

DEVON COUNTY COUNCIL – CONTROL ENVIRONMENT
Report of the County Treasurer

Please note that the following recommendations are subject to confirmation by the Committee before taking effect.

Recommendation:

- i. that the Committee notes the report
 - ii that the Committee endorse the letter from the Chair to the external auditor (Grant Thornton)
1. Each year the Chair of the Audit Committee and S151 officer are required to respond to enquiries from the external auditors (Grant Thornton) regarding the overall control environment of the Council, with particular focus on the arrangements in place to ensure that the production of the financial statements will be free of material error. Responses are provided for both the County Council and the Pension Fund Accounts. Due to the similarity in content only the letters for the County Council are appended.
 2. It is acknowledged that no process can ever be risk free; however it is important that appropriate checks and balances are in place to ensure accuracy in preparation of the accounts and to identify errors should they arise without compromising the opinion on the accounts.
 3. In recent years considerable effort has been made to ensure that the transition to International Financial Reporting Standards (IFRS) has been completed smoothly and effectively, and the results of the most recent audits have confirmed that sound arrangements and controls are in place. The risk analyses undertaken for the County Council and Pension Fund accounts confirm that arrangements are appropriate and proportionate and contribute to unqualified audit opinions.
 4. It should be noted that although the accounts process only occurs once a year the control environment needs to be operational throughout the accounting period on a consistent and error free basis to provide an appropriate level of assurance on the accounts.
 5. The Audit Committee is required to authorise the accounts after careful consideration of the Auditor's report. The attached letters from the Chair and the Section 151 officer set out the details of the control environment that contributes to the establishment of the audit opinion.

Mary Davis

Electoral Divisions: All

Local Government Act 1972

List of Background Papers

Contact for Enquiries: Robert Hutchins Tel No: (01392) 382437 Larkbeare Hse, Topsham Rd, Exeter.

Background Paper: None

This letter is from an individual member of the Council and is not written on behalf of the Devon County Council.



From: Cllr Sir Simon Day
Address:

Alun Williams
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6 March 2013

Dear Alun,

Devon County Council - Audit of Accounts 2012-13

Further to your request for information in support of your requirements under the International Standard on Auditing (UK&I) 240, I would respond as follows: -

1. Audit Committee oversight of management processes in relation to the following: -

- **Undertaking an assessment of the risk that the financial statements may be materially mis-stated due to fraud**

The Audit Committee receive an annual report from the Head of the Devon Audit Partnership including an assurance on the system of internal control within the County Council. The opinion and report provides details of the Council's anti-fraud arrangements and also the extent of investigations and potential and actual losses. In addition, 6 monthly reports are received from the Head of the Devon Audit Partnership summarising internal audit work to date and any key issues that have arisen from this work.

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.

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.

All instances of fraud and corruption that exceed £10,000 will be reported to the external auditors (Grant Thornton) via form AF70.

- **Identifying and responding to risks of fraud in the organisation**

A Fraud and Corruption Risk Planning document is maintained by the Devon Audit Partnership. This provides a risk assessment of the fraud likely to be suffered by the Council and the effectiveness of counter fraud arrangements (prevention, detection and investigation). The document allows pro-active anti fraud work to be planned and completed. A summary of the Council's anti fraud arrangements is included in the annual report.

- **Communication to employees of views on business practice and ethical behaviour**

The code of business conduct is a collective term for the various County Council regulations and provisions. The code is referred to in the Council's standing orders and it is expected that staff and members adhere to the requirements of the various documents it contains. These are:-

- Procurement policy
- Financial regulations

- Whistle-blowing policy (including the strategy for dealing with financial irregularities, and
- The "Good practice guide"

The Corporate Conduct Policy and Procedure (guidance issued to all managers) contains a section on when internal audit should be involved in an investigation namely "All officers and members are responsible for giving immediate notification to the Head of the Devon Audit Partnership where there are grounds to suggest any financial impropriety or irregularity concerning cash, stores or other property..."

