

SCC/SPF Responses from Management:

Auditor question	Response
<p>What do you regard as the key events or issues that will have a significant impact on the financial statements for 2016/17?</p>	<p>Continued decline in funding available for Somerset County Council, reflected in the expenditure for all service areas. Significant demographic pressures in adult social care requirements.</p> <p>The end of the contract with Southwest One and transfer of services and staff from that entity. The carve out of system and data from legacy SAP system previously provided by Southwest One to a new platform.</p>
<p>Have you considered the appropriateness of the accounting policies adopted by the Somerset County Council and Somerset Pension Fund? Have there been any events or transactions that may cause you to change or adopt new accounting policies?</p>	<p>In light of the annual revisions to the CIPFA Code of Practice and other “best practice” guidance, we continually review our accounting policies and consider how they affect the Council’s and Pension Fund Accounts. This year we are disclosing our Accounting Policy for the Collection Fund to provide additional visibility of this more significant funding stream.</p> <p>In addition, we continually assess the Group Accounts boundary in the light of prevalent guidance and to accommodate any changes to governance arrangements at the County Council through a flowcharting process.</p>
<p>Are you aware of any changes to the regulatory environment that may have a significant impact on the financial statements of the Council and Pension Fund?</p>	<p>We have shared our current proposal for the changes applied as a result of the presentational changes to the Comprehensive Income and Expenditure Statement, the presentation of the General Fund reserves and the new disclosure for the Expenditure Funding Analysis.</p>
<p>How would you assess the quality of the internal control processes for the Council and Pension Fund?</p>	<p>(Please let me know if there is a requirement to provide detailed information on any of the processes referred to here, and I will alert the relevant officers. I am mindful that in previous years we have rather swamped the auditors with information, and there is a great deal of supporting evidence available. We are aware that Grant Thornton has audited SCC for a few years, and will know much of the detail).</p> <p>Our internal controls remain very strong. Many of these will be well known to Grant Thornton, but I would particularly like to draw your attention to the following examples of internal controls in place:-</p> <p style="margin-left: 40px;">i) We produce regular budgetary and performance information (on our Performance Wheel), for Cabinet to show our progress against targets. We</p>

	<p>take the necessary action, such as the in-year spending freeze in order to manage any adverse variations.</p> <ul style="list-style-type: none"> ii) We still operate our Core Council Programme, which has a very strong governance and reporting process in order to control the work, the expenditure and to measure the outcomes. iii) We publish our County Plan and our Vision aspirations and work towards these agreed aims. iv) Key Boards are in place to manage key risks, activity and projects, such as the Commissioning Board and the Governance Board, and project-specific reporting. v) All Decisions are taken within the delegated requirements set down for decision-making and guided by Community Governance. We ensure that all pre-requisites for Decisions are undertaken, such as the 66 consultations undertaken. vi) All necessary HR policies are in place for management of our business. vii) All necessary financial controls and delegations are in place around our SAP financial system. (The Somerset Pension Fund has adopted the SCC Financial Regulations and Procedures). viii) We continue to operate a Strategic Risk Management Group meeting bi-monthly that comprises specialist officer leads to look at key risk issues ix) We have a fully independent Internal Audit plan, delivered by the South West Audit Partnership (SWAP), who works for a number of local councils in the region. x) The use of Core Brief and other means to inform staff of key issues.
<p>How would you assess the process for reviewing the effectiveness of internal control?</p>	<p>As above.</p> <p>One of the actions that the officer Governance Board is currently reviewing is the County Council's response to the new requirements of the Annual Governance Statement that apply from 2016/2017 in accordance with the new CIPFA / SOLACE publication "Delivering Good Governance". This work confirms that SCC has suitable examples in place to meet the overwhelming majority of these principles.</p> <p>Also, we have just received a Healthy Organisation report from SWAP which is designed to review our overall framework in 8 key areas. Officers, including the Governance Board and Chief Executive, have reviewed the findings and taken confidence from the findings. We will also use this work in informing future audit plans and internal reviews.</p>

