

Questions to management – Devon County Council and Devon Pension Fund

Auditor question	Response
Fraud	
<p>1. Please provide your assessment of how your financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.</p>	<p>The risk of material misstatement due to fraud is assessed as low.</p> <p>There is regular monitoring of budgets which would identify any material variances.</p> <p>There are controls within systems that require more than one employee to be involved in the processing and authorisation of any material transactions – such as payments.</p> <p>The financial statements are reviewed by the County Treasurer and other members of Finance Leadership Group.</p> <p>Overall financial performance in the financial statements is reconciled back to the Outturn Report reported to Cabinet.</p> <p>Internal Audit reviews the system of internal controls and the main accounting systems. Devon Audit Partnership (DAP) provides a regular update to the Audit Committee regarding its work and key findings. DAP is in the process of preparing its annual report for 2018/19 and will provide its conclusion to the May Audit Committee.</p>
<p>2. What are your processes for identifying and responding to the risks of fraud? Have you identified any specific risks of fraud and/ or areas where the risks of fraud likely to exist?</p>	<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>In 2018/19, the Counter Fraud Manager of DAP has provided a training and awareness session for all finance staff on Fraud, and the steps staff can take to help prevent fraud occurring.</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 and a conviction successfully obtained.</p> <p>Bank mandate fraud, and fraud related to the impersonation of senior officers, both continue to be areas of concern. The sophistication of fraudsters attacks has increased, and there is a continued risk to the authority of such scams not being identified. Additional guidance and awareness training have been provided to front line Finance staff, and other support staff (such as school admin personnel) to increase their awareness of such threats and how to respond to concerns that they may have.</p> <p>In May 2018 the former Counter Fraud team of Plymouth City Council joined DAP. This enables DCC to access a range of specialist services, including 7 qualified Counter Fraud Specialists. In addition, the internal audit team contains a number of audit professionals (27 staff), who are trained at designing systems and controls to prevent and detect fraud and to investigate this should it arise.</p>
<p>3. How do you communicate with those charged with governance regarding your processes for identifying and responding to the risks of fraud?</p>	<p>When preparing the annual internal audit plan, the internal audit provider (Devon Audit Partnership) will bring to the attention of the audit committee the important role that members play in setting a zero-tolerance approach for fraud.</p> <p>When undertaking internal audit assignments all auditors will assess the control environment against the threat of fraud and corruption. Auditors will assess the effectiveness of controls in place to prevent and detect fraud, and make recommendations for further improvement if required.</p> <p>The internal audit plan will refer to time set aside to respond and investigate concerns / allegations of fraud and corruption.</p> <p>Internal Audit (Devon Audit Partnership) provide reports to the Audit Committee on a six monthly and annual basis; part of this report refers to counter fraud arrangements.</p> <p>The reports will refer to counter fraud work (such as the National Fraud Initiative) and provide a</p>

	summary of the frauds / irregularities that the Authority has faced in the year. As this is a public report, details of the frauds are reported at a summary level, but more details can be provided to members if they request.
4. How do you communicate with your employee regarding 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>
5. Do you have knowledge of any actual, suspected or alleged fraud affecting the entity?	<p>Yes.</p> <p>The internal audit team maintain a record of incidents that have occurred during the year. This can be provided to the GT team on request.</p>
Related Parties	
6. Please list your related parties, highlighting any changes from the prior period	The Statement of Accounts, to be published at the end of May will disclose the related parties of Devon County Council and the Pension Fund, as it does every year.
7. Please provide a summary of the nature of the relationships between the entity and these related parties	The Statement of Accounts explains the nature of the relationship with the related party.
8. Has the entity entered into any transactions with these related parties during the 2018/19 period, if so, what was the type and purpose of the transaction(s)?	The Statement of Accounts discloses the amounts of transactions entered into with the related party in 2018/19 (and previous year for comparative purposes).
Going Concern	
9. Is the going concern basis of accounting a fundamental principle in the preparation of your financial statements?	Yes
10. Has a preliminary assessment of the entity's ability to continue as a going concern been performed?	<p>As above, the Code of Practice on Local Authority Accounting 2018/19 requires local authorities to prepare the Statement of Accounts on a going concern basis</p> <p>"...2.1.2.6 Going concern – an authority's financial statements shall be prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future (see also paragraph 3.4.2.23 for bodies that follow the Code but may be discontinued without statutory prescription). Transfers of services under combinations of public sector bodies (such as</p>

