



Informing the audit risk assessment for Devon County Council & Devon Pension Fund 2020/21

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between Devon County Council & Pension Fund's external auditors and Devon County Council & Pension Fund's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the authority's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from Devon County Council & Pension Fund's management. The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response – County Council	Management response – Pension Fund
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21?	There has been £78.2 millions of COVID grants received in 2020/21 and corresponding expenditure of £74.6 millions. Unspent grants have been carried forward into 2021/22.	<ul style="list-style-type: none"> • Significant recovery in investment markets and the impact on valuation of Fund assets. • Further transitions of assets from previously appointed managers to the Brunel Pension Partnership.
2. Have you considered the appropriateness of the accounting policies adopted by Devon County Council & Pension Fund? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	<p>There are very few changes to CIPFA's Code of Practice for 2020/21. Consequently, the Authority's accounting policies are largely unchanged from the previous year.</p> <p>There is one change as a result of legislation which was communicated to Members in the Budget 2021/22 –whereby a local authority must not charge any deficit in respect of its schools' budget to its revenue account. A new Dedicated Schools Grant (DSG) Adjustment Account has been established and the DSG SEND (Special Educational Needs and Disabilities) balance has been transferred from the General Fund / Earmarked Reserves to this new ring-fenced unusable reserve.</p>	<p>There are very few changes to CIPFA's Code of Practice for 2020/21. Consequently, the Authority's accounting policies are largely unchanged from the previous year.</p> <p>The removal of the requirement to analyse assets between quoted/unquoted and UK/overseas. We have provided more detailed analysis of the pooled investment holdings and investment management fees.</p>

General Enquiries of Management

Question	Management response – County Council	Management response – Pension Fund
3. Is there any use of financial instruments, including derivatives?	There is a disclosure in the Statement of Accounts regarding day to day financial instruments such as Treasury Management Investments, cash, debtors and creditors. There are two PFIs and a similar arrangement with comprehensive disclosures in the notes to the financial statements. There are no derivatives or complex instruments. There has not been any new external borrowing since 2009.	Significant value of financial instruments. Some use of forward currency contracts.
4. Are you aware of any significant transaction outside the normal course of business?	There have been no significant transaction outside the normal course of business.	There have been no significant transaction outside the normal course of business.

General Enquiries of Management

Question	Management response – County Council	Management response – Pension Fund
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	Annual impairment reviews are undertaken of the Authority's Property Plant and Equipment. There are no significant impairments to disclose.	No
6. Are you aware of any guarantee contracts?	Guarantees are disclosed in the note to the financial statements – under contingent liabilities where the expected transfer of payment is improbable. There are disclosures in the related party note.	No
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	There are no material loss contingencies or un-asserted claims. Contingent liabilities and related party transactions are disclosed in separate notes to the financial statements.	No

General Enquiries of Management

Question	Management response – County Council	Management response – Pension Fund
<p>8. Other than in house solicitors, can you provide details of those solicitors utilised by Devon County Council & Pension Fund during the year. Please indicate where they are working on open litigation or contingencies from prior years?</p>	<p>The Authority has outsourced legal work to Michelmores LLP, Ashfords, Brown Jacobson, DJB and Foot Anstey (mainly conveyancing).</p> <p>Also Cartridges, Crosse & Crosse and Ian Walker Family Law & Mediation.</p> <p>For Contract and Procurement legal work for the period in question, we have engaged these solicitors:</p> <ul style="list-style-type: none"> • James Falle (Temple Bright) for Norse and Skanska • Burges Salmon for Exeter Energy from Waste • Browne Jacobson for SW Exeter HIF and state aid advice <p>We are also aware that EDG engaged Bevan Brittan to produce some template documents and we believe that Business Services have engaged Stephens Scown for some environmental and construction matters.</p> <p>Graham Cridland and Duncan Tilney have assisted with planning agreements and Graham Gover has provided legal assistance to planning committee for DCC (and for the national parks, whom DCC provide legal assistance to under a service legal agreement.</p>	<p>Legal opinion obtained from Nigel Giffin QC in connection with audit of 2019/20 Statement of Accounts</p>

