cooperation with finance officers during this period of absence to progress the final audit procedures. |

# 1. Headlines

### National context – audit backlog

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 1% (5 of 467) of local government bodies had received audit opinions in time to publish their 2022/23 accounts by the deadline of 30 September 2023. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see About time? (grantthornton.co.uk)

We would like to thank everyone at the Council for their support in working with us to deliver the audit for 2022/23 and finalise the audits for 2020/21 and 2021/22. We recognise the resourcing constraints within the finance function of the Council, with the absence of key officers and the conflicting demands of managing the implementation of the new financial ledger.

### National context – level of borrowing

All Councils are operating in an increasingly challenging national context. With inflationary pressures placing increasing demands on Council budgets, there are concerns as Councils look to alternative ways to generate income. We have seen an increasing number of councils look to ways of utilising investment property portfolios as sources of recurrent income. Whilst there have been some successful ventures and some prudently funded by councils' existing resources, we have also seen some councils take excessive risks by borrowing sums well in excess of their revenue budgets to finance these investment schemes.

The impact of these huge debts on Councils, the risk of potential bad debt write offs and the implications of the poor governance behind some of these decisions are all issues which now have to be considered by auditors across local authority audits. Devon County Council has, since 2009 followed a policy of containing the capital programme, taking out no new external borrowing and repaying debt whenever this can be done without incurring a financial penalty. The Council does not have an investment property portfolio.

# 2. Financial Statements

## Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents will be discussed with management and the Audit Committee.

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

## Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter our audit plan, as communicated to you on 25 September 2023.

## Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 28 February 2024, as detailed in Appendix G. These outstanding items include:

- Conclusion of our closing audit procedures including final quality review checks;
- review of the final set of financial statements and reviewing amendments, and
- receipt of management representation letter.

### Acknowledgements

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

During the course of the audit both your finance team and our audit team faced audit challenges again this year, due to resourcing constraints within the Council. This resulted in more audit resource being required to manage evidence requests and chase responses, with a greater degree of input than we would expect. Delays in receiving evidence and query responses from a small number of officers reduced the efficiency of the audit and delayed audit completion.

# 2. Financial Statements

### Our approach to materiality

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

Materiality levels remain the same as reported in our audit plan on 25 September 2023. We set out in this table our determination of materiality for Devon County Council.

| | Council 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. |

# 2. Financial Statements: Significant risks

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.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

| Risks identified in our Audit Plan | Commentary |
|---|---|
| **Improper revenue recognition -The revenue cycle includes fraudulent transactions (rebutted)**<br>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.<br>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. | No changes to our assessment reported in the audit plan were made during the course of our audit.<br>We consider our rebuttal of revenue recognition to remain appropriate. |
| **Risk of fraud related to expenditure recognition - Completeness of non-pay operating expenditure**<br>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 Council 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. | No changes to our assessment reported in the audit plan were made during the course of our audit.<br>We consider our rebuttal of expenditure recognition to remain appropriate. |

# 2. Financial Statements: Significant risks

| Risks identified in our Audit Plan | Commentary |
|---|---|
| Management override of controls | In response to this risk, we have:<br>- evaluated the design effectiveness of management controls over journals<br>- analysed the journals listing and determined the criteria for selecting high risk unusual journals<br>- identified and are testing unusual journals made during the year and the accounts production stage for appropriateness and corroboration<br>- gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness.<br>In 2020/21 and 2021/22, we reported that we had identified a significant control weakness regarding the processes in place for some journals with a value above £200k.<br>Direct input journals into the system that are in excess of this threshold require authorisation from a head accountant before the transaction can be processed. This is an automated feature of the system. This authorisation is required for each screen of 10 lines of transactions.<br>For journals where there are multiple lines of data, the Council has implemented alternative controls. Instead of the Head Accountant approving each journal on the system (which can be many pages), advance approval by email of the journal is required. Such journals are then posted on to the ledger using a separate '200' journal ID and a separate report of these journals is provided to the relevant Head Accountant.<br>The relevant Head Accountant should approve a ****200 journal before it is input into the system. This is via e-mail, rather than an automated function within the system which means that the authorisation process could be bypassed.<br>Any member of the finance team with journal access, can post a journal under a "200" ID. Although the journal does not record the username of the person inputting the journal, the finance systems manager can interrogate the system to identify the inputter, should the manual control be bypassed.<br>During the year, the Head Accountant, Strategy and Compliance runs reports listing these journals that have already been processed. This list is circulated to service line head accountants requiring confirmation that they have approved the journals. This is a manual control rather than an automated one but is designed to identify any journals which have been input without prior authorisation.<br>As we have previously reported, in our view, the manual nature of these controls represents a weakness in internal controls, as a result, we have assigned a higher risk to these journals and undertaken additional testing focussed on journals posted from these IDs.<br>Our IT audit team have undertaken a review of the controls in place over journals in the Finest system as part of our audit of Devon Pension Fund, we noted that a number of users with superuser access rights were able to post journals. This represents a risk as these individuals have the ability to make unauthorised changes to the system.<br>Our audit work including our review of journal entries has not identified any significant issues with regard to management override of controls. For all journals reviewed we concluded that they were appropriate transactions.<br>As in previous years, we will however report the process to support the authorisation of the '200' journals as a control issue in our Audit Findings Report. The enhanced permissions finding will also be reported.<br>Our work in respect of accounting estimates and key judgements is set out on pages 12 to 16. |