	local government reorganisation) do not negate the presumption of going concern....”
11. Have you identified events or conditions that, individually or collectively, may cast significant doubt on the entity’s ability to continue as a going concern? If so, what are you plans to address them?	No. Please see the response regarding the requirements of the Code of Practice. The Authority has achieved a small increase in General Fund balance as reported in the Outturn report to Cabinet on 15 th May . There are increases in earmarked reserves. Cash forecasts show sufficient cash reserves to meet future liabilities.
12. What is your basis for the intended use of the going concern assumption? Do events or conditions exist that, individually or collectively, may cast significant doubt on the entity’s ability to continue as a going concern?	<p>The Code of Practice requires the Authority to prepare the Statement of Accounts on a going concern basis.</p> <p>“...3.4.2.23 Local authorities that can only be discontinued under statutory prescription shall prepare their financial statements on a going concern basis of accounting; that is, the financial statements shall be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future. Transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption that the financial statements shall be prepared on a going concern basis of accounting. Other bodies that prepare financial statements in accordance with the Code that may be discontinued without statutory prescription shall follow the going concern reporting requirements in IAS 1....”</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. 2018/19 was the 28th 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 just under £265 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. Short term investments, cash and cash equivalents amounted to more than £190 millions at 31 March 2019.</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 County Council’s gross revenue budget is in excess of £1 billion, with a five year capital programme totalling over £425 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>
<p>13. If applicable, please document your basis for concluding that the going concern basis of accounting is not a fundamental principle in the preparation of the financial statements</p>	<p>Not applicable.</p>
<p>Litigation and claims</p>	
<p>14. Are you aware of possible litigation and/ or =claims which may give rise to a risk of material misstatement?</p>	<p>Following enquiries made of the County Solicitor, I am not aware of any possible litigation that would give rise to a risk of material misstatement.</p>
<p>Accounting estimates</p>	
<p>15. How do you identify transactions, events, and conditions that may give rise to the need for accounting estimates to be recognised or disclosed in your financial statements?</p>	<p>The Code of Practice on Local Authority Accounting sets out the recognition and disclosure requirements with a focus on what would be material for users of the financial statements.</p> <p>Each year a new Code is issued which highlights changes from the previous year. These changes are taken into account when determining the accounting estimates that need to be recognised and disclosed in the financial statements.</p>

	<p>For 2018/19 the Code has adopted IFRS 15 – revenue from service recipients and IFRS 9 – financial instruments. The Code requires additional disclosures for material items.</p> <p>In addition to the monitoring of budgets and transactions during the year, finance staff have regular discussions with services to identify if there is any need for accounting estimates.</p> <p>Enquiries are made of the County Solicitor and her team to identify the need for new or revised accounting estimates as the result of legal action.</p>
16. Are there any changes in circumstances that may give rise to new, or the need to revise existing, accounting estimates?	There are two new accounting standards adopted by the Code for 2018/19 which has required additional and alterations to disclosures in the financial statements. However, they have not given rise to new or the need to revise existing, accounting estimates.
Laws and Regulations	
17. Are you aware of any non-compliance with any laws and regulations?	I am not aware of non-compliance with any laws and regulations.

Question to the Audit Committee – Devon County Council and Devon Pension Fund

Auditor question	Response
18. Do you have knowledge of any actual, suspected, or alleged fraud affecting the entity?	Yes, details of all actual, suspected or alleged fraud affecting the authority are reported to the Audit Committee as part of the regular Internal Audit reports.