

Informing the audit risk assessment for Mid Devon District Council 2020/21

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between Mid Devon District Council's external auditors and Mid Devon District Council'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 Council's oversight of the following areas:

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



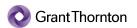
Purpose

This report includes a series of questions on each of these areas and the response we have received from Mid Devon District Council'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
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21?	Covid-19 will have affected almost all parts of the council – for example additional costs to deliver additional reactionary services, loss of service income or payment of grants and benefits to businesses and vulnerable individuals.
2. Have you considered the appropriateness of the accounting policies adopted by Mid Devon District Council?	Yes.
Have there been any events or transactions that may cause you to change or adopt new accounting policies?	No changes are required.
Is there any use of financial instruments, including derivatives?	Yes, but simple financial instruments only.
Are you aware of any significant transaction outside the normal course of business?	Business Rates Grant payments to local businesses claiming relief. These have been completed in line with government guidance.



General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	No
6. Are you aware of any guarantee contracts?	No
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No
8. Other than in house solicitors, can you provide details of those solicitors utilised by Mid Devon District Council	Anthony Collins Solicitors
during the year. Please indicate where they are working on open litigation or contingencies from prior years?	Michelmores Solicitors
	Susan Mauger of Mauger's Legal Services
	Recovery have a contract with Wilkie Chapman who can escalate investigation and prosecution on a case by case basis



General Enquiries of Management

Question	Management response
9. Have any of Mid Devon District Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	None that I am aware of. MDDC is largely in house, so has few external service providers.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Ichabod's – accountancy guidance.



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 Mid Devon District Council'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 Mid Devon District Council's management.



Question

Yes. Th

 Have Mid Devon District Council assessed the risk of material misstatement in the financial statements due to fraud?

How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?

How do the Council's risk management processes link to financial reporting?

Management response

Yes. The annual audit plan ensures that all the major systems and processes that feed into the financial statements are accurate and robust. Devon Audit Partnership undertake internal audit testing, particularly around the Key Controls, on a cyclical basis. The Internal Audit Plan was designed to allow the Devon Audit Partnership to offer an opinion on the adequacy and effectiveness of the Council's risk management, control and governance processes. The plan has been developed using the following areas of audit activity:

- ☐ Supporting Corporate Governance
- ☐ Fundamental financial systems
- ☐ Key Service and Departmental Systems
- ☐ Partnerships

In addition time was planned to provide advice and guidance on a responsive basis. It is anticipated that the 2020/21 Audit Plan will follow a similar design.

All audits detail the risks identified and the recommended remedial actions. All significant audit findings that cause the audit internal opinion to be "partial" are reported to the Audit Committee members by the S151 officer. Relevant officers respond to the findings and Audit Committee and the S151 officer will challenge these if they are not considered adequate. These are continually monitored until they are resolved.

You, as external auditor, also highlight areas of weakness and make recommendations are part of your report on the Annual Statement of Accounts and the Annual Governance Statement.

MDDC ensures that appropriately qualified and experienced staff are recruited to ensure that our financial practices and reporting is of a high quality. This includes regular training and development to ensure that staff are appraised of the latest developments both locally and nationally via changes in regulations.

Internal Audit provides a fraud service which supports the Council in developing its anti fraud processes and reports to audit committee meetings 6 times a year. Audit Committee also approves anti fraud and corruption, whistle blowing and money laundering policies and receives regular reports on the council's risk register.

It is our assessment that it is extremely unlikely that a material misstatement in the financial statements would result from fraud.