# 2. Financial Statements: Significant risks

| Risks identified in our Audit Plan | Commentary |
|---|---|
| **Valuation of land and buildings**<br>The Council re-values its land and buildings on a five-yearly rolling basis to ensure that carrying value is not materially different from current 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 have:<br>• evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work.<br>• evaluated the competence, capabilities and objectivity of the valuation expert.<br>• written to the valuer to confirm the basis on which the valuation was carried out.<br>• evaluated the reasonableness of the key assumptions made by the valuer in determining the valuations.<br>• engaged 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>• tested revaluations made during the year to see if they have been input correctly to the Council's asset register.<br>• evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.<br>We challenged the underlying assumptions used by the valuer in determining his valuations. For specialised assets, this involved agreeing floor areas to site plans, agreeing build costs to national indices, including locality factors, reviewing the obsolescence and other costs included in the valuation process. For non specialised assets we agreed valuations to rental income records and challenged yield values in relation to nationally published data.<br>Our audit findings are reported in the section on estimates and judgements on page 12. |

# 2. Financial Statements: Significant risks

| Risks identified in our Audit Plan | Commentary |
|---|---|
| **Valuation of pension fund net liability**<br>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.<br>The pension fund net liability is considered a significant estimate due to the size of the numbers involved £262 million in the Council'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 reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.<br>The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this 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.<br>A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 1.5% effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Council's pension fund net liability as a significant risk. | We have:<br>• updated 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>• evaluated the instructions issued by management to their management expert (actuary) for this estimate and the scope of the actuary's work.<br>• assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation.<br>• assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability.<br>• tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary.<br>• undertaken 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>• Obtained 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.<br>The actuary used estimated contribution and benefits paid figures to produce the report. Asset values used actual figures.<br><br>Our audit work has not identified any issues in respect of valuation of the pension fund liability. |

# 2. Financial Statements: key judgements and estimates

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|---|---|---|---|
| Land and Building valuations – £731m | Other land and buildings comprises (£643m) of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£88m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged Norse Property Services Ltd to complete the valuation of properties as at 31 December 2022 on a five yearly cyclical basis, in order to further ensure that the current value of these assets is not materially different from the carrying value, the Council has undertaken additional annual valuations of its higher value assets. 85% of total assets were revalued during 2022/23.<br><br>The methodology for valuing assets in the local authority context is determined by the Code and the requirements of guidance produced by the Royal Institute of Chartered Surveyors. The Council also engages independent, professionally qualified valuers to undertake the valuation of its assets.<br><br>The use of professional valuers and the high percentage of assets revalued reduces the risk of management bias and estimation uncertainty. However, valuations can only be an estimate and as such are subject to inherent uncertainty. The Council has disclosed the potential impact of this uncertainty in note 5 to the accounts.<br><br>Management have considered the year end value of non-valued properties and the potential valuation change in the assets revalued at 31 December 2022. Management has applied relevant national indices to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the property values.<br><br>The total year end valuation of land and buildings was £731m, a net decrease of £14m from 2021/22 (£745m). | We have carried out the following work in relation to this estimate:<br>assessed management's expert to ensure they are suitably qualified and independent<br>assessed the consistency of the estimate against national indices provided by our valuation expert.<br>we agreed, on a sample basis, the underlying data used by valuer to supporting evidence e.g. floor plans and rental leases<br>assessed the adequacy of the disclosure of the estimate in the financial statements; and<br>engaged an auditor expert to further challenge underlying assumptions and terms of engagements with the valuer.<br><br>As the valuation date for the majority of the assets is 31 December 2022, our testing assessed whether these valuations remained materially correct at the Council's year end of 31 March 2023.<br><br>We concurred with the Council's view that they were not materially misstated. Our testing did identify that the assessment undertaken by management was at a higher level than we would expect as the indices used were not tailored to the specific asset types held by the Council. However we do note that the high value of the Council's asset base revalued during the year and that the majority of the asset base consists of specialised assets mitigates the risk of material misstatement. | Light Purple |

**Assessment**

- [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# 2. Financial Statements: key judgements and estimates

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|---|---|---|---|
| **Net pension liability – £262m** | The Council's total net pension liability at 31 March 2023 is £262m (PY £908m) comprising the Devon County Pension Fund Local Government and unfunded defined benefit pension scheme obligations. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.<br><br>The latest full actuarial valuation was completed in 2023. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £714m net actuarial gain during 2022/23. | We have carried out the following work in relation to this estimate:<br>• assessed management's expert, Barnett Waddingham, to be competent, capable and objective;<br>• performed additional tests in relation to the actuary on contribution figures, benefits paid and investment returns to gain assurance over the 2021/22 roll forward calculation carried out by the actuary and have no issues to note;<br>• gained assurance over the reasonableness of the Council's share of Devon County Pension Fund pension assets;<br>• reviewed the adequacy of disclosure of the estimate in the draft financial statements;<br>• assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;<br>• Confirmed that unfunded liabilities had been appropriately treated;<br>• sought and received assurances from the auditor of the Devon Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements; and<br>• assessed the adequacy of disclosure of estimate in the financial statements. | **Light Purple** |

