

## SCC Response from Audit Committee Chair

### Fraud risk assessment

Auditor Question	Response
<p>Has the risk of material misstatement in the financial statements for Somerset County Council and Pension Fund due to fraud been