

APPENDIX

Responses from Management:

	Auditor question	Response
1	What do you regard as the key events or issues that will have a significant impact on the financial statements for 2014/15?	There is no single event which will have a material effect on the accounting statements for 2014/15. Whilst the effect of reduced Government funding puts a pressure on its finances, the Council has managed to live within the budget and has set a balanced budget for 2015/16.
2	Have you considered the appropriateness of the accounting policies adopted by the Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	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. Accounting for Schools and the application of IFRS10 has had the most significant impact on the balance sheet. We have been guided by LAAP Bulletin 101 in our considerations.
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	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.
5	How would you assess the process for reviewing the effectiveness of internal control?	I am happy that the process is robust.
6	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.

	Auditor question	Response
7	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) issue 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 and a conviction successfully obtained.</p>
8	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 2014/15. Two Fraud bulletins have been produced and published on DAP's website. Car Plan data has been reviewed in order to identify anomalies and enhance the oversight of Car Plan claims. Accounts payable data has been reviewed in order to identify duplicate payment. As at 30th September, around £9k of previously unidentified duplicate payments had been identified and reported to the payments section for recovery.</p>

	Auditor question	Response
9	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.
10	Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	There have been a number of whistle-blowing complaints during the year, however none have related to financial irregularities.
11	Have any reports been made under the Bribery Act?	None
12	As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	Internal audit reports to Audit Committee, including any reference to fraud prevention, detection and investigation. Internal Audit (DAP) produce 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.
13	As a management team, how do you communicate to staff and employees your views on business practices and ethical behaviour?	These are communicated through messages via the Insider publication, Core Briefings, SMT meetings etc as part of the management process. 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.
14	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.
15	Is there any use of financial instruments, including derivatives?	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.
16	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.
17	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 commenced legal action to recover costs. The asset was impaired. I am not aware of any other significant issues of impairment.
18	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.

	Auditor question	Response
19	Are you aware of allegations of fraud, errors, or other irregularities during the period?	Whistle blowing allegations have been received during the year; these have been investigated and no financial irregularity was found.
20	Are you aware of any instances of non-compliance with laws or regulations or is the Council's on notice of any such possible instances of non-compliance?	None
21	Have there been any examinations, investigations or inquiries by any licensing or authorising bodies or the tax and customs authorities?	None
22	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.
23	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.
24	Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	The loss contingencies are outlined in a note to the accounts.
25	Has the management team carried out an assessment of the going concern basis for preparing the financial statements? What was the outcome of that assessment?	<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. 2014/15 was the 24th 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.</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 £100 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</p>

	Auditor question	Response
		<p>receipt of a significant level of government grant.</p> <p>Cash flow/financing - At the year end the authority had investments, cash and cash equivalents of £114 millions including a general fund working balance of £14.6 millions and earmarked reserves of £47.5 millions. These sums are considered to be adequate.</p> <p>My conclusion is therefore that the authority is a Going Concern and the accounts should be prepared on that basis.</p>
26	<p>Management is 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>As part of the budget process, the Treasurer prepares a high level MTF5 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 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 £1.3 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>
27	<p>Can you provide details of those solicitors utilised by the Council's 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 and Bevan Brittan has advised us regarding DILIS procurement challenge. Eversheds have been used regarding the Exeter Schools PFI and Anstey for the Highways Maintenance Contract Reprocurement. Other than for conveyancing - no others at this time.</p>
28	<p>Can you provide details of other advisors consulted during the year and the issue 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.</p>
29	<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>

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

Liz Cave

From: Cllr Richard Edgell
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30th June 2015

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Dear Liz,

Devon County Council and Devon Pension Fund

Audit of Accounts 2014-15

Understanding how the Audit Committee gains assurance from management

Thank you for your letter of 20th February 2015 in which you request information in support of your requirements under the International Auditing Standards.

You have asked how the Audit Committee gains assurance over management processes and arrangements in place for Devon County Council.

You helpfully enclosed a schedule which explored the areas you require assurance on. I have completed this schedule and now attach this for your information.

I trust that this schedule provides you with good insight into how the Audit Committee gains assurance over management processes and arrangements in operation.