**Assessment**

- [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# 2. Financial Statements: key judgements and estimates

| Significant judgement or estimate | Audit Comments | Assessment |
|---|---|---|
| Net pension liability – £262m | | Blue |

| Assumption | Actuary Value | PwC range | Assessment |
|---|---|---|---|
| Discount rate | 4.8% | 4.8 - 4.85% | (Neither optimistic or prudent) |
| Pension increase rate | 2.95% | 2.65 – 2.95% | (Optimistic) |
| Salary growth | 3.95% | 3.65 – 3.95% | (Neither optimistic or prudent) |
| Life expectancy – Males currently aged 45/65 | 21.8/23.1 | 20.9-23.4<br>19.5-22.1 | (Optimistic) |
| Life expectancy – Females currently aged 45/65 | 22.9/24.4 | 24.3-25.9<br>22.9-24.5 | (Optimistic) |

**Assessment**

- [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# 2. Financial Statements: key judgements and estimates

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|---|---|---|---|
| **Grants Income Recognition and Presentation- £692m** | The Council recognised £692 million in grants during the year. The recognition criteria for grants can be complex and is determined by their nature, purpose and whether any conditions requiring potential return of unspent monies.<br><br>The Council is acting as the principal and credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement and the Council has received a number of grants that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the grantor. | In our testing, we have considered:<br>• whether the Council is acting as the principal or agent which would determine whether the Council recognises the grant at all;<br>• Completeness and accuracy of the underlying information used to determine whether there are conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income;<br>• Impact for grants received, whether the grant is specific or non- specific grant or whether it is a capital grant – which impacts on where the grant is presented in the CIES; and<br>• The adequacy of disclosure of judgements in the financial statements.<br>Our testing identified that a grant received from the Department for Transport in respect of the Local Transport Plan, had been incorrectly treated as a grant received in advance, rather than recognised in full in the year. This grant totalled £9.332 million.<br>Management has agreed to amend the financial statements. | Light purple |

**Assessment**

- [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# 2. Financial Statements: key judgements and estimates

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|---|---|---|---|
| Minimum Revenue Provision - £14,154m | The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance.<br><br>The year end MRP charge was £13.8m, a net increase of £300k from 2021/22. | The Council's MRP policy was approved in February 2022 as part of the budget setting process. There have been no changes in the current year. We are satisfied that the Council has calculated MRP in line with statutory guidance.<br><br>Government has consulted on changes to the regulations that underpin MRP, to clarify that capital receipts may not be used in place of a prudent MRP and that MRP should be applied to all unfinanced capital expenditure and that certain assets should not be omitted. The consultation highlighted that the intention is not to change policy, but to clearly set out in legislation, the practices that authorities should already be following. Government will issue a full response to the consultation in due course. | Light Purple |

**Assessment**

- [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# 2. Financial Statements: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

| | | | ITGC control area rating | | | | |
|---|---|---|---|---|---|---|---|
| IT application | Level of assessment performed | Overall ITGC rating | Security management | Technology acquisition, development and maintenance | Technology infrastructure | Related significant risks/other risks | Additional procedures carried out to address risks arising from our findings |
| Finest | ITGC assessment (design and implementation effectiveness only) | 🔴 | 🔴 | 🟡 | 🟢 | Journals | Additional testing of 200 journals<br><br>Review of segregation of duties postings |
| MRI Software Cloud Infrastructure | Review of service auditor report | 🟢 | 🟢 | 🟢 | 🟢 | Valuation of land and buildings assets | None |

**Assessment**

- 🔴 Significant deficiencies identified in IT controls relevant to the audit of financial statements
- 🟡 Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- 🟢 IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- ⚫ Not in scope for testing

# 2. Financial Statements: matters discussed with management

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

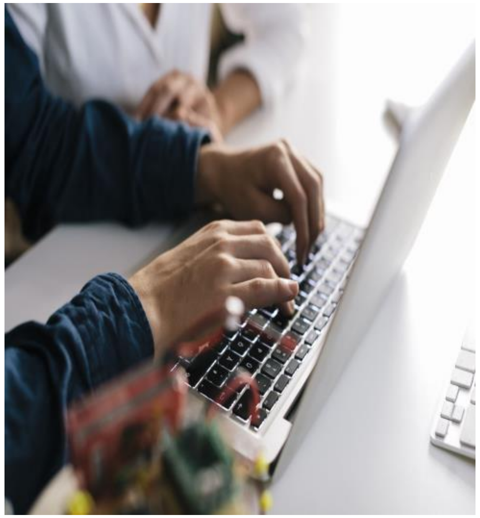
| Significant matter | Commentary |
|---|---|
| Significant events or transactions that occurred during the year | None noted |
| Conditions affecting the Council, and business plans and strategies that may affect the risks of material misstatement. | None noted |
| Concerns about management's consultations with other accountants on accounting or auditing matters | None noted |
| Discussions or correspondence with management in connection with the initial or recurring appointment of the auditor regarding accounting practices, the application of auditing standards, or fees for audit or other services | None noted |
| Significant matters on which there was disagreement with management, except for initial differences of opinion because of incomplete facts or preliminary information that are later resolved by the auditor obtaining additional relevant facts or information | None noted |
| Prior year adjustments identified | The Council has revised the way it reports financial performance to members. As a result, the classifications of income and expenditure in the Comprehensive Income and Expenditure Statement has been amended to reflect this reporting. This has also affected the reporting in the Expenditure and funding Analysis and is appropriately reported in note 3 to the accounts. This is a reclassification rather than an error. |
| Other matters that are significant to the oversight of the financial reporting process. | None noted |

# 2. Financial Statements: 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 |
|---|---|
| Matters in relation to fraud | We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures. |
| Matters in relation to related parties | We are not aware of any related parties or related party transactions which have not been disclosed. |
| Matters in relation to laws and regulations | You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work. |
| Written representations | A letter of representation has been requested from the Council, which is included in the Audit Committee papers<br>Specific representations have been requested from management in respect of the no liabilities existing for historic equal pay claims. |