General Enquiries of Management

Question	Management response – County Council	Management response – Pension Fund
9. Have any of Devon County Council & Pension Fund's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	<p>Devon Audit Partnership reports a summary of fraud and irregularity to the Audit Committee as part of the regular Internal Audit reports.</p> <p>Such reported frauds are not of sufficient value to affect the financial statements of the Authority.</p>	<p>One attempted fraud – a fraudulent invoice submitted to an employing organisation purporting to require payment of deficit contributions, but no money was paid and the sum was not of sufficient value to have affected the Pension Fund's financial statements</p>
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	<p>Link Asset for Treasury Management</p> <p>NPS for property valuations</p> <p>Barnett Waddingham for actuarial advice and valuations</p> <p>LG Futures for financial planning and business rates pooling</p>	<p>Link Asset for Treasury Management</p> <p>Barnett Waddingham for actuarial advice and valuations</p>

Fraud

Issue

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Devon County Council & Pension Fund's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Devon County Council & Pension Fund's management.

Fraud risk assessment

Question	Management response – County Council and Pension Fund
<p>1. Have Devon County Council & Pension Fund assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the authority's risk management processes link to financial reporting?</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.</p> <p>This assessment is informed by Internal Audit reports during the year. Any relevant incidents are brought to the Finance Leadership team through the line management structure.</p> <p>Internal audit coverage is informed by a risk assessment which takes into account the quantity and value of transactions in a system under review. This process links Internal Audit coverage to the significant areas for financial reporting.</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 has presented its annual report for 2020/21 to the Audit Committee.</p> <p>DAP has presented its annual report on the Pension Fund for 2020/21 to the Investment and Pension Fund Committee on 18 June.</p>

Fraud risk assessment

Question	Management response – County Council and Pension Fund
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</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.</p> <p>No significant risk of fraud to the Statement of Accounts or disclosures has been identified.</p>

Fraud risk assessment

Question	Management response – County Council	Management response – Pension Fund
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Devon County Council & Pension Fund as a whole or within specific departments since 1 April 2020?</p> <p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>The internal audit team maintain a record of incidents that have occurred during the year. This can be provided to external audit on request.</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) 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>	<p>The internal audit team maintain a record of incidents that have occurred during the year. This can be provided to external audit on request.</p> <p>The Pension Fund Risk Register is reviewed on a quarterly basis by the Pension Board and annually by the Investment and Pension Fund Committee.</p>

Fraud risk assessment

Question	Management response – County Council	Management response – Pension Fund
<p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Devon County Council & Pension Fund where fraud is more likely to occur?</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.</p> <p>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>The County Council response also applies to the Pension Fund.</p>

Fraud risk assessment

Question	Management response – County Council and Pension Fund
<p>5. What processes do Devon County Council & Pension Fund have in place to identify and respond to risks of fraud?</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 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>

Fraud risk assessment

Question	Management response – County Council and Pension Fund (Continued)
<p>5. What processes do Devon County Council & Pension Fund have in place to identify and respond to risks of fraud?</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>

Fraud risk assessment

Question	Management response – County Council and Pension Fund
<p>6. How do you assess the overall control environment for Devon County Council & Pension Fund, including:</p> <ul style="list-style-type: none"> • the existence of internal controls, including segregation of duties; and • the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</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>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.</p> <p>There is regular monitoring of budgets which would identify any material variances. 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>Pension Fund - Reconciliations are carried out between Finest and data held by the Fund Custodian.</p>

Fraud risk assessment

Question	Management response – County Council	Management response – Pension Fund
7. Are there any areas where there is potential for misreporting?	Management has not identified specific areas where there would be fraudulent misreporting in the financial statements.	Management has not identified specific areas where there would be fraudulent misreporting in the financial statements.

