

Appendix 1

Auditor questions for management:

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 but the Authority has recognised that the need for prompt payments to new suppliers during COVID 19 has increased the inherent risk. The Authority has responded by issuing guidance to employees and monitoring of authorised expenditure during this turbulent time. 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 2019/20 and will provide its conclusion to the Audit Committee in July.</p>
<p>2. What are your processes for identifying and responding to the risks of fraud in the Council and Pension Fund, including any identified specific risks of fraud and 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 2019/20, 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</p>

	<p>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>
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3. Do you have knowledge of any actual, suspected or alleged fraud affecting the Council and Pension fund?	Yes. 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.
4. What communication do you have with those charged with governance regarding their processes for identifying and responding to the risks of fraud in the entity?	<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) provides 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 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.</p>
5. What communications do you have with employees regarding their 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>
Related Parties	
6. Please can you advise the identity of the Council and Pension fund's related parties, including changes from the prior period.	The Statement of Accounts, normally published at the end of May (delayed to the end of July this year following the extension granted in the Accounts and Audit Regulations) will disclose the related parties of Devon County Council and the Pension Fund, as it does every year.

7. Please can you advise the nature of the relationships between the Council and Pension fund and these related parties.	The Statement of Accounts explains the nature of the relationship with the related party.
8. Please can you advise whether the Council and Pension fund entered into any transactions with these related parties during the period and, if so, the type and purpose of the transactions.	The Statement of Accounts discloses the amounts of transactions entered into with the related party in 2019/20 (and previous year for comparative purposes).
Going Concern	
9. Have you identified events or conditions that, individually or collectively, may cast significant doubt on the Council and Pension fund's ability to continue as a going concern and, if so, what are your plans to address them?	No. The Authority has achieved a small increase in General Fund balance as reported in the Outturn report to Cabinet on 8 th July. There are also increases in earmarked reserves. Cash forecasts show sufficient cash reserves to meet future liabilities. CIPFA's Financial Resilience Indicators published in December 2019 do not any raise any issues that would cast doubt on the Authority or its Pension Fund to continue as a going concern.
Litigation and claims	
10. Have you identified any possible litigation and claims which may give rise to a risk of material misstatement?	None

Auditor question	Response
Laws and regulations	
11. Are you aware of any non-compliance with any laws and regulations?	I am not aware of non-compliance with any laws and regulations.
Accounting estimates	
12. How do you identify transactions, events, and conditions that may give rise to the need for accounting estimates to be recognised or disclosed in the financial statements?	<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>Although there are no significant changes to the Code for 2019/20, the effect of Coronavirus on economies around the world has required a review of asset values for the Pension Fund, Properties and collectability of debts.</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>
13. Are there changes in circumstances that may give rise to new, or the need to revise existing, accounting estimates?	The intention had been to base the IAS 19 reports (Pension disclosures – asset values and forecast future benefit payments to pensioners) on Month 11 asset values projected to Month 12. The intention was to facilitate early closing of the accounts. However, with the volatility of stock markets

	<p>in March due to the Coronavirus, the IAS 19 report was delayed to allow year end asset values to be used – thereby taking away the need for an estimate of Month 12. (Although the IAS 19 report is itself full of significant estimates of what is going to happen in the long term sometimes more than 15 years into the future.)</p> <p>Further work has been needed to review PPE asset values at the year end and seek the expert opinion of the Authority's valuer regarding the impact of COVID-19</p> <p>The District Councils, as billing authorities collect the Authority's share of council tax and business rates. Much of the Council Tax and Business Rates due in 2019/20 had been collected before the Coronavirus affected the economy. All billing authorities have increased their bad debt provisions which are reflected in the County Council's accounts.</p> <p>The Authority has set aside a further £1.4 millions in 2019/20 to provide for bad debts mainly for the impact of COVID-19 on the economy and the collectability of debt.</p> <p>There remains significant uncertainty as to the financial impact in 2020/21, even taking into account the additional Government Funding to local authorities and to taxpayers and businesses.</p>
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