# 2. Financial Statements: other communication requirements



| Issue | Commentary |
|---|---|
| Confirmation requests from third parties | We requested from management permission to send confirmation requests to the Council's bankers, investment holders and lenders. This permission was granted, and the requests were sent. Of these requests, all but one were returned with positive confirmation, and alternative procedures were performed in this case. |
| Accounting practices | We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements. |
| Audit evidence and explanations/ significant difficulties | All information and explanations requested from management was provided.<br>As previously detailed, due to capacity issues at the Council, a number of our sample and evidence requests rook longer to be returned, which led to the audit requiring longer to complete than the expected timetable. |

# 2. Financial Statements: other communication requirements

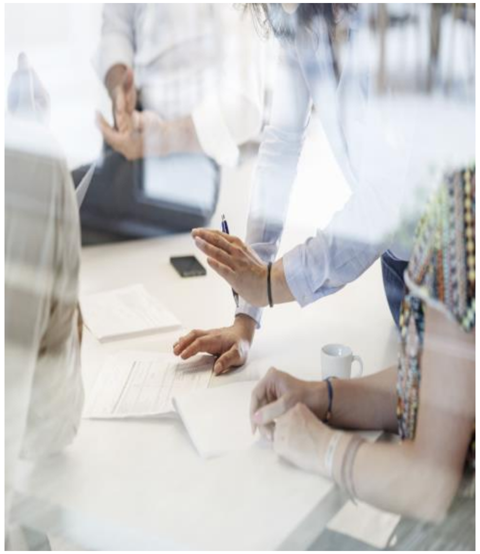
### Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

| Issue | Commentary |
|---|---|
| Going concern | In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.<br>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:<br>• the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities<br>• for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report.<br>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:<br>• the nature of the Council and the environment in which it operates<br>• the Council's financial reporting framework<br>• the Council's system of internal control for identifying events or conditions relevant to going concern<br>• management's going concern assessment.<br>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:<br>• a material uncertainty related to going concern has not been identified<br>• management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. |

# 2. Financial Statements: other responsibilities under the Code

| Issue | Commentary |
|---|---|
| Other information | We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.<br><br>Although the totals are in agreement, the outturn report provides a more detailed analysis of income and expenditure than the Comprehensive Income and Expenditure Statement (CIES)and the Expenditure and Funding Analysis (EFA) (Note 1). To ensure that segmental requirements are met, the disclosures in the CIES/EFA should be consistent with those reported internally for decision making purposes.<br><br>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect. |
| Matters on which we report by exception | We are required to report on a number of matters by exception in a number of areas:<br>• if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit,<br>• if we have applied any of our statutory powers or duties.<br>• where we are not satisfied in respect of arrangements to secure Value For Money (VFM) and have reported a significant weaknesses.<br><br>Our VFM findings are set out on pages 24 to 26 of this report any identify significant weaknesses in respect of financial sustainability and the provision of Children's Services given the continued "Inadequate" rating by Ofsted. |



# 2. Financial Statements: other responsibilities under the Code

| Issue | Commentary |
|---|---|
| Specified procedures for Whole of Government Accounts | We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.<br>Work is not required as the Council does not exceed the threshold. |
| Certification of the closure of the audit | We intend to certify the closure of the 2022/23 audit of Devon County Council in the audit report, as detailed in Appendix G. |

# 3. Value for Money arrangements (VFM)

## Approach to Value for Money work for 2022/23

The National Audit Office issued its guidance for auditors in April 2020. The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

### Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

### Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3–5 years)

### Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

## Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are 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

# 3. VFM: our procedures and conclusions

We have completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. The risks we identified are detailed in the table below, along with the further procedures we performed and our conclusions. We identified two significant weaknesses in the Council's arrangements and so are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Our auditor's report will make reference to this significant weakness in arrangements, as required by the Code, see Appendix G.

| Risk of significant weakness reported in our audit plan | Procedures undertaken | Conclusion | Outcome |
|---|---|---|---|
| **Financial pressures in delivering the 2022/23 budget**<br>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.<br><br>**Financial pressures within Special Educational Needs and Disabilities (SEND)**<br>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 | Review of budget monitoring reports, discussions with officers. | Indicators of financial stress include the following (but not limited to):<br>• A forecast adverse outturn position in 2023/24 of some £4 million at month 8.<br>• Increasing levels of demand leading to future costs pressures resulting in forecast savings of £134.7 million of savings to be delivered, to balance the Council's Medium Term Financial Strategy (MTFS) by 31st March 2027.<br>• Reducing levels of reserves. The 2023/24 to 2026/27 MTFS forecasts that at March 2027 the general and earmarked reserves balances could reduce to £82 million.<br>• Uncertainty around the funding of the Dedicated Schools Grant (DSG) deficit. The DSG forecast deficit balance is £162 million at the end of March 2024. If the statutory override is not extended nor financial support forthcoming from government to reduce the financial deficit, it will wipe out the Council's reserves of £107 million at 31 March 2024.<br>• Any capitalisation directive, to part fund the DSG deficit, will attract a 1% premium on top of PWLB loan rates which will further impact on the Council's revenue budget. Such capitalisation directions normally also stipulation the need to make asset disposals to fund part of the capitalisation funding.<br>• The Council already has relatively high levels of debt of some £510.828 million at 31 March 2023. | **Key Recommendation**<br>The Council has a strong record of financial management and is already responding to these matters. However, given the increased level of financial stress it is facing all members needs to ensure that there is a robust response to financial matters and that officers are supported in making the changes needed. Progress in delivering savings, transformation plans and the DSG Safety Value Plan should be tracked by Cabinet and Scrutiny Committees each month. |