A regular bulletin is issued to staff via the Insider bulletin by internal audit highlighting 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

- **Communication to those charged with governance the processes for identifying and responding to fraud.**

The Council has a number of policies in place to prevent, detect and investigate fraud and corruption. As these policies are updated, then the revised document will be presented to the committee for approval. The documents in place include:-

- Strategy for dealing with financial irregularities
- Protocol for Police involvement in the investigation for financial irregularities
- Guidance on use of surveillance and gathering of communications data under RIPA
- Anti money laundering guidance
- Anti Bribery Policy
- Code of business conduct – including a "Whistleblowing" policy.

These policies are available on the intranet, with the Code of Business Conduct also available on the DCC web page.

All financial irregularities that are reported to Internal Audit are diligently investigated and a summary of the key cases is included within the annual report of the Head of the Devon Audit Partnership to the Audit Committee.

In addition, the Internal Audit team (Devon Audit Partnership), who deal with the investigation of financial irregularities, have a section in their Internal Audit Manual on how to deal with financial irregularities.

2. Oversight of Management's awareness of any actual or alleged instances of fraud.

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.

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.

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.

3. How do those charged with Governance gain assurance that all relevant laws and regulations have been complied with?

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 Corporate 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 Corporate Leadership Team (CLT) 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 at CLT before reaching the Committee stage and both the Section 151 and Monitoring Officers are joint

signatories to reports with legal or financial implications. This is supported by the governance framework outlined above, regular reports to Audit Committee re risk management and the 6 monthly reporting of the Head of the Devon Audit Partnership.

4. Awareness of any actual or potential litigation or claims that would affect the financial statements

Both the Section 151 Officer and the Monitoring Officer attend Cabinet, and the Section 151 Officer also attends Audit Committee. All Finance staff have a reporting line through to the Section 151 Officer and the Assistant County Treasurers (ACTs) operate at a senior level within service groupings and are on the respective Leadership Teams. The Section 151 Officer meets with the ACTs on a weekly basis and this is one way in which the S151 Officer would gain knowledge of the potential for litigation and claims. As mentioned previously there is a close working relationship between the two statutory officers.

Where there are issues likely to affect the financial statements, these would be reported to the Audit Committee by the County Treasurer and the financial statements are reviewed by the Audit Committee in June each year.

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. 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. In addition the AGS includes legal and financial controls and any significant litigation would be identified in the AGS.

5. Preliminary Assessment to satisfy that it is appropriate to adopt the going-concern basis in preparing the financial statements.

The assumption that the County Council will continue as a going concern is linked, among other things, to the legal framework in which the council exists and operates as an entity. Any financial concerns would need to be extreme, or the fundamental legal framework would have to change for there to be a real challenge to the going concern assumption, e.g. the county council would have to be abolished. Any such issues would be identified and addressed in the AGS.

The Audit Committee receive regular reports from the Council's External Auditors including the Value for Money opinion, Annual Report and Management Letter. Any issues highlighted in these reports are queried and challenged, and officers are required to respond. This provides further assurance over the ability of the Council to continue as a going concern.

In addition the Committee receives 6 monthly reports from the Head of Devon Audit Partnership and the Council's Corporate Risk Management Group on how risks are being managed, any significant control weaknesses and key issues.

The County Treasurer attends Audit Committee and provides verbal updates of any issues / concerns they may have. Regular Budget Monitoring reports are provided to Leadership Teams, Corporate Leadership Team, Cabinet and Scrutiny Committees. Key finance risks and issues are therefore reported to Members and senior officers.

I am not aware of any events identified which may cast significant doubt on the Council's ability to continue as a Going Concern.

Yours sincerely



Councillor Sir Simon Day
Chair of Audit Committee

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5th March 2013

Dear Alun,

Devon County Council - Audit of Accounts 2012-13

Further to your request for information to support your requirements under the International Standards on Auditing to formally update your understanding of Devon County Council's management processes and arrangements, I would respond as follows: -

1. Management Processes

Undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error

It is not possible to eliminate all risk in relation to preparing the financial statements. Nevertheless the practices and procedures adopted by the Authority provide the Section 151 Officer with a multi dimensional view of the risks which may have an impact on the financial statements and provides the opportunity to prevent material misstatement should it arise.