Fraud risk assessment

Question	Management response – County Council	Management response – Pension Fund
<p>8. How do Devon County Council & Pension Fund communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported?</p>	<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> <p>A short training and awareness session has recently been produced by our Counter Fraud Team and can be found on DEL (Devon Learning) under the Essentials for All category. There is a new E learning session on fraud. https://inside.devon.gov.uk/news/are-you-fraud-aware/</p> <p>Our Anti-Money Laundering Policy has recently been updated(SharePoint Private) and we encourage all employees, especially those involved with financial transactions, to make themselves aware of the policy.</p> <p>We have prepared a short training video with the aim of raising awareness of our Anti-Money Laundering Policy.</p> <p>Anti Money Laundering Guide for Council Staff - YouTube</p>	<p>The County Council response also applies to the Pension Fund.</p>

Fraud risk assessment

Question	Management response – County Council	Management response – Pension Fund
<p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are risks relating to these posts identified, assessed & managed?</p>	<p>The Authority has in place controls to reduce the risk of fraud – including segregation of duties. Controls are reviewed by Devon Audit Partnership and any significant weaknesses are reported to the Audit Committee.</p>	<p>The County Council response also applies to the Pension Fund.</p>
<p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>The Authority is not aware of any related party relationships or transactions that could give rise to instances of fraud.</p>	<p>The County Council response also applies to the Pension Fund.</p>

Fraud risk assessment

Question	Management response – County Council	Management response – Pension Fund
<p>11. What arrangements are in place to report fraud issues and risks to the Audit Committee? How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What has been the outcome of these arrangements so far this year?</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) 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>	<p>The County Council response also applies to the Pension Fund.</p> <p>In addition, DAP will also take the annual audit plan for review to both the Devon Pension Board and the Investment and Pension Fund Committee.</p>

Fraud risk assessment

Question	Management response – County Council	Management response – Pension Fund
12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	<p>The County Solicitor has overall responsibility for the maintenance and operation of the whistleblowing policy and to ensure that a central record is kept for all referrals.</p> <p>Internal Audit maintains a record of referrals of any financial irregularities include whistleblowing. Each year a copy of this record is provided to external audit.</p>	The Pension Fund has the same arrangements as for the County Council.
13. Have any reports been made under the Bribery Act?	No reports been made under the Bribery Act	No reports been made under the Bribery Act

Law and regulations

Issue

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that Devon County Council & Pension Fund's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response – County Council	Management response – Pension Fund
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Devon County Council & Pension Fund have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the authority's regulatory environment that may have a significant impact on the authority's financial statements?</p>	<p>In addition to indicating how any proposal will reflect/contribute to the Council's priorities/strategic plan/corporate goals and the options considered every report to Cabinet must highlight any necessary legal considerations taken into account. This could be to indicate either that there were no specific legal considerations or to show that the 'lawful' implications/consequences of the proposals/recommendations/proposed course of action have been considered and taken into account in the preparation of the report/formulation of the recommendations.</p> <p>The Constitution is the Council's Code of Corporate Governance which sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people.</p> <p>The County Solicitor and her team are kept informed of legal developments through updates in professional journals and newsletters.</p> <p>The Society of County Treasurers provides technical updates to changes in legislation and regulation which have a financial implication for the Council.</p> <p>Management is not aware of any changes to the authority's regulatory environment that may have a significant impact on the authority's financial statements</p>	<ul style="list-style-type: none"> • Regular review of internal processes and controls, including the Pensions Regulator Code of Practice toolkit and internal audit review. • Annual breaches report created and presented to the Devon Pension Board. • Robust risk register is in place which is reviewed regularly and presented to the Devon Pension Board on a quarterly basis.

Impact of laws and regulations

Question	Management response – County Council	Management response – Pension Fund
2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?	This response from Management and the reports from Internal Audit would identify any significant non compliance with laws and regulations. The Annual Governance Statement which is circulated amongst senior management also confirms the governance arrangements of the Authority to ensure that its business is conducted in accordance with the law.	In the event of litigation or claims, PP work closely with the relevant authority, County Treasurer and the DCC in-house legal team. The majority of claims in respect of pensions administration are dealt with via the IDR process.
3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2020 with an on-going impact on the 2020/21 financial statements?	Management is not aware of non-compliance with any laws and regulations.	Management is not aware of non-compliance with any laws and regulations.