Question	Management response
2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	All the major audits include an element to review fraud risks and make recommendations where necessary. Therefore, all types of accounts, transaction and disclosures are reviewed periodically.
3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Mid Devon District Council as a whole or within specific departments since 1 April 2020?	I and the Committee have not been informed or made aware through assurances from the Devon Audit Partnership of any specific fraud which would require specific reporting to the Audit Committee or to the External Auditor. There are however 5 potential housing cases being reviewed, 3 of which have been referred to DAP. A
	watching brief is also being kept on one garage tenant for possible unusual transactions.
As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	Internal Audit and Performance & Risk reports to audit committee meetings 6 times a year.
4. Have you identified any specific fraud risks?	All the major audits include an element to review fraud risks and make recommendations where necessary.
Do you have any concerns there are areas that are at risk of fraud?	Inevitably there will be areas that are of greater risk of fraudulent activity occurring than others. It is for this reason that the key control audits review systems such as payroll, treasury management, housing benefits, council tax support and accounts payable are audited on a cyclical basis.
Are there particular locations within Mid Devon District Council where fraud is more likely to occur?	Further potential for fraud has also arisen during the response to COVID 19. However, MDDC has taken steps to minimise the possibility of this occurring using Spotlight and NFI pre and post payment checks and the relevant government departments are conducting their own fraud analysis.
	There are no particular locations within the council that pose a greater risk of fraud that any other.
5. What processes do Mid Devon District Council have in place to identify and respond to risks of fraud?	Anti fraud and corruption, whistle blowing and money laundering policies. Separation of duties, particularly where cash or changes of bank details are involved. Authorisation processes for payments and refunds. Spot checks, internal audit. Disciplinary procedure.



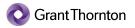
Question	Management response
6. How do you assess the overall control environment for Mid Devon District Council, including:	The Council has a robust internal control process. Internal control arrangements are effective on the whole and where not this has been reported through Internal Audit work in relevant areas and actions agreed for improvement. No concerns of significance have
 the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? 	been raised in any of the audits of core financial systems or indeed other areas. No reports of controls being overridden have been received.
If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?	Management have allocated a member of CMT to have overall responsibility for fraud work which will commence in April
What other controls are in place to help prevent, deter or detect fraud?	Involvement with NFI. Revenues and Benefits staff are not allowed to work on their own accounts and there is an annual declaration re family and friends.
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)?	Audit Committee are fully aware of the significant financial challenges that the Council have had in recent years and those looking forwards. As such there is a degree of pressure on Budget Holders to ensure that they remain within their budget constraints, but no greater than is expected within any organisation.
7. Are there any areas where there is potential for misreporting?	It is our assessment that it is extremely unlikely that misreporting would take place.



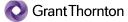
Question	Management response
8. How do Mid Devon District Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?	The role that employees are expected to play in the Council's framework of internal control is included in staff induction procedures by their line manager and then subsequently through corporate induction training, as appropriate. They are required to follow the standards set out in the Code of Conduct that follows the Nolan Committee's Seven Principles of Public Life, which is issued to all staff along with their Contract of Employment.
How do you encourage staff to report their concerns about fraud?	The Codes are communicated via regular staff briefings, team meetings, individual 1-2-1 sessions and the staff appraisal scheme keep staff informed on key issues.
What concerns are staff expected to report about fraud? Have any significant issues been reported?	All Officers of the Council are also expected to follow their Professional Institutes Codes of Ethics and must declare any pecuniary interests in contracts that have been or are proposed to be entered into by the Council.
	Employees who consider other employees to be guilty of misconduct must report this to their line manager or raise it through one of the other available procedures. Employees are further governed by the Council's HR Policies (Whistleblowing policy, Disciplinary Procedure etc.), which are issued to all staff.
	The Anti-Fraud and Corruption Policy also states that all Officers of the Council are expected to follow the Constitution, Financial Regulations and Contract Procedure Rules.
	The annual Devon Audit Partnership programme of work also reviews compliance with new statutory regulations and covers the key risks facing the Council. Advice and guidance is provided to Officers across the Council by the internal Legal team and external Solicitors or Counsel where necessary.
	No significant issues have been reported.



Question	Management response
9. From a fraud and corruption perspective, what	Treasury Management officers within Finance,
are considered to be high-risk posts?	Revenues and Benefits officers
	Enforcement Officers
	Those handling cash, i.e. Leisure,
	Senior officers involved in contract negotiations.
How are the risks relating to these posts identified,	
assessed and managed?	As per Q5 - Separation of duties, training, awareness of policies and disciplinary measures
10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?	Management are not aware and does not have any concerns regarding relationships or transactions with related parties
How do you mitigate the risks associated with fraud related to related party relationships and transactions?	As with any other fraud risk.



