

## Responses from Management:

|   | Auditor question   | Response  |
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| 1 | What do you regard as the key events or issues that will have a significant impact on the financial statements for 2016/17?  | <p>There is no single event which will have a material effect on the accounting statements for 2016/17. Whilst the effect of reduced Government funding puts a pressure on its finances, the Council has managed to live within the budget and is setting a balanced budget for 2017/18.</p> <p>The new format of the Comprehensive Income and Expenditure Statement and requirement for an Expenditure and Funding Analysis will change the way that the Council's financial performance is presented but it is not regarded as a key event or change to accounting policies.</p> <p>CIPFA's decision to defer the implementation of current cost accounting for the Highway Network Asset / Transportation Infrastructure has removed the most significant potential accounting change in 2016/17.</p>  |
| 2 | <p>Have you considered the appropriateness of the accounting policies adopted by the Council?</p> <p>Have there been any events or transactions that may cause you to change or adopt new accounting policies?</p> | <p>The accounting policies are reviewed by the Finance Leadership Team on a regular and ongoing basis and where appropriate minor updates made. There are no events or transactions which have led to changed or new accounting policies other than those required by the Code.</p> <p>There are no events or transactions that have caused us to change or adopt new accounting policies?</p>  |
| 3 | Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?   | None  |
| 4 | What are the policies and procedures in place to identify applicable legal and regulatory requirements to ensure the Council is complying with those requirements.   | <p>In addition to indicating how any proposal will reflect/contribute to the Council's priorities/strategic plan/corporate goals and the options considered every report to Cabinet must highlight any necessary legal considerations taken into account. This could be to indicate either that there were no specific legal considerations or to show that the 'lawful' implications/consequences of the proposals/recommendations/proposed course of action have been considered and taken into account in the preparation of the report/formulation of the recommendations.</p> <p>The Constitution is the Council's Code of Corporate Governance which sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people.</p> |

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|   |  | <p>The County Solicitor and her team are kept informed of legal developments through updates in professional journals and newsletters.</p> <p>The Society of County Treasurers provides technical updates to changes in legislation and regulation which have a financial implication for the Council.</p>  |
| 5 | How would you assess the quality of the Council's internal control processes?                        | I am informed by the work of internal audit and by the review of internal control for the Annual Governance Statement that internal control within the council is at least satisfactory.  |
| 6 | How would you assess the process for reviewing the effectiveness of internal control?                | I am happy that the process is robust.  |
| 7 | How do the Council's risk management processes link to financial reporting?                          | All decision reports require a risk assessment. The risk registers include financial risks and mitigating controls.   |
| 8 | How would you assess the Council's arrangements for identifying and responding to the risk of fraud? | <p>Awareness is key to identifying the possibility of fraud and as such it is essential that staff are aware of the possibility of fraud within their working environment. We have an e-learning "fraud awareness" module in place to help managers increase their fraud awareness.</p> <p>Our internal audit team, Devon Audit Partnership (DAP) issues regular fraud bulletins to raise awareness of the possibility of fraud; identify the circumstances of their occurrence and the controls that should be in place and adhered to by staff to minimise the risk of similar frauds taking place within the authority.</p> <p>Where areas of fraud risk are identified, these are reviewed by management and subject to audit review to ensure the controls in place are fit for purpose and being adhered to.</p> <p>All allegations of fraud are taken seriously and are investigated promptly by management in conjunction with Internal Audit, HR and Legal Services as applicable.</p> <p>The annual internal audit plan includes time for fraud prevention, detection and investigation. This plan is subject to annual review and takes into account any areas of concern which have been raised by colleagues within other local authorities, or national initiatives in areas where fraudsters are known to operate.</p> <p>Through the work undertaken by Internal Audit, Trading Standards and various law enforcement partners, all significant findings are advertised via the media and the public website to raise awareness of the implications of what can happen to a fraudster if they are found out</p> |