Impact of laws and regulations

Question	Management response – County Council	Management response – Pension Fund
4. Is there any actual or potential litigation or claims that would affect the financial statements?	There is no actual or potential litigation or claims that would affect the financial statements. If there is any potential liability to the Authority whether through litigation, data protection breaches or guarantees then these are disclosed in the Statement of Accounts – particularly the note on contingent liabilities.	No
5. What arrangements does Devon County Council & Pension Fund have in place to identify, evaluate and account for litigation or claims?	<p>Decision reports include financial and legal implications. We have general monitoring of legal work i.e. we receive 'letters before action'. The risk register may be another source to identify litigation or claims.</p> <p>The County Treasurer, through attendance at Leadership Group and meetings with the County Treasurer would be informed of any potential significant legal action. Service accountants are informed if there are potential costs affecting their services.</p> <p>The Authority applies IAS 37 – that where there is a liability and payment is likely then we would make a best estimate and accrue the cost. Where payment was possible but not probable the Authority would consider disclosure as a contingent liability</p> <p>There is no litigation that requires disclosure.</p>	In the event of litigation or claims, Peninsula Pensions works closely with the relevant authority, County Treasurer and the Authority's legal team. The majority of claims in respect of pensions administration are dealt with via the Internal Dispute Resolution Process Procedure.

Impact of laws and regulations

Question	Management response – County Council	Management response – Pension Fund
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	There have not been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance	An in-depth review of the Devon Pension Fund was conducted by The Pension Regulator in 2018/19 which found no issues of non-compliance. We are not aware of any issues of non-compliance.

Related Parties

Issue

Matters in relation to Related Parties

Devon County Council & Pension Fund are required to disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by Devon County Council & Pension Fund;
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the authority;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the authority, or of any entity that is a related party of the authority.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the authority's perspective but material from a related party viewpoint then the authority must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

Question	Management response – County Council	Management response – Pension Fund
<p>1. Have there been any changes in the related parties including those disclosed in Devon County Council & Pension Fund's 2019/20 financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none"> the nature of the relationship between these related parties and Devon County Council & Pension Fund whether Devon County Council & Pension Fund has entered into or plans to enter into any transactions with these related parties the type and purpose of these transactions 	<p>Each year the note to the Statement of Accounts is updated for any changes to related parties. This note is comprehensive. Partnerships and related party transactions cover almost 8 pages in the Statement of Accounts (Note 34)</p> <p>The Statement of Accounts was published on the Authority's website in July.</p>	<p>Each year the note to the Statement of Accounts is updated for any changes to related parties. This note is comprehensive.</p>

Related Parties

Question	Management response – County Council	Management response – Pension Fund
<p>2. What controls does Devon County Council & Pension Fund have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>Chief Officers (Chief Executive and those reporting to the Chief Executive) and Councillors are contacted in March and asked to disclose any related party relationships. The ledger is interrogated for any transactions with disclosed organisations. If responses have not been received then reminders are issued and further reminders if required. Where responses are not forthcoming then the Register of Interests is reviewed by Finance to identify potential disclosures.</p>	<p>The County Council response also applies to the Pension Fund. Members of the Investment and Pension Fund are also contacted.</p>

Related Parties

Question	Management response – County Council	Management response – Pension Fund
3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?	Significant transactions are subject to authorisation – whether they are with related parties or not. There is segregation of duties – one officer will process claims and another will approve them according to the Council's Scheme of Delegation.	The County Council response also applies to the Pension Fund.
4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?	The response to question 3 applies. Significant budget variations are reported in Budget Management Reports and the Outturn report to Cabinet after the year end.	The County Council response also applies to the Pension Fund.