# 3. VFM: our procedures and conclusions

| Risk of significant weakness reported in our audit plan | Procedures undertaken | Conclusion | Outcome |
|---|---|---|---|
| Ofsted's inspection of Children's Social Care Services<br><br>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 reviewed correspondence from Ofsted received following monitoring visits during the year. | Children's Services have been rated "Inadequate" by Ofsted. The Council continues to invest in the service and indications are that some progress is being made. As expected, it will be several years before all improvements are complete and the "Inadequate" rating removed. Our assessment is therefore that there continue to be significant weaknesses in arrangements in this area. | Key Recommendation<br><br>The Council needs to enhanced its governance and oversight arrangements over Children's Services with progress reports which set out the improvement areas identified by Ofsted and the SEND review. For each of the areas identified there needs to be a number of actions with a Lead Officer, deadline, narrative of progress, a risk rating, expected outcomes and Key Performance Indicators that are used to monitor progress. Members need better assurance that the Children's Services are improving and the estimated timescales for achieving an adequate rating. |

# 5. 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 and consider that an objective reasonable and informed third party would take the same view. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix E.

## Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Grant Thornton International Transparency report 2023.

# 5. Independence and ethics

### Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified which were charged from the beginning of the financial year to 29 January 2024, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

| Service | Fees £ | Threats identified | Safeguards |
|---|---|---|---|
| **Audit related** | | | |
| Certification of Teachers Pension Return | 7,500<br>(£7,500 in 2021/22) | 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 £7,500 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. |
| | | Self review (because GT provides audit services) | To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants. |
| | | Management | A management threat could be perceived as providing information to the Teacher's pension is the responsibility of management. The scope of the work does not include making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow. We will perform the engagement in line with the Reporting Accountant Guidance issued by the Teacher's Pension |

# 5. Independence and ethics

### Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified which were charged from the beginning of the financial year to 29 January 2024, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

| Service | Fees £ | Threats identified | Safeguards |
|---|---|---|---|
| **Audit related** | | | |
| CFO Insights Subscription | 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 £6,250 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. |
| | | Self review (because GT provides audit services | The audit will consider the accounting treatment of the payments made and this is not part of CFOi service. The work will be undertaken by a team independent of the audit team |
| | | Management | We are not taking any managerial responsibilities at the client. The scope of work does not include making decisions on behalf of management. |

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee. None of the services provided are subject to contingent fees

# 5. Independence and ethics

As part of our assessment of our independence we note the following matters:

| Matter | Conclusion |
|---|---|
| Relationships with Grant Thornton | We are not aware of any relationships between Grant Thornton and the Council that may reasonably be thought to bear on our integrity, independence and objectivity |
| Relationships and Investments held by individuals | We have not identified any potential issues in respect of personal relationships with the Council or investments in the Council held by individuals |
| Employment of Grant Thornton staff | We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Council as a director or in a senior management role covering financial, accounting or control related areas. |
| Business relationships | We have not identified any business relationships between Grant Thornton and the Council. |
| Contingent fees in relation to non-audit services | No contingent fee arrangements are in place for non-audit services provided |
| Gifts and hospitality | We have not identified any gifts or hospitality provided to, or received from, a member of the Council's board, senior management or staff. |

Following this consideration we can confirm that we are independent and are able to express an objective opinion on the financial statements. In making the above judgement, we have also been mindful of the quantum of non-audit fees compared to audit fees disclosed in the financial statements and estimated for the current year.

# Appendices

# A. Communication of audit matters to 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 | • | |
| 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 | • | • |
| 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 involving management and/or which results in material misstatement of the financial statements | | • |
| 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 Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

### 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.

### Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

# B. Action Plan – Audit of Financial Statements

We have identified 2 recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2023/24 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

| Assessment | Issue and risk | Recommendations |
|---|---|---|
| | **Inadequate control over privileged accounts within the Finest application**<br><br>From the review of users with administrative privileges over the Finest application, we noted the following:<br><br>There were 3 finance users with administrative privilege and one (1) auditor account from Devon County Council with admin access.<br><br>There were 2 payroll and compliance users with administrative privileges,<br><br>There were 2 users from the Devon County Audit Partnership who had left the organisation but had active accounts.<br><br>There were 2 non-interactive generic accounts with IDs (ENTMGMT and DAUDIT) which have an active status, although they are not in use, and<br><br>We identified one admin account with ID (SAG) which is used as a developer account by the vendor, Software AG. We have noted, logs are enabled and stored in the application on daily basis, although we inspected and noted no review has been performed by management within the audit assessment period to ensure that only appropriate activities are being carried out on the system.<br><br>**Risk**<br><br>A combination of administration and financial privileges creates a risk that system-enforced internal controls can be bypassed. This could lead to:<br><br>• Unauthorised changes being made to system parameters;<br>• Creation of unauthorised accounts;<br>• Unauthorised updates to their own account privileges; and<br>• Deletion of audit logs or disabling logging mechanisms. | Access should be based on the principle of least privilege and commensurate with job responsibilities. Management should define segregation of duty policies and processes and ensure that there is an understanding or roles, privileges assigned to those roles and where incompatible duties exist. It may be helpful to create matrices to provide an overview of the privileges assigned to roles.<br><br>Management should adopt a risk-based approach to reassess the segregation of duty matrices on a periodic basis. This should consider whether the matrices continue to be appropriate or required updating to reflect changes within the business.<br><br>If incompatible business functions are granted to users due to organisational size constraints, management should ensure that there are review procedures in place to monitor activities [e.g. reviewing system reports of detailed transactions; selecting transactions for review of supporting documents; and reviewing reconciliations of account balances or performing them independently]<br><br>It is also recommended that unused accounts be disabled until when needed.<br><br>**Management response**<br><br>Management has completed a review of these access rights and either confirmed these remain appropriate to roles or amending access as appropriate. The only users with a combination of admin and finance privileges are the Finance Technology Team performing a systems admin function. Management is content that controls are sufficient and therefore this is a low risk. Unused accounts have been deactivated. The FINEST system is being replaced in summer 2024 and appropriate user controls and segregation of duties will be applied in the new system. |