<p>How do the risk management processes link to financial reporting?</p>	<p>Like many senior officers, I continue to be responsible for a number of risks across the whole of financial services, and these risks are included on JCAD, our dedicated risk management software. Risk review is a regular item on my Senior Management Team agenda for financial risks. In terms of reporting to members and senior officers, we continue the established twin processes of performance information (through the Performance Wheel) and financial information (through budget monitoring) to Cabinet and SLT.</p>
<p>How would you assess the arrangements for identifying and responding to the risk of fraud for the Council and Pension Fund?</p>	<p>I would refer you to the recent report to the Audit Committee on the anti-fraud work undertaken for both the County Council and the Pension Fund (Agenda Item 9).</p> <p>http://democracy.somerset.gov.uk/ieListDocuments.aspx?CId=160&MId=196&Ver=4</p> <p>This report sets out the varied measures that SCC takes to safeguard itself from fraudulent or corrupt activities, through such means as the National Fraud Initiative and Single Person Discount work.</p> <p>During 2016/2017, work continues to measure SCC against the CIPFA self-assessment tool and to set out what additional measures might be usefully employed. No weaknesses have been found in the control environment that would necessitate any immediate additional controls being added to our current anti-fraud measures.</p>
<p>What has been the outcome of these arrangements so far this year?</p>	<p>The above report details those local suspected frauds and the actions that have been taken.</p>
<p>What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>The above report sets out the national picture with regard to types of fraud. There are no "Somerset specific" areas of high fraud risk, and we are not the responsible local authority for areas where the fraud risks are traditionally highest (benefits and housing).</p> <p>Like every organisation with a multitude of financial transactions, there is always a risk of fraud or corruption. The NFI database reviews confirmed that we already had processes in place to review potential issues ahead of this control, particular around areas such as Accounts Payable.</p>
<p>Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>There is one relating to an allegation that there has been some impropriety in the scope of a small highway scheme which we are investigating.</p>
<p>Have any reports been made under the Bribery Act?</p>	<p>None</p>

<p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>Risk management is a standing quarterly item at the public Audit Committee. The latest link is attached here (Agenda Item 7).</p> <p>http://democracy.somerset.gov.uk/ieListDocuments.aspx?CId=160&MId=196&Ver=4</p> <p>The Audit Committee has also had specific reports from areas that have a high risk score, such as Children’s Social Care, Health and Safety and the financial position.</p>
<p>As a management team, how do you communicate to staff and employees your views on business practices and ethical behaviour?</p>	<p>The communication methods remain varied and substantial as they have in previous years.</p> <p>This continues to be carried out through various communication channels that include the Core Brief process, with key messages to Strategic Managers which are required to be cascaded to all staff. The Core Brief process is used by HR and governance officers to launch policies with our staff and to remind them of how they are expected to act.</p> <p>We also have Our Somerset, which is a weekly e-mail update to staff from the Leader and SLT, and numerous roadshows and “meet the leader” sessions to communicate with our staff.</p> <p>We have also recently had our Staff Awards to highlight and honour those staff who have excelled against our “4Cs” values.</p> <p>We have continued to develop our electronic Learning Centre for our staff.</p> <p>In addition, we have a full range of policies on key ethical behaviours such as Anti-Fraud and Corruption and Whistle Blowing.</p>
<p>What are your policies and procedures for identifying, assessing and accounting for litigation and claims?</p>	<p>Generally speaking within Legal Services, we are instigating claims rather than defending them. Claims are assessed on an individual basis as they are known.</p>
<p>Is there any use of financial instruments, including derivatives?</p>	<p>All financial instruments are disclosed in our notes to the accounts within our 2015/16 Statement of Accounts. There have been no new vehicles used this year.</p>
<p>Are you aware of any significant transaction outside the normal course of business?</p>	<p>None</p>
<p>Are you aware of any changes in circumstances that would lead to impairment of non-current assets?</p>	<p>An assessment is made annually by our valuers of our non-current assets and whether any impairment has occurred in the year.</p>