Accounting estimates

Issue

Matters in relation to Related Accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

Question	Management response – County Council	Management response – Pension Fund
<p>1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?</p>	<p>Note 5 of the Statement of Accounts sets out the major sources of estimation uncertainty – namely the Pensions Liability (using the assumptions and estimates provided by the actuary) and Property Plant and Equipment.</p> <p>The billing authorities have the statutory responsibility of providing estimates that affect the Collection Fund.</p>	<p>Note 3 of the Pension Fund Statement of Accounts sets out the estimations of uncertainty. These are unlisted assets (namely Private infrastructure and debt funds) and Actuarial present value of promised retirement benefits.</p>
<p>2. How does the authority's risk management process identify and addresses risks relating to accounting estimates?</p>	<p>Note 5 sets out the key uncertainties. The material assumptions affect only unusable reserves – Pension Reserve, Revaluation Reserve and Capital Adjustment Account – there is no impact on outturn or the Authority's ability to finance future expenditure.</p>	<p>Note 3 to the Pension Fund accounts sets out key uncertainties. The material assumptions affects the fund investments assets pooled funds and the net liability to pay pensions.</p>
<p>3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?</p>	<p>The Authority would only consider that there was a need to change accounting estimates if this was required by a change to the Code or errors identified with the accounts.</p> <p>The Authority has not identified any issues that would require the need to change the method of calculating accounting estimates.</p>	<p>The County Council response also applies to the Pension Fund.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response – County Council	Management response – Pension Fund
<p>4. How do management review the outcomes of previous accounting estimates?</p>	<p>Where actual income or expenditure in the following period differs significantly from estimates in the Statement of Accounts then the impact would be identified in the following year and reported in subsequent Budget Management Reports and Outturn Report.</p> <p>Senior finance officers review the draft Statement of Accounts and will request explanations of significant variances.</p>	<p>Where actual pooled infrastructure funds in the following period differs significantly from estimates in the Statement of Accounts then the impact would be identified in the following year and reported in the Investment Management Briefing report.</p> <p>Actuarial present value of promised retirement benefits estimations are done on a yearly basis and changes would be reported in the following years Pension Fund's statement of Accounts.</p>
<p>5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?</p>	<p>There were no changes made to the estimation processes in 2020/21.</p>	<p>There were no changes made to the estimation processes in 2020/21.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response – County Council	Management response – Pension Fund
<p>6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?</p>	<p>Management assigns work to appropriately qualified staff with the required skills. If those skills or qualifications are not available in house then the specialised services will be sought externally.</p> <p>In order to assess the Pension Liability and issue a report under International Accounting Standard 19 then specialist actuarial skills have been commissioned from a registered actuary, Barnett Waddingham.</p> <p>Norse Property Services is commissioned to provide valuations of land and buildings provided by a suitably qualified RICS valuer.</p>	<p>Management assigns work to appropriately qualified staff with the required skills. If those skills or qualifications are not available in-house then the specialised services will be sought externally.</p> <p>For the assessments of the pooled funds the external fund managers prepare these valuations in accordance with International Private Equity and Venture Capital Valuation Guidelines.</p> <p>In order to assess the Funded Obligations and issue an IAS26 report under International Accounting Standard (IAS) 19 then specialist actuarial skills have been commissioned from a registered actuary, Barnett Waddingham.</p>
<p>7. How does the authority determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?</p>	<p>The two most significant accounting estimates in the Statement of Accounts are the valuations of land and buildings and estimate of the pension liability.</p>	<p>The Pension Fund Accounts use fair values as per accounting code requirements. The Pension Fund uses only recognised and certified external organisations who have the specialised services and skills to undertake the work.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response – County Council	Management response – Pension Fund
<p>8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?</p>	<p>If there are unexpected variances or movements on balances then management will make enquiries of the expert but the Authority relies on the professional experience and qualifications of the experts – because that is why they are commissioned. The actuary and valuer are commissioned to provide estimates for which there is no suitably qualified in house resources.</p> <p>These estimates do not affect outturn or usable reserves so there are no financing implications for the Authority.</p>	<p>If there are unexpected variances or movements on balances then management will make enquiries of the expert, but the Authority relies on the professional experience and qualifications of the experts – hence why they are commissioned. The actuary and fund managers are commissioned to provide estimates for which there is no suitably qualified in-house resources.</p>
<p>9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	<p>Management presents the Budget Management reports and Outturn report to Cabinet including any uncertainties about any assumptions used. These are not material to the Authority's accounts. The Statement of Accounts which includes the estimates of the actuary and valuer are presented to the Audit Committee.</p> <p>The Code prescribes the accounting policies which are to be used and disclosed in the accounts.</p>	<p>Management reports any uncertainties about assumptions used to the Investment Committee. The Pension fund Statement of accounts, which includes the estimates of the Actuary and the fund managers, are presented to the Audit Committee.</p> <p>The Code prescribes the accounting policies which are to be used and are disclosed in the accounts.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response – County Council and Pension Fund
10. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendices A & B)?	Appendices A and B set out the significant accounting estimates.
11. Are the management arrangements for the accounting estimates, as detailed in Appendices A & B reasonable?	The management arrangements for the accounting estimates, as detailed in Appendices A & B are reasonable.
12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	The County Treasurer certifies the Statement of Accounts presents a true and fair view and the Audit Committee receives a report from external audit regarding the findings of its work. A summary of these arrangements has been set out on these slides.