A risk assessment is completed each year before preparation of the financial statements is started. This assessment draws on both an assessment of generic risk and the risk each accounting group faces in completing the financial statements. The process for producing the detailed closedown programme requires that risk is assessed before the programme is produced to ensure that the impact of risk can be taken into account by detailed work processes. The risk assessment reviews:-

- Any significant weaknesses identified in the previous year's arrangements
- The level of irregularity and fraud – this continues not to be material, although the incidence has not varied greatly. Details of the arrangements for dealing with fraud and the level of fraud have been provided in the reports of the Head of Devon Audit Partnership to the Audit Committee, and details of frauds over £10,000 are reported to the External Audit via form AF70.
- The culture of the Authority and its inclination to promulgate fraudulent reporting to present the financial statements more favourably than would otherwise be the case. The Council is justifiably proud of its high professional standards in this regard and the risk of fraudulent reporting is assessed as low, and,
- The capability of key staff to maintain and increase awareness of accounting changes which may lead to misstatement.

Throughout the year where uncertainty exists in relation to accounting for material events the advice of auditors is sought. A close working relationship between key staff of the Council and Grant Thornton allows for transparency and resolution of key issues before the accounts are prepared. This relationship is regarded as an important risk management process.

In addition to this year end assessment the risk of misstatement is mitigated by rigorous control and review mechanisms:

- The Devon Audit Partnership, through its audit plan for Devon County Council, dedicates an appropriate level of internal audit days to the management of the risk of fraud and the investigation of suspected fraud and corruption. Hence there is a good chance that any material fraud would be detected and thus any impact on financial statements identified.
- The County Council undertakes rigorous budget monitoring and hence any large variations in actual income or expenditure from the budget are investigated. High risk, volatile budgets are identified when the budget is set and these are closely monitored throughout the year. The investigation of variances is not a remote, book-keeping exercise. Accounting staff work closely with service directorate colleagues and hence have a good "feel" for what is actually happening. Accountants are alert to the possibility of fraud.
- The County Council has arrangements in place to ensure that it has a sound system of financial control; for example, carrying out regular bank reconciliations and reconciliations of the major feeder systems into the accounts. This substantially deters fraud and increases the risk of detection. The audit of the internal control systems is determined by a risk based approach that includes as one of its elements the potential exposure of the system to theft or fraud. An integral part of the audit is an evaluation of the controls in place to prevent and detect fraud. All financial irregularities that are reported to Internal Audit are diligently investigated and a summary of the cases is included within the annual report of the Head of the Devon Audit Partnership to the Audit Committee.

Identifying and responding to risks of fraud in the organisation

The Council's Constitution includes a range of corporate policies, protocols and guidelines to promote effective local government for the people of Devon. These are presented within a strong anti-fraud and corruption culture which includes an overarching framework of codes and conduct (both personal and business) and procedures for Members, officers and those who may work with or have dealings with the Council.

The Devon Audit Partnership delivers internal audit services to the County Council and has developed a Fraud and Corruption Risk Planning Strategy which identifies those areas where there is the greatest potential for fraud and corruption to take place. In 2012/13 230 days of internal audit has been allocated for the investigation of fraud and irregularity. Part of this time is allocated for pro-active work including the circulation of fraud bulletins, review and amendment of the strategy to ensure it continued to reflect those areas of greatest vulnerability to fraud and provision of advice and training to staff and Members.

The Devon Audit partnership is also an active member of the West of England Chief Internal Auditors Fraud sub group which compares fraud approaches across the south west and shares knowledge and experience about the types and incidence of fraud across the wider region and nationally.

In terms of responding to the risks of fraud, the Devon Audit Partnership, on behalf of the County Council, investigates all financial irregularities that are reported to it. Where DCC employees are concerned appropriate action is taken and any monies recovered. The investigation identifies if there are wider system issues that need to be taken on board, considers if corporate changes are required or if the assessment of system risk needs to be amended. Thus, wider lessons are learnt from individual irregularities.