Are you aware of any guarantee contracts?	Guarantee bonds that are in place have been assessed as not material. We will be considering the requirements for disclosing an Event after the Balance Sheet Date for the agreement that will be in place for the new LD provider for pension costs.
Are you aware of allegations of fraud, errors, or other irregularities during the period?	Only those reported above.
Are you aware of any instances of non-compliance with laws or regulations or is the Council and Pension Fund on notice of any such possible instances of non-compliance?	None
Have there been any examinations, investigations or inquiries by any licensing or authorising bodies or the tax and customs authorities?	HMRC undertook a VAT inspection during 2016/17.
Are you aware of any transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement?	We are not aware of any new events or conditions that would give rise to further disclosure this year. Disclosure of existing critical judgements is made within the notes to the accounts within our Statement of Accounts.
Where the financial statements include amounts based on significant estimates, how have the accounting estimates been made, what is the nature of the data used, and the degree of estimate uncertainty inherent in the estimate?	<p>Where significant estimates are made, we ensure that for both the County Council's and the Pension Fund Accounts these come from the relevant professional staff, and that the data is reliable and applicable.</p> <p>All uncertainties are disclosed within the notes to the accounts within our Statement of Accounts.</p>
Are you aware of the existence of loss contingencies and/or unasserted claims that may affect the financial statements?	Yes, we are aware of all outstanding legal cases which are assessed for any loss contingencies as part of our Statement of Accounts processes.
Has the management team carried out an assessment of the going concern basis for preparing the financial statements? What was the outcome of that assessment?	<p>As a local authority, Somerset County Council is an emanation of the state, as opposed to a private sector organisation, where the risk of failure and closure is much more possible.</p> <p>There remain 2 potential areas to consider in terms of going concern to a local authority – adequacy of reserves and enforced change from central government.</p>

	<p>As I reported to the County Council meeting on 15th February 2017, our reserves are adequate for an authority of our size and structure (agenda item 6).</p> <p>http://democracy.somerset.gov.uk/ieListDocuments.aspx?CId=137&MId=208&Ver=4</p> <p>You will be aware from our previous meetings of the challenges ahead for the Medium Term Financial Plan and the measures that SCC already has in place to address them, and the potential savings gaps to find for the forthcoming years.</p> <p>The 2016/2017 CIPFA Code of Practice (paragraph 2.1.2.6) sets out the “underlying assumption” around going concern, namely that “an authority’s financial statements shall be prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future”.</p> <p>There are, to my knowledge, no proposed changes to the “machinery of government” that would necessitate a change to the financial Statements, and even if that were to be a change, the Code confirm that “Transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption of going concern”.</p>
<p>The public sector interpretation of IAS1 means that unless services are being transferred out of the public sector, the financial statements should be prepared on a going concern basis. Management is required to consider whether there are any material uncertainties that cast doubt on the organisations ability to continue as a business. What is the process for undertaking a rigorous assessment of going concern for Somerset County Council and Pension Fund? Is the process carried out proportionate in nature and depth to the level of financial risk and complexity of the organisations and their operations? How will you ensure that all available information is considered when concluding each organisation is a going concern at the date the financial statements are approved?</p>	<p>Although the County Council faces substantial financial pressures in the short and medium term, there are no specific material concerns in relation to the ability to continue as an organisation.</p> <p>Please also see comments above about the adequacy of the reserves and the relevant Council report.</p> <p>Our previous year’s assessment is that the Somerset Pension Fund currently had sufficient assets to meet all of its estimated liabilities for up to the next 14 years. This calculation was without any further investment returns or employer and employee contributions. Therefore we are satisfied that the financial statements should be prepared on a going concern basis.</p>

<p>Can you provide details of those solicitors utilised by the Council and Pension Fund during the year. Please indicate where they are working on open litigation or contingencies from prior years?</p>	<p>A detailed list will be provided under separate cover. As previously notified, we do use external solicitors for some matters, drawing down from appropriate framework agreements.</p>
<p>Can you provide details of other advisors consulted during the year and the issue on which they were consulted?</p>	<p>Numerous advisors or consultants are used by the various services within the County Council across a wide range of issues. Pulling together such a list would be a significant task, and we would want to discuss the need to do so before commencing. For finance, we use advice for various specialisms such as specific VAT advice and insurance brokers.</p>
<p>Have any of the service providers used by Council and Pension Fund, reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?</p>	<p>No</p>