

Response from Audit Committee Chair

Fraud risk assessment

	Auditor Question	Response
1	Has the Council assessed the risk of material misstatement in the financial statements due to fraud?	As outlined below there is a comprehensive fraud and corruption risk planning strategy in place. No significant fraud has been identified that would affect the material accuracy of the accounts. The Head of Devon Audit Partnership (DAP) has been able to provide reasonable assurance on the adequacy and effectiveness of the Authority's internal control environment.
2	What are the results of this process?	The comprehensive procedures in place indicate that the risk is low of material misstatement due to fraud.
3	What processes does the Council have in place to identify and respond to risks of fraud?	<p>The internal audit service has developed a Fraud & Corruption Risk Planning Strategy which identifies the key risks within the central processes operated by the Council, ensuring that appropriate controls are in place to safeguard its operations.</p> <p>All financial irregularities that are reported to Internal Audit are diligently investigated. A summary of the key cases is included within the annual report of the Head of the Devon Audit Partnership to the Audit Committee.</p>
4	Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?	To my knowledge (and as informed by management and the Head of Devon Audit Partnership) I am not aware of any specific fraud risks, or areas with a high risk of fraud, being identified.
5	Are internal controls, including segregation of duties, in place and operating effectively?	<p>The Audit Committee receives an annual report from the Head of the Devon Audit Partnership including an assurance on the system of internal control within the County Council, including the pension fund.</p> <p>Overall , based on work performed during 2016/17 to date, and our experience from the current year progress and previous years audit, the Head of Internal Audit's Opinion is expected to be of "Significant Assurance" on the adequacy and effectiveness of the Authority's internal control framework.</p>
6	If not, where are the risk areas and what mitigating actions have been taken?	

7	Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	<p>In my opinion there are no areas where management override could take place, and if this were to occur then our arrangements would ensure that it is detected promptly giving time for full redress.</p> <p>We do not have performance related pay and we do not provide financial reward for our staff in meeting any targets.</p>
8	Are there any areas where there is a potential for misreporting?	We consider that our reporting systems are sound and reliable and do not consider that there is potential for misreporting.
9	How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud?	<p>The Council takes zero tolerance approach to fraud and the Audit Committee takes a lead on ensuring this approach is adhered to.</p> <p>On a six monthly basis reports are provided by the Internal Audit section summarising audit work carried out in the preceding six month period. These reports provide summary narrative information of work undertaken in respect of fraud and corruption work including a summary of key investigations undertaken and any significant issues or implications for the control environment arising.</p> <p>The Internal Audit plan in summary form is presented to the Audit Committee for consideration and approval.</p> <p>The Audit Committee is kept updated of fraud and irregularity work.</p> <p>For example the Internal Audit update report provided to the Audit Committee in November 2016 referred to:-</p> <p>" supporting the 2016/17 NFI exercise. The appropriate statutory notification have been published e.g. via website, payslips. Arrangements were made with department contacts to extract the data from the Authority's systems at the end of September"</p> <p>"Poor procedures involving the management of clients' monies in a private residential care home and the financial and administrative procedures at a day centre have been investigated, the latter stemmed from the identification of pre-signed timesheets. In both cases recommendations have</p>

		<p>been made to improve systems and procedures".</p> <p>"Claims made by an ex-employee that a school had misappropriated grant monies have been investigated. Unspent grant monies were found but no evidence of misappropriation".</p> <p>Proactive anti-fraud work has been undertaken during the first six months of 2016/17. Fraud bulletins continue to be produced and publicised to Council staff via the Insider (now Inside Devon) and also 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> <p>A register of all instances of reported fraud and corruption is maintained by Devon Audit Partnership. Each allegation is categorised to enable annual fraud survey returns to be completed for various agencies such as the National Fraud Authority.</p> <p>The Head of the Devon Audit Partnership has the right of direct access to the Chair of the Audit Committee to discuss significant allegations of fraud and / or corruption should the need arise.</p>
10	What arrangements are in place to report fraud issues and risks to the Audit Committee?	<p>Internal audit – provide six monthly and annual reports summarising internal audit activity and providing narrative on fraud issues.</p> <p>Risk Management – annual and six monthly progress reports are provided to the Audit Committee from the Corporate Risk Management Group.</p> <p>Management – are asked to provide explanations to areas where risk has not been mitigated sufficiently, or where internal or external audit reports have identified areas of concern.</p> <p>External Audit – provide assurance on the statement of accounts, grant claimed and the achievement of value for money.</p>
11	How does the Council communicate and encourage ethical behaviour of its staff and	Part One of the Councils constitution sets out the