**Controls**

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

# B. Action Plan – Audit of Financial Statements

| Assessment | Issue and risk | Recommendations |
|---|---|---|
| | **Recognition of grant income**<br>Our testing identified an error in the classification and recognition of grant income. In addition, the narrative supporting note 32 was not in accordance with the requirements of the Code.<br><br>**Risk**<br>There is a risk that grants are incorrectly classified impacting on the reported position. | Management should consider the purpose of the grant income and any provisions within the grant documentation to ensure that grants are allocated to the correct area of the financial statements and only grant income with valid conditions are treated as grants received in advance.<br><br>**Management response**<br>Although the reported error is not material management has agreed to adjust the accounts for this item to ensure consistency of reporting each financial year. This action is completed in the audited accounts for 2022/23. |

**Controls**

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

# C. Follow up of prior year recommendations

We identified the following issues in the audit of Devon County Council Council's 2021/22 financial statements, which resulted in 3 recommendations being reported in our 2021/22 Audit Findings report. We have followed up on the implementation of our recommendations and provide an update on actions.

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|---|---|---|
| x | **Journal authorisation**<br>We 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.<br>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. | The Council's financial ledger is almost 30 years old and its functionality is limited. The Council has manual controls (outside the system) for the authorisation of journals to reduce the risk of journal error. There is a requirement for Head Accountant approval by e-mail before the dataset journal above £200,000 is processed and a requirement for Head Accountants to confirm periodically from a system report of processed journals that they have approved those journals. These controls are in addition to day to day budget monitoring.<br>The Council is implementing a new financial system from 2024/25 which should address the limitations of the current system. However, management believes that, in the meantime, manual controls are adequate to reduce the risk of significant journal error. |
| x | **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. | The Council's Finance team sent out two reminders to members who had not responded to the original request for related party disclosures in the accounts. If declarations were still not returned then a review of the Register of Interests was undertaken for those members to ensure completeness of the disclosure.<br>This process was repeated for non responders in the current year. |

**Assessment**

✓ Action completed

X Not yet addressed

# C. Follow up of prior year recommendations

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|---|---|---|
| ✓ | **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. | This issue was not identified in current year testing. |

**Assessment**

✓ Action completed

X Not yet addressed

# D. Audit Adjustments

We are required to report all non-trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

### Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2023.

| Detail | Comprehensive Income and Expenditure Statement £'000 | Statement of Financial Position £' 000 | Impact on total net expenditure £'000 | Impact on general fund £'000 |
|---|---|---|---|---|
| Grants received in advance. A grant of £9.3 million from the Department of Transport for the Local Transport Plan was not subject to conditions requiring it to be treated as a grant received in advance with an impact on the capital grants unapplied reserve. | (9,332) | 9,332 | (9,332) | nil |

# D. Audit Adjustments

## Misclassification and disclosure changes

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

| Disclosure/issue/Omission | Auditor recommendations | Adjusted? |
|---|---|---|
| Expenditure and funding analysis – Note 1 | The Council has included the outturn variance in respect of the Dedicated Schools Grant (DSG) Special Educational Needs and Disabilities (SEND) as a reconciling item at the foot of this note, to aid transparency. Therefore, the note is not fully compliant with the requirements of the Code. Further disclosure has been included to the note to explain the treatment. A similar issue also relates to the treatment of internal transfers within the note. We have recommended that the Council revisits the presentation of this note in the future. | X |
| Prior Period Adjustment – Note 3 | The Council has restated its service lines to reflect a change in internal reporting during the year. This has been disclosed in note 3 on page 56. This is a reclassification only . The Council has set the impact out partially in a note but had not labelled the affected statements as restated. These are the CIES and EFA. The Council has amended and added further narrative to explain the change. The impact on net expenditure only has been set out, however we consider that the addition of further numerical data would reduce clarity and a narrative description is sufficient. | ✓ |
| Financial Instruments - Note 20 | Two minor disclosure errors were identified. The risks note references for inflation risk that inflation is low and stable. This is not an accurate description of current events. There is no code requirement to include this note and the Council has been asked to revise or replace.<br>The reference to the revised Treasury Management Policy is out of date. The Council as been asked to revise. | ✓ |
| Senior Officers Remuneration - Note 31 | Three disclosed senior officers had opted out of the pension fund, but employers pension contributions were included within the senior officers note. This error was identified by Council officers and a revised note was received. | ✓ |
| Partnerships and related parties- Note 34 | Accounting standards require that transactions should only be included if they are material to both parties and if a control relationship exists. The note includes transactions that do not meet the criteria for disclosure, however these are included by the Council for transparency. | X |
| Leases and contract hire – Note 36 | The Council had disclosed two leases as being not recognised on balance sheet due to their immaterial values. These leases at £3.6 million and £1.6 million were above our trivial level. The Council has made further enquiries as to their nature and an amendment has been made to discount their present value. These leases are below trivial, and the note has been amended accordingly. | ✓ |
| Various | A small number of amendments were made to update disclosures. | ✓ |