Question	Management response
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?	Internal Audit reports to audit committee meetings 6 times a year. The Devon Audit Partnership operate alongside the Council's Corporate Management Team to ensure their work is focussed in the areas that most benefit the organisation. The Audit Committee has continued with a focused approach to reviewing and querying the findings from internal Audit which provides the organisation with additional reassurance. The Council has a robust internal control process. Internal control arrangements are effective on the whole and where not this has been reported through Internal Audit work in relevant areas and actions agreed for improvement. No concerns of significance have been raised in any of the audits of core financial systems or indeed other areas. This is reflected in the overall "Reasonable Assurance" assurance opinion expected to be provided for 2020/21 and to be reported to Audit Committee in June 2021.
12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	All Officers are aware that they should raise any concerns under the Council's separate Whistle Blowing Policy, but none have been highlighted to managment.
13. Have any reports been made under the Bribery Act?	Not to my knowledge.



Law and regulations

Issue

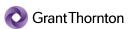
Matters in relation to laws and regulations

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 Mid Devon District Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

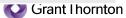
As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of 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.



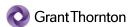
Impact of laws and regulations

Question	Management response
How does management gain assurance that all relevant laws and regulations have been complied with? What arrangements does Mid Devon District Council have in place to prevent and detect non-compliance with laws and regulations? Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?	The Council has in place, within the Constitution, various procedure rules which set out how budget and policy decisions are made. Officers are required to ensure compliance with relevant laws and regulations and that lawful expenditure is delivered. Reports provide a section for legal implications, and reports cannot go before Cabinet or Council without this being addressed and approved by a member of the Council's in-house legal team. The Council's Statutory Officers have a positive responsibility to report to the Council, in respect of: Co-ordination of functions, staff and management matters – the Chief Executive Financial administration, probity and propriety – Section 151 Officer Legality and administration – Monitoring Officer The Devon Audit Partnership's annual plan contains a programme of work that includes reviews of compliance with policies, procedures, laws and other regulations. In addition, work is carried out by the Scrutiny Committee, Standards Committee and Audit Committee from time to time, and other external inspection agencies. Their work also provides a source of assurance. Any non-compliance is reported to the Corporate Management Team via Audit reports and appropriate plans are put in place to remedy such issues. Regular meetings are held with the S151 to consider areas of high financial risk which could give rise to fraud, mis-statement or legality issues.
2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?	Internal Audit reports to audit committee meetings 6 times a year.



Impact of laws and regulations

Question	Management response
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?	Audit Committee are confident that the officers of the Council are experts in their fields and know and understand their respective services, including the future direction of relevant laws and regulations. They are therefore able to plan and implement any necessary changes. I and the Committee have not been made aware of any instances by the Statutory Officers.
4. Is there any actual or potential litigation or claims that would affect the financial statements?	All such matters are dealt with by referral to the legal department and the Council's Monitoring Officer. Where appropriate the information is cascaded through the organisation. Audit Committee are not aware on any actual or potential litigation or claims that would affect the financial statements. The council has no contingent liabilities.
5. What arrangements does Mid Devon District Council have in place to identify, evaluate and account for litigation or claims?	Actual or possible litigation and claims will be accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	I and the Committee have not been made aware of any instances by the Statutory Officers.



Related Parties

Issue

Matters in relation to Related Parties

Mid Devon District Council 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 Mid Devon District Council;
- associates:
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the Council;
- 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 Council, or of any entity that is a related party of the Council.

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 Council's perspective but material from a related party viewpoint then the Council 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
 Have there been any changes in the related parties including those disclosed in Mid Devon District Council's 2019/20 financial statements? If so please summarise: the nature of the relationship between these related parties and Mid Devon District Council whether Mid Devon District Council has entered into or plans to enter into any transactions with these related parties the type and purpose of these transactions 	Management do not believe there have been any changes in related party relationships and transactions from the prior period.
2. What controls does Mid Devon District Council have in place to identify, account for and disclose related party transactions and relationships?	Annually, all Elected Members and Senior Managers are requested to disclose any transactions or services received or supplied to the council. These returns are assessed and any identified material transactions are reported to the S151 officer and where necessary are disclosed within the annual accounts. All staff are required to follow the Code of Conduct. All members are required to disclose any pecuniary interests.
3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?	Such transactions would follow the normal process as any other transaction, which includes Separation of duties, particularly where cash or changes of bank details are involved. Authorisation processes for payments and refunds. Spot checks, internal audit reviews etc.
4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?	As above. Management cannot see any requirement for any such transaction to take place outside of the normal course of business.