Appendix A - County Council Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Note 37 – Net Liability arising from the defined benefit obligation	This has been assessed using projected unit credit method, an estimation of the pensions that will be payable in future years dependant on assumptions on mortality rates, rate of inflation, discount rate and rate of increase for salaries and pensions.	Every three years the actuary performs triennial valuations, the most recent being 31st March 2019. In the subsequent years the Actuary uses a roll forward method and provides the net pensions liability at 31 March 2021 (IAS 19).	Registered Actuary – Barnett Waddingham LLP	It is not possible to assess the accuracy of the estimated liabilities, without completing a full valuation. Using the roll forward approach should not introduce any material distortions. Note 37 and Note 5 provide the reader of the accounts with sensitivity analysis. A one year reduction in life expectancy reduces the pension liability by £126 millions.	The Code requires curtailments and settlements during the year to be considered (rather than at the year end). A report was commissioned from the Actuary to show that the impact was not material.

Appendix A – County Council Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Note 16 – Property, Plant Equipment – valuations – other land and buildings, surplus assets, assets held for sale	<p>Valuation Certificate provided to Valuer of Fixed Assets identified as needing to be valued at 31 December 2020.</p> <p>Assets have been valued using one of the following methods:</p> <ul style="list-style-type: none"> - Existing Use Value - Depreciated Replacement Cost - Market Value 	<p>Valuations are performed in accordance with:</p> <ul style="list-style-type: none"> - The Code of Practice of Local Authority Accounting in the United Kingdom 2020/21 - UKVS 1.3 of the RICS Valuation – Professional Standards UK. - Appraisal & Valuation Standards published by the Royal Institute of Chartered Surveyors (RICS); - Quinquennial Rolling Programme of Valuation Reviews. 	Independent Valuer – NPS – RICS qualified	Note 5 in the Statement of Accounts sets out the degree of estimation uncertainty. Assets valued at current value amount to £628 millions and a 1% variation assumptions would result in a £6 million change to carrying amount.	No

Appendix A – County Council Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
<p>Note 16 – Property, Plant Equipment – asset lives – other land and buildings, surplus assets, assets held for sale</p>	<p>Schedule of remaining useful lives of assets to be valued sent to valuer to review as at 31 December 2020.</p> <p>The estimated asset life is the length of time the authority is intending to extract economic benefits from the asset. The Valuer should assess the remaining useful life of the asset in its existing use.</p> <p>Estimated useful lives for new assets will be agreed with the valuer.</p>	<p>The Code of Practice requires useful lives to be reviewed at least at the end of each financial year.</p> <p>There is an accounting policy for estimated useful life for new assets.</p>	<p>Independent RICS qualified valuer from NPS</p>	<p>Asset lives determine depreciation which is calculated on a straight line basis. Asset value / cost divided by asset life.</p> <p>Reducing balance method for depreciation could be considered but the NBV of assets on historic cost would not reach zero. Straight line depreciation is appropriate for the Authority.</p> <p>Note 5 sets out the major sources of estimation uncertainty. An increase of one year in the asset lives would reduce the annual depreciation charge for buildings, equipment and infrastructure by £3.8 millions, £1.2 millions and £5.5 millions respectively</p>	<p>No</p>