# D. Audit Adjustments (continued)

## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2022/23 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

<table>
<tr><th>Detail</th><th>Comprehensive Income and Expenditure Statement £'000</th><th>Statement of Financial Position £' 000</th><th>Impact on total net expenditure £'000</th><th>Impact on general fund £'000</th><th>Reason for not adjusting</th></tr>
<tr><td>CCLA Investment<br>The Council had an investment of £10m at 31 March 2023 in a Pooled Property Fund for Local Authorities managed by an independent Fund Manager, CCLA.<br>The Council has treated this as an equity investment whereas our view is that this is not an equity investment as participating Local Authorities have the right to get their investment back from the Fund Manager. The difference in treatment impacts on the way unrealised losses need to be accounted for.</td><td colspan="4">Although this would affect the CIES, there is no impact on the General Fund as there is a mandatory statutory override requiring local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds to be effective from financial year commencing 1 April 2018 for five years.<br>This would also affect the disclosures relating to the Council's financial instruments.<br>In 2022/23, there was a decrease in value of £1.8m which is immaterial.<br>This issue was reported in prior years.</td><td>The investment is not material.</td></tr>
</table>

# D. Audit Adjustments (continued)

## Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2021/22 financial statements

| Detail | Comprehensive Income and Expenditure Statement £'000 | Statement of Financial Position £' 000 | Impact on total net expenditure £'000 | Impact on general fund £'000 | Reason for not adjusting |
|---|---|---|---|---|---|
| **Net defined benefit pensions liability**<br>Due to the timing of concluding the audit of the accounts, an updated triennial review was undertaken by the Pension Fund. This has resulted in an impact to the Council's net defined benefit liability. A revised IAS 19 report was obtained by the Council, and adjustments reflecting this were made to the financial statements. This resulted in a decrease to the net defined pension liability of £271,127 to £907,654 and a reduction in long term debtors relating to unfunded pension liabilities contribution from other bodies of £3,244k. | | There is no impact on the current year financial statements. | | | |

# E. Fees and non-audit services

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

| Audit fees | Proposed fee |
|---|---|
| Scale fee | 95,879 |
| Additional audit procedures resulting from a reduced materiality | 3,750 |
| Use of expert | 3,000 |
| Value for Money audit – new NAO requirements | 20,000 |
| Increased audit requirements of revised ISA 315 | 5,000 |
| Increased audit requirements of revised ISA 540 | 6,000 |
| Enhanced audit procedures on journals testing | 3,000 |
| Additional requirements- Payroll change of circumstances (Information provided by the entity) IPE testing | 500 |
| Infrastructure | 2,500 |
| Increased FRC challenge | 1,500 |
| Local risk factors including additional work involved in managing and collating audit sample evidence | 4,500 |
| **Total audit fees (excluding VAT)** | **£145,629** |

# E. Fees and non-audit services

| Non-audit fees for other services | Proposed fee | Final fee |
|---|---|---|
| **Audit Related Services** | | |
| Certification of Teachers Pensions Scheme return | 7,500 | 7,500 |
| **Non-Audit Related Services** | | |
| Subscription to CFO Insights | 6,250 | 6,250 |
| **Total non-audit fees (excluding VAT)** | **£13,750** | **£13.750** |

The fees are reconciled to the financial statements below.

| | |
|---|---|
| • fees per financial statements | £225,660 |
| • Less – additional fees not accrued from 2020/21 | ( £7,500) |
| • Less - additional fees from 2021/22 | (£70,838) |
| • Less fee for pension fund assurance letter recharged from the Pension Fund | (£1,693) |
| • total fees per above | £145,629 |

None of the above services were provided on a contingent fee basis.

This covers all services provided by us and our network to the Council, its senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence.

# F. Auditing developments

### Revised ISAs

**There are changes to the following ISA (UK):**

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'
**This impacts audits of financial statement for periods commencing on or after 15 December 2021.**
ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'
ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

**A summary of the impact of the key changes on various aspects of the audit is included below:**

**These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.**

| Area of change | Impact of changes |
|---|---|
| Risk assessment | The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of:<br>• the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures<br>• the identification and extent of work effort needed for indirect and direct controls in the system of internal control<br>• the controls for which design and implementation needs to be assess and how that impacts sampling<br>• the considerations for using automated tools and techniques. |
| Direction, supervision and review of the engagement | Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures. |
| Professional scepticism | The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to:<br>• increased emphasis on the exercise of professional judgement and professional scepticism<br>• an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence<br>• increased guidance on management and auditor bias<br>• additional focus on the authenticity of information used as audit evidence<br>• a focus on response to inquiries that appear implausible |
| Definition of engagement team | The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor.<br>• Consideration is also being given to the potential impacts on confidentiality and independence. |
| Fraud | The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to:<br>• clarification of the requirements relating to understanding fraud risk factors<br>• additional communications with management or those charged with governance |
| Documentation | The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed. |

# H. Draft Audit opinion

Our draft audit opinion is included below.