	contractors?	<p>Code of Business Conduct</p> <p>http://democracy.devon.gov.uk/documents/s5506/Part%2005%20-%20Code%20of%20Business%20Conduct.pdf</p> <p>Employee conduct is covered by a corporate policy A copy can be provided if required.</p> <p>https://devoncc.sharepoint.com/sites/PublicDocs/Democracy/_layouts/15/download.aspx?guestaccess_token=KQCW%2ftovzhCHQI6%2buEXXvPpDfsuXeSV%2b6vXOwAwkCWU%3d&docid=0f18286041d9c406f96c739296f14231c&rev=1</p> <p>The code of Business conduct includes the Financial Regulations of the Council which also set out standards for contracts and tendering.</p> <p>The Council has a web page “Going Business with Us” which sets out the standards expected on suppliers and contractors.</p> <p>http://www.devon.gov.uk/index/economyenterpriserise/doing_business_with_us/procurement.htm</p> <p>A regular fraud bulletin is prepared by Devon Audit Partnership and this is shown on their website. . This is publicised to staff via the Insider bulletin (now Inside Devon). The bulletin highlights the need for vigilance against fraud and corruption, recent cases affecting this and neighbouring authorities and giving guidance on what to do if fraud or corruption is suspected. We also make use of payslip notifications to inform staff of their responsibilities.</p> <p>The Council has also provided guidance to strengthen arrangements against money laundering.</p> <p>http://staff.devon.gov.uk/anti-money-laundering-guidance.pdf</p>
12	<p>How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?</p>	<p>The council has an effective, and well used, whistleblowing policy that sets out how employees can make their concerns known.</p> <p>An organisation the size of the council will always</p>

		<p>have a number of ongoing reviews taking place at any one time; these are always “significant” to the employee concerned, but may not have such a bearing on the wider organisation.</p> <p>The internal audit provider regularly provides an updated list of all fraud and irregularity cases currently under investigation.</p>
13	Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	None
14	Are you aware of any instances of actual, suspected or alleged, fraud, either within the Council since 1 April 2016?	<p>As stated above an organisation the size of the council will always have a number of ongoing reviews taking place at any one time; these are always “significant” to the employee concerned, but may not have such a bearing on the wider organisation.</p> <p>The internal audit provider regularly provides an updated list of all fraud and irregularity cases currently under investigation.</p>

Law and regulation

	Auditor Question	Response
1	What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?	The Annual Governance Statement (AGS) for Devon County Council is submitted to the Audit Committee and signed off before the financial statements are agreed. The AGS is an assurance from the Leadership Team that all controls are in place which includes legal and financial controls. The Council’s Section 151 Officer is a member of the Council’s Leadership Team and also attends the Audit Committee. The Section 151 Officer therefore has first hand exposure to the issues and risks facing the County Council as a whole and the individual service areas. More challenging reports are discussed by the Leadership Team before reaching the Committee stage and both the Section 151 and Monitoring Officers are joint signatories to reports with legal or financial implications.
2	How does management gain assurance that all relevant laws and regulations have been complied with?	See above.

3	How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?	At the year end the County Solicitor (Monitoring Officer) is asked to specify if there is litigation in progress that may lead to substantial costs and findings against the County Council or Pension Fund. The Deputy County Treasurer, Senior Assistant County Treasurer and Assistant County Treasurers are asked to identify any contingent liabilities that may require disclosure. A combination of these arrangements allows the financial statements to reflect any material issues requiring disclosure.
4	Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2016?	None
5	What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	Enquiries are made of the County Solicitor, Insurance Officer, Head of HR and senior finance officers. Any instances are then assessed in line with proper accounting practices and appropriate entries and disclosure made.
6	Is there any actual or potential litigation or claims that would affect the financial statements?	All are disclosed within the Statement of Accounts.
7	Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance?	None