

APPENDIX D

Somerset County Council
County Hall
Taunton

March 2017

Mr Peter Barber
Associate Director
Grant Thornton

Dear Peter

**Financial Statements for the year end 31 March 2017
Understanding how the Audit Committee gains assurance from management**

Thank you for the letter in regard of this topic. As Chair of Somerset County Council's Audit Committee, I am pleased to provide below the information and assurance you require into how we gain assurance over management processes and arrangements.

I am aware that in writing to you now, in order to be able to publicise my response at the Audit Committee on 30th March, that the financial year in question is not quite complete. If there is anything else that does arise in the remainder of the year, (not that I am anticipating anything), then I may have to update my response at that time.

My opinion remains that the Audit Committee is working well and challenging officers and auditors in an effective but appropriate manner. I am aware from your previous comments and from discussions with my officers that this is widely held to be the case.

During 2016/2017, you will have noticed that the Audit Committee will have met 8 times by the end of the year. The additional meetings have been instigated by the members as we have sought to catch up on "Partial" assurance audits. It has been an instruction by Audit Committee members that we call in managers who have received only Partial assurance within a quarter of their receiving a Partial audit, and we are very much catching up on this time period. This process has allowed the Audit Committee to gain a greater understanding of the internal audit findings and for us to require managers to demonstrate their progress and plans to implement the agreed actions.

We continue in our anti-fraud work, and the report to the January 2017 Audit Committee on this topic was well received by members. I am very happy with the actions and efforts of the officers concerned and particularly the specialist anti-fraud staff who investigate these matters. I am confident that my officers, SWAP specialists and the Police have dealt with these cases in accordance with our publically stated Anti-Fraud and Corruption Policy.

We also continue to have regular risk management reports brought quarterly to the Audit Committee, which highlights areas of concern. Where appropriate, officers have highlighted key risks (such as the overall financial position and the OSTED findings on safeguarding) and the Audit Committee has sought further assurance from managers on these risks.

Please note that whilst Audit Committee has the overall role in reviewing risks and ensuring good governance, my responses are generally in relation to the County Council and not the Pensions Fund. I understand from officers that the Chair of the Pensions Committee will be responding specifically in relation to his area. However, it is worth noting that I am also a member of the Pension Committee, so links across the 2 areas remain very strong.

In summary, to answer your main questions:

1. How does the Audit Committee oversee management's processes in relation to:

- i) carrying out an assessment of the risk the financial statements may be materially misstated due to fraud or error**
- ii) identifying and responding to the risk of breaches of internal control**
- iii) identifying and responding to risks of fraud in the organisation (including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist)**
- iv) communicating to employees its views on appropriate business practice and ethical behaviour (for example by updating, communicating and monitoring against the codes of conduct)?**

In terms of fraudulent activity, I would again refer you to the annual reports received by the Audit Committee on this topic. The last such report came to the ^{January} 2017 meeting, and is available on the County Council's website. Alternatively, please contact the author, Martin Gerrish for the reports and further background information. The County Council appears to be in good shape and officers have undertaken significant work in terms of the National Fraud Initiative in particular. All the necessary controls appear to be in place. We are grateful that SWAP has anti-fraud specialists that we can call upon as needed.

In terms of the Statement of Accounts, you have previously noted that there was little incentive to manipulate revenue recognition, fewer opportunities and a strong cultural and ethical framework to make it clear that we do not tolerate fraud. I agreed with your statement then and I am still confident that this remains the case. I continue to take comfort from a number of sources, not least the professionalism of the Chief Accountant and her staff and previous positive comments about the quality of the work in compiling the accounts and supporting papers. I am sure you know that the Audit Committee receives a training session on the accounts, especially around any new requirements, between the draft accounts being published and the

final accounts coming to the Committee meeting for approval. I also know that individual members have, from time to time, contacted the Chief Accountant with specific questions of interest about the accounts. The Audit Committee was delighted that we managed to agree the Statement of Accounts by the end of July 2016, and are already achieving the new statutory reporting requirements ahead of when we need to do so, and without sacrificing any of the quality.

Our main method for reviewing internal controls remains through the South West Audit Partnership, and we have a report at nearly every Audit Committee detailing their recent work. The Internal Audit Plan is always set according to careful principles that have been agreed with members to ensure that it examines areas where there is more potential risk to the County Council.

In terms of bringing fraud risks brought to our attention, this would occur through the mechanisms set out in the Anti-Fraud and Corruption Policy, or through the reporting avenues in the internal audit Charter. I also have catch-up meetings with the Director of Finance and Performance and the Strategic Manager – Financial Governance as required.

The Audit Committee is not responsible for all codes of conduct in the authority, but where it is responsible it gives clear and robust guidance, such as the zero tolerance policy on fraud and corruption. Again, at our January meeting this year we have affirmed that zero tolerance remains our approach to any such activity.

I understand that the response from the Director of Finance and Performance will respond in some detail in relation to how we communicate key governance messages to our staff.

2. Do you have knowledge of any actual, suspected or alleged frauds? If so, please provide details.

Details of frauds are set out in the report to the January 2017 Audit Committee meeting, and I would direct you to that document and its author.

I take comfort from the fact these are few in number and that officers have always investigated these thoroughly.

3. How does the Audit Committee gain assurance that all relevant laws and regulations have been complied with?

Assurance comes from a variety of measures. The Internal Audit Plan, delivered by SWAP, covers the majority of the services and expenditure within the authority. We are aware through the actions in the Annual Governance Statement that contracted services are subject to tendering controls, such as anti-collusion, and strong contract management. External regulatory bodies regularly monitor and audit our services, and we have had reports at the Audit Committee where appropriate.

4. Are you aware of any actual or potential litigation or claims that would affect the financial statements?

I have spoken to the relevant officers and understand that a list will be provided of such matters. These are all reviewed by the key managers and suitable assessments made. I am aware of no particular actions that need to be considered under this heading.

The attached checklist demonstrates how the Audit Committee achieves all these responsibilities in some detail. I trust that these comments will help reassure you in your current audit review.

Yours sincerely

Councillor Dawn Hill
Chair
Audit Committee
Somerset County Council