Appendix A – County Council Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Note 18 – fair value estimate of borrowing held at amortised cost in the balance sheet.	Fair value can be assessed by calculating the net present value of cash flows that are expected to take place over the remaining life of the borrowing and applying new borrowing rates.	Disclosure is a requirement of the Code. Schedule of borrowing with accrued interest is provided to the expert.	Link Asset Service	Disclosure only – no impact on primary statements. CIPFA has stated that the cost of redeeming borrowing is not considered an appropriate method of calculating fair value under the Code's application of IFRS13.	No
Note 18 – fair value estimate of PFI liability held at amortised cost in the balance sheet.	Fair value can be assessed by calculating the net present value of cash flows that are expected to take place over the remaining life of the contract and applying new borrowing rates.	Disclosure is a requirement of the Code. Schedule of borrowing with accrued interest is provided to the expert.	Link Asset Service	Disclosure only – no impact on primary statements. CIPFA has stated that the cost of terminating the contract is not considered an appropriate method of calculating fair value under the Code's application of IFRS13.	No

Appendix A – County Council Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Note 18 – fair value estimate of CCLA	A unit bid value is provided at 31 March by the fund manager and is multiplied by the number of units held by the Authority.	The CCLA investment is held on the balance sheet and value is updated at 31 March	CCLA	A bid market value is provided each year and is multiplied by the number of units held. A bid market value gives a more prudent and appropriate estimate than applying the mid market value. There is a 1.5% variation between the two methods of estimation.	No
Note 18 – fair value estimate of other equity instruments	Audited accounts three previous years and applying net asset basis adjusted for minority shareholding for the Science Park. For NPS the price earnings ratio range was applied to the pre-tax earnings.	The estimate is only changed following an independent professional valuation.	Link Asset Service	The previous valuation was 2010/11. The estimate is not material.	No

Appendix A – County Council Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Notes 24 and 35 – Private Finance Initiative (PFI) liabilities held at amortised cost in the balance sheet	Expected future payments / gate fees were projected for the duration of the contract and the capital costs of the construction of the assets were calculated or known. The future payments were analysed into future service costs, repayments of liability and interest costs. PFI liabilities were recognised in the balance sheet. Each year the liabilities are reduced by the proportion of contract payments paid over to the operator according to the accounting model.	The PFI assets are operational and costs of construction and prevailing lease rates were calculated.	At the time that the PFIs became operational the liabilities were recognised in the accounts. The estimates from the accounting models were provided by Grant Thornton for the Schools and EY for the Waste PFI.	This is an accounting model that is supposed to apply for the duration of the contract.	No

Appendix B – Pension Fund Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Private infrastructure and Debt Funds	Based on cash flow analysis and comparable transaction multiples in accordance with the International Private Equity and Venture Capital Valuation Guidelines.	Market conditions, historical data and financial projections.	External Fund Managers and independent investment advisors.	The Pension Fund accounts sets out material uncertainties.	No
Actuarial present value of the Funded obligations	This has been assessed using projected unit credit method, an estimation of the pensions that will be payable in future years dependant on assumptions on mortality rates, rate of inflation, discount rate and rate of increase for salaries and pensions.	Every three years the actuary performs triennial valuations, the most recent being 31st March 2019. The actuary uses a roll forward method to update the estimate.	Registered Actuary – Barnett Waddingham LLP	It is not possible to assess the accuracy of the estimated liabilities, without completing a full valuation. Using the roll forward approach should not introduce any material distortions.	No



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