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|    |  | and a conviction successfully obtained.   |
| 9  | What has been the outcome of these arrangements so far this year?  | <p>Proactive anti-fraud work has been undertaken during the first six months of 2016/17. A Fraud bulletin has been produced and published on DAP's website.</p> <p>DAP regularly reviews data produced from the accounts payable process to check for, and prevent, potential duplicate payments; this work has continued during 2016-17.</p>   |
| 10 | What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?                    | Direct payments, creditor payments, purchasing card transactions, contract and procurement.   |
| 11 | Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response? | The Council is a large organisation covering a wide range of services. The Council encourages whistleblowing from employees who may have concerns and each referral will be thoroughly investigated, with action taken to remedy any issues identified.   |
| 12 | Have any reports been made under the Bribery Act?  | None  |
| 13 | As a management team, how do you communicate risk issues (including fraud) to those charged with governance?                   | <p>Internal audit reports to the Audit Committee, including any reference to fraud prevention, detection and investigation.</p> <p>Internal Audit (DAP) produces regular fraud bulletins. The Head of Devon Audit Partnership is a member of the Finance Leadership Team and uses that forum to communicate fraud and risk issues.</p>  |
| 14 | As a management team, how do you communicate to staff and employees your views on business practices and ethical behaviour?    | <p>These are communicated through messages via the Insider publication, Core Briefings, senior management team meetings etc. as part of the management process.</p> <p>In addition, guidance is available to staff on the relevant policies around business practices and ethical behaviour; including within the Code of Business Conduct the need to be transparent and register gifts and hospitality offered but declined.</p>  |
| 15 | What are your policies and procedures for identifying, assessing and accounting for litigation and claims?                     | Decision reports include financial and legal implications. General monitoring of legal work i.e. we receive 'letters before action'. Risk register.   |
| 16 | Is there any use of financial instruments, including derivatives?  | <p>The accounts show the Council makes use of financial instruments which are typical for local authorities. These include debtor and creditor balances, investments and long term borrowing. The Council has no embedded derivative contracts.</p> <p>The Pension Fund makes use of a wide variety of financial instruments which are typical for LGPS funds. These will include investments in equities, bonds, pooled funds invested in property and infrastructure,</p> |

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|    |   | and will also include forward currency contracts.  |
| 17 | What is the status of the contingent assets and liabilities reported in the previous period?  | The Legal Challenge to Procurement (DILIS) was resolved in the retendering of the contract. Other contingent assets and liabilities will be reviewed at year end. It is not expected that any of these will have a significant impact on the financial statements as none were material in 2015/16 anyway. The insurance claim disclosed as a contingent asset in 2015/16 has been settled in 2016/17. There is no need for a continuing disclosure. |
| 18 | Are you aware of any significant transaction outside the normal course of business?   | I am not aware of any significant transaction outside the normal course of business.   |
| 19 | Are you aware of any changes in circumstances that would lead to impairment of non-current assets?  | In 2013/14 Dartington School was found to suffer from design and/or construction fault and requires significant works. The authority's action to recover costs has been resolved. The asset was impaired. I am not aware of any other significant issues of impairment.  |
| 20 | Are you aware of any guarantee contracts?   | The authority has entered into a contract to guarantee 50% of loan repayments in relation to Science Park Ltd.   |
| 21 | Are you aware of allegations of fraud, errors, or other irregularities during the period?   | Various allegations, including whistle blowing allegations, are received during the year. These are thoroughly investigated and action taken to address any concerns raised. Internal Audit maintains a record of all instances reported to them; such a record is available for External Audit to review.   |
| 22 | Are you aware of any instances of non-compliance with laws or regulations or is the Council on notice of any such possible instances of non-compliance?   | None   |
| 23 | Have there been any examinations, investigations or inquiries by any licensing or authorising bodies or the tax and customs authorities?  | None   |
| 24 | Are you aware of any transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement?                            | As in previous years disclosures will be made in the Statement of Accounts in relation to Property, Plant & Equipment, Debtors, Pension Liability and Provisions.  |
| 25 | Where the financial statements include amounts based on significant estimates, how have the accounting estimates been made, what is the nature of the data used, and the degree of estimate uncertainty inherent in the estimate? | Full disclosure will be made in the Statement of Accounts. There is no significant change from last year.  |
| 26 | Are you aware of the existence of loss  | The loss contingencies are outlined in a note to the   |