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
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?	Asset Valuations – where external professional judgement is required Provisions – where an estimate is used for example how much debt will fail to be collected Covid-19 – accrual for outstanding income compensation claim
2. How does the Authority's risk management process identify and addresses risks relating to accounting estimates?	Professional advise / expertise is used to make the estimates, thereby limiting the potential risk of materially under/over estimating .
3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	Professional officers understand their service and are able to identify critical elements where assumptions, or data is required. These include property and pension valuations, estimates for bad debt provisions etc. and have been refined over time. External expertise is engaged to assess the position and provide guidance on such matters.
How do management review the outcomes of previous accounting estimates?	Many estimates will unravel during the year, for example accruals. Any outstanding are reviewed to see if they remain appropriate. Others, including valuations and provision estimates are reviewed using the latest information, and are adjusted from last year's starting position, thereby updating as required.
5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?	No, the process remained as in previous years. However, in some cases, such as the provision for bad debt, additional consideration of the current economic climate resulting from the financial pressures arising from Covid-19 were included.



Accounting Estimates - General Enquiries of Management

Question	Management response
6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?	The accountancy team keep abreast of the latest updates to financial regulations through regular CPD and training. This is supported by a network of peer support across a variety of council partners. Guidance and support is available from the local government accounting body, CIPFA. Additional, technical support is procured through Ichabods, a local government finance expert. Pensions advice and valuations are provided by the actuary Barnet Waddingham via the Devon Pension Fund. Property valuations are provided by the District Valuer.
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?	Professional accounting staff assess the estimates and ensure that the calculations align with guidance and regulations. Again, the external advise that's sought is from professionals in their field, who also abide by regulations and professional ethics.
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?	As above, professional accounting staff check and challenge the outputs from any external provider.
 9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: Management's process for making significant accounting estimates The methods and models used The resultant accounting estimates included in the financial statements. 	

Accounting Estimates - General Enquiries of Management

Question	Management response
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 Appendix A)?	No
11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes, these have been developed and refined over a number of years. They are also inline with guidance and regulations.
12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate?	Through both internal and external audit review and approval.



Appendix A 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?
Land and buildings valuations	Prepared in accordance with IAS16. 1/5 Full valuation. 4/5 valuation indexed to local factors.	Valuations provided by RICS Registered Valuer	VOA – A Doak	VOA have carried out MDDC valuations for 23 years. A Doak has been the signatory for 16 years. VOA quality assurance practices are designed to mitigate risks. Explanations of movements +/- 5% and for asset life changes > 2 years are obtained.	No
Depreciation	Depreciation in year of Acquisition. Straight Line where applicable or appropriate basis.	Depreciation on assets reviewed for appropriate method	Based on VOA Valuations – A Doak. (Acquisition value for plant & equipment)		No
Valuation of Council Dwellings	Prepared on a Beacon Basis – Vacant Possession Value – discounted to Existing Use Value – Social Housing (EUV- SH) 20/21 35%	Valuations provided by RICS Registered Valuer	VOA – A Doak	VOA have carried out MDDC valuations for 23 years. A Doak has been the signatory for 16 years. VOA quality assurance practices are designed to mitigate risks. Explanations of movements +/- 5% and for asset life changes > 2 years are obtained.	No

Appendix A 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?
Accruals					
Level 2 investments	CCLA Investment: The bid price quoted by CCLA is used to calculate the fair value of the investment. No further models or estimates are used in arriving at fair value.	Reports are received monthly from CCLA with an estimated fund value. Any large variances from one month to the next would be queried with CCLA and further information requested if deemed necessary.	The fund is actively managed by CCLA, who give reassurance over the management of risk which reduces estimation uncertainty. Performance is also reviewed by the Local Authorities' Mutual Investment Trust, who are a fully independent	The quoted bid price has been used to value the investment each year since first buying into the fund. Taking this consistent approach ensures estimation uncertainty is kept to a minimum.	No



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