Communication to employees of views on business practice and ethical behaviour

The County Council's views on business practice and ethical behaviour are contained in the Council's Code of Business Conduct which is part of the Council's Constitution. The Constitution is accessible via the internet and most senior managers have their own hard copy. The Code of

Business Conduct is a collective term for the various County Council regulations and provisions and is part of the induction pack that is given to all new employees. The code is referred to in the Council's standing orders and it is expected that staff and members adhere to the requirements of the various documents it contains. These are:-

- Procurement policy
- Financial regulations
- Whistleblowing policy (including the strategy for dealing with financial irregularities, and
- The "Good practice guide"

The Corporate Conduct Policy and Procedure (guidance issued to all managers) contains a section on when internal audit should be involved in an investigation namely "All officers and members are responsible for giving immediate notification to the Head of the Devon Audit Partnership where there are grounds to suggest any financial impropriety or irregularity concerning cash, stores or other property..."

A regular bulletin is issued to staff via the Insider bulletin by internal audit highlighting 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

Communication to those charged with governance the processes for identifying and responding to fraud.

The Code of Business Conduct clearly states that its purpose is to encourage the prevention of dishonesty, promote its detection and identify a clear path for its investigation. The Code clearly sets out the role that officers and Members play in this. Supporting this, the Council has a number of policies in place to prevent, detect and investigate fraud and corruption. As these policies are updated, then the revised document will be presented to the Audit Committee for approval. The documents in place include:-

- Strategy for dealing with financial irregularities
- Protocol for Police involvement in the investigation for financial irregularities
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These policies are available on the intranet, with the Code of Business Conduct also available on the DCC web page.

All financial irregularities that are reported to Internal Audit are diligently investigated and a summary of the cases is included within the annual and six monthly reports of the Head of the Devon Audit Partnership to the Audit Committee. The Section 151 Officer is also made aware of any significant irregularities. In addition, there is also a serious error form that goes straight to the Section 151 Officer from any Finance staff member that is aware of an error. Additionally, if an irregularity is significant then it may be reported to the parent committee.

The Head of the Devon Audit Partnership has a direct reporting line through to the Section 151 Officer. He also has direct access to the Chair of the Audit Committee to discuss significant allegations of fraud and / or corruption should the need arise.

On a six monthly basis reports are provided by the Internal Audit team 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. Summary reports are also sent to the Section 151 Officer.

The Section 151 Officer meets with the Audit Commission Audit Manager on a six-weekly basis and this is a method of communicating any fraud allegations that may have been reported directly to the Audit Commission.

2. Management's awareness of any actual or alleged instances of fraud.

A register of all instances of reported fraud and corruption is maintained by Devon Audit Partnership. Each allegation is categorised to enable trends to be identified, and enable annual fraud survey returns to be completed for various agencies such as the National Fraud Authority.

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.

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.

3. How management gain assurance that all relevant laws and regulations have been complied with?

The Council's Section 151 Officer is a member of the Council's Corporate Leadership Team (CLT) 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 individual service groupings. More challenging reports are discussed at CLT before reaching the Committee stage. The Council's Monitoring Officer is a member of CLT, and along with the Section 151 Officer has a direct reporting line to the Chief Executive in respect of their statutory role and both statutory officers are joint signatories to reports with legal or financial implications. There is a close working relationship between the Section 151 and Monitoring Officer.

This is supported by the governance framework previously referred to that steers and controls all major decisions and activities, this includes Financial Regulations, Procurement Policy, Contract procedure Rules etc. Changes to regulations with a financial impact and which potentially may lead to misstatement are included in the Code of Practice. The Code is reviewed each year to identify changes, including those flowing from changes in regulation. This review acts as a further check on financial regularity.

The combination of awareness of initiatives at the highest levels in the Council and of legislative and regulatory changes through professional channels combine to mitigate substantially, if not entirely, the risk of misstatement from a failure to identify novel or contentious schemes.

4. Confirmation from management around the potential for litigation and claims that would affect the financial statements

Both the Section 151 Officer and the Monitoring Officer attend Cabinet. All Finance staff have a reporting line through to the Section 151 Officer and the Assistant County Treasurers (ACTs) operate at a senior level within service groupings and are on the respective Leadership Teams. The Section 151 Officer meets with the ACTs on a weekly basis and this is one way in which the S151 Officer would gain knowledge of the potential for litigation and claims. As mentioned previously there is a close working relationship between the two statutory officers.

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combination of these arrangements allows the financial statements to reflect any material issues requiring disclosure.

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Yours sincerely,



Mary Davis
County Treasurer