We anticipate we will provide the Council with an unmodified audit report

**Independent auditor's report to the members of Devon County Council**

**Report on the audit of the financial statements**

**Opinion on financial statements**

We have audited the financial statements of Devon County Council (the 'Authority') for the year ended 31 March 2023, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2023 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report.

We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Conclusions relating to going concern**

We are responsible for concluding on the appropriateness of the Director of Finance and Public Value's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

In our evaluation of the Director of Finance and Public Value's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 that the Authority's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2022) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority and the Authority's disclosures over the going concern period.

In auditing the financial statements, we have concluded that the Director of Finance and Public Value's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Director of Finance and Public Value with respect to going concern are described in the relevant sections of this report.

# H. Draft Audit opinion

**Other information**

The other information comprises the information included in the Statement of Accounts and Annual Governance Statement other than the financial statements and our auditor's report thereon, and our auditor's report on the pension fund financial statements. The Director of Finance and Public Value is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

**Other information we are required to report on by exception under the Code of Audit Practice**

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'Delivering Good Governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE, or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

**Opinion on other matters required by the Code of Audit Practice**

In our opinion, based on the work undertaken in the course of the audit of the financial statements, the other information published together with the financial statements in the Statement of Accounts and Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which we are required to report by exception**

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

**Responsibilities of the Authority and the Director of Finance and Public Value**

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance and Public Value. The Director of Finance and Public Value is responsible for the preparation of the Statement of Accounts and Annual Governance Statement, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance and Public Value determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance and Public Value is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have been informed by the relevant national body of the intention to dissolve the Authority without the transfer of its services to another public sector entity

# H. Draft Audit opinion

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. Irregularities, including fraud, are instances of non-compliance with laws and regulations. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks (the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003, the Local Government Act 1972).

We enquired of management and the Audit Committee, concerning the Authority's policies and procedures relating to:

- the identification, evaluation and compliance with laws and regulations;
- the detection and response to the risks of fraud; and
- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

We enquired of management, internal audit and the Audit Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:

- Journal entries, particularly those not subject to automated authorisation processes and large and unusual journals;
- Significant estimates and judgements made in the production of the financial statements.

Our audit procedures involved:

- evaluation of the design effectiveness of controls that the Director of Finance and Public Value has in place to prevent and detect fraud;
- journal entry testing, with a focus on journals posted using the '200 ID', journals without a description, journals posted by senior managers, forward posted manual journals, journals relating to bodies disclosed as related parties, journals transfer revenue to capital codes, journals posted by officers with enhanced permissionsty6ru7y and journals relating to the dedicated schools grant;
- challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings , and the defined benefit pensions liability valuations;
- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

We communicated relevant laws and regulations and potential fraud risks to all engagement team members, including areas impacted by management override of control, including journals and significant estimates. We remained alert to any indications of non-compliance with laws and regulations, including fraud, throughout the audit.

Our assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
- knowledge of the local government sector
- understanding of the legal and regulatory requirements specific to the Authority including:
  - the provisions of the applicable legislation
  - guidance issued by CIPFA/LASAAC and SOLACE
  - the applicable statutory provisions.

# H. Draft Audit opinion

In assessing the potential risks of material misstatement, we obtained an understanding of:
- the Authority’s operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
- the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council’s website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor’s report.

**Report on other legal and regulatory requirements – the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources**

Matter on which we are required to report by exception – the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2023.

We have nothing to report in respect of the above matter except on 19 February 2024 we identified:

<u>Financial Sustainability:</u>

A significant weakness in how the Authority plans and manages its resources to ensure it can continue to deliver its services. This was in relation to signs of financial stress that indicate a threat to the Council’s financial sustainability in the medium term.

- The Council has a strong record of financial management and is already responding to these matters. However, given the increased level of financial stress it is facing, all members needs to ensure that there is a robust response to financial matters and that officers are supported in making the changes needed. Progress in delivering savings, transformation plans and the DSG Safety Value Plan should be tracked by Cabinet and Scrutiny Committees each month.

<u>Improving economy efficiency and effectiveness – Childrens Services:</u>

A significant weakness in the Authority’s arrangements for improving economy, efficiency and effectiveness. Children’s Services have been rated “Inadequate” by Ofsted. The Council continues to invest in the service and indications are that some progress is being made. As expected, it will be several years before all improvements are complete and the “Inadequate” rating removed. Our assessment is therefore that there continue to be significant weaknesses in arrangements in this area.

- The Council needs to enhance its governance and oversight arrangements over Children’s Services with progress reports which set out the improvement areas identified by Ofsted and the SEND review. For each of the areas identified there needs to be a number of actions with a Lead Officer, deadline, narrative of progress, a risk rating, expected outcomes and Key Performance Indicators that are used to monitor progress. Members need better assurance that the Children’s Services are improving and the estimated timescales for achieving an adequate rating.

**Responsibilities of the Authority**

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Auditor’s responsibilities for the review of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in January 2023. This guidance sets out the arrangements that fall within the scope of ‘proper arrangements’. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

• Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;

• Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and

• Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor’s Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

# H. Draft Audit opinion

**Report on other legal and regulatory requirements – Audit certificate**

We certify that we have completed the audit of Devon County Council for the year ended 31 March 2023 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

**Use of our report**

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Signature:

Peter Barber, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

Bristol

Date

Grant Thornton

grantthornton.co.uk