Yours sincerely

Councillor Richard Edgell
Chair of Audit Committee

Liz Cave

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From: Mary Davis
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30th June 2015

Dear Liz,

Devon County Council and Devon Pension Fund

Audit of Accounts 2014-15

Thank you for your letter of 20th February 2015 in which you request information in support of your requirements under the International Auditing Standards.

You require an understanding of the management processes in place to prevent and detect fraud and ensure compliance with law and regulation.

You helpfully enclosed a schedule which explored the areas you require assurance on. I have completed this schedule and now attach this for your information. The schedule contains links to a number of documents that I trust will assist you in your work.

I trust that this schedule provides you with good insight into how we ensure the risk of fraud is effectively addressed, and how we ensure compliance with law and regulation.

If you do require any further information do please let me know.

Yours sincerely

Mary Davis
Treasurer

Devon County Council and Devon Pension Fund

Appendix 1

Response from the Chairman of the Audit Committee

Fraud risk assessment

Auditor Question	Response
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 fraud has been identified and the head of Devon audit partnership has been able to provide reasonable assurance on the adequacy and effectiveness of the Authority's internal control environment.
What are the results of this process?	The comprehensive procedures in place indicate that the risk is low of material misstatement due to fraud.
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> <p>All instances of fraud and corruption that exceed £10,000 will be reported to the external auditors (Grant Thornton) via form AF70.</p>
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.
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>The annual opinion for 2014/15, to be provided by the Head of Devon Audit Partnership, and to be presented to the Committee at its meeting in June, is that</p> <p><i>“Overall, and based on work performed during 2014/15 and that of our experience from previous years’ audit, Internal Audit is able to provide reasonable assurance on the adequacy and effectiveness of the Authority’s internal control framework”</i></p>

<p>If not, where are the risk areas and what mitigating actions have been taken?</p>	
<p>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>	<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>
<p>Are there any areas where there is a potential for misreporting?</p>	<p>We consider that our reporting systems are sound and reliable and do not consider that there is potential for misreporting.</p>
<p>How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud?</p>	<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. For example the Internal Audit update report provided to the Audit Committee in December 2014 referred to:-</p> <p>“Proactive anti-fraud work has been undertaken during the first six months of 2014/15. Two Fraud bulletins have been produced and published on DAP’s website. Car Plan data has been reviewed in order to identify anomalies and enhance the oversight of Car Plan claims. Accounts payable data has been reviewed in order to identify duplicate payment. As at 30th September, of around £9k of previously unidentified duplicate payments have been identified and reported to the payments section for recovery”.</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>
<p>What arrangements are in place to report fraud issues and risks to the Audit Committee?</p>	<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</p>

	<p>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>
<p>How does the Council communicate and encourage ethical behaviour of its staff and contractors?</p>	<p>Part One of the Councils constitution sets out the Code of Business Conduct http://new.devon.gov.uk/democracy/guide/constitution-part-c/part-1-section-3-officers-code-of-conduct/</p> <p>Employee conduct is covered by a corporate policy http://staff.devon.gov.uk/empconduct.pdf A copy can be provided if required.</p> <p>The code of Business conduct includes the Financial Regulations of the Council which also set out standards for contracts and tendering. http://new.devon.gov.uk/democracy/guide/constitution-part-b-financial-regulations/financial-regulations-introduction/</p> <p>The Council has a web page “Going Business with Us” which sets out the standards expected on suppliers and contractors. http://www.devon.gov.uk/index/economyenterprise/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. 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.</p> <p>We also make use of payslip notifications to inform staff of their responsibilities</p>
<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 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</p>

	fraud and irregularity cases currently under investigation.
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	None
Are you aware of any instances of actual, suspected or alleged, fraud, either within the Council as a whole or within specific departments since 1 April 2014?	<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
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 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.
How does management gain assurance that all relevant laws and regulations have been complied with?	See above.
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 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.
Have there been any instances of non-compliance or	None

suspected non-compliance with law and regulation since 1 April 2014?	
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.
Is there any actual or potential litigation or claims that would affect the financial statements?	All are disclosed within the Statement of Accounts.
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance?	None