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|    | contingencies and/or un-asserted claims that may affect the financial statements?   | accounts.   |
| 27 | <p>Although the public sector interpretation of IAS1 means that the financial services should be prepared on a going concern basis, management are required to consider whether there are any material uncertainties that cast doubt on the Council's ability to continue as a business. What is the process for undertaking a rigorous assessment of going concern? Is the process carried out proportionate in nature and depth to the level of financial risk and complexity of the organisation and its operations? How will you ensure that all available information is considered when concluding the organisation is a going concern at the date the financial statements are approved?</p> | <p>The accounts have been prepared on a going concern basis. The concept of a going concern assumes that an authority, its functions and services will continue in operational existence for the foreseeable future. Although Central Government funding is being cut significantly this will have no adverse effect on Devon County Council as a going concern.</p> <p>Financial Performance – the authority has a strong track record of not overspending its budget. 2015/16 was the 25th year in succession that the authority has delivered a surplus at the year end. This is in spite of significant cuts to Government funding and in year pressures in the area of children’s social care. The Council expects a small overall surplus at the end of 2016/17.</p> <p>Continuing Provision of Services – Ongoing cuts to public sector expenditure have resulted in significant reductions in local authority funding. The authority has made savings of over £200 millions since the comprehensive spending review of 2010. Services have been reduced, efficiencies found and different delivery models identified. These changes do not affect the going concern status of the authority as overall services to the people of Devon continue. The authority has tax raising powers and is still in receipt of a significant level of government grant.</p> <p>Cash flow/financing – The Budget Management Group receives cash flow forecasts at every meeting. The report for Month 10 shows a balance of £145.7 million at 31 January and forecasts a balance of £109.6 million at 31 March 2017 (£95 million when Growing Places Fund is excluded).</p> <p>My conclusion is therefore that the authority is a Going Concern and the accounts should be prepared on that basis.</p> <p>As part of the budget process, the Treasurer prepares a high level MTFS covering the next three years and this supports the declaration on the robustness of estimates and the adequacy of reserves. The Council will need to make significant savings in order to meet the reduced level of resources over this timescale.</p> <p>However, even with large budget reductions, the</p> |

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|    |  | <p>County Council's gross revenue budget is in excess of £1 billion, with a five year capital programme totalling over £400 million. The long and short term assets of the authority exceed £1.6 billion. There are no structural changes proposed by Government for Local Government and therefore no doubt exists around the medium term future of the Council or its classification as a going concern.</p> <p>The Treasurer receives Committee and finance reports and attends weekly Corporate Leadership Team meetings with the Chief Executive, Chief Officers, Heads of Service and County Solicitor. These meetings consider any significant issues that would affect the consideration of going concern.</p>  |
| 28 | <p>Can you provide details of those solicitors utilised by the Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?</p>           | <p>We use Browne Jacobson Solicitors for our claim work. Waste services have instructed Burges Salmon on a non-litigious matter regarding the Energy from Waste plant in Exeter. Bevan Brittan has advised us regarding DILIS procurement challenge as well as providing support on the Highways Term Maintenance Contract project and preparing new DCC standard terms and conditions. Eversheds have been used regarding the Exeter Schools PFI, the South Devon Link Road and some State Aid advice. Foot Anstey for the Highways Maintenance Contract Reprocurement.</p> <p>Battens solicitors have taken on some childcare work.</p> <p>Regarding the Pension Fund: we have instructed Osborne Clark in relation to the project to pool pension fund investments. We have also been a client of Stewarts Law LLP.</p> <p>Other than for conveyancing - no others at this time.</p> |
| 29 | <p>Can you provide details of other advisors consulted during the year and the issue(s) on which they were consulted?</p>  | <p>The authority uses Capita in relation to investment advice and financial instrument valuations and NPS South West as property valuer. LG Futures provides financial projections to help with budgeting and the Medium Term Financial Strategy.</p>   |
| 30 | <p>Have any of the Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?</p> | <p>I am not aware of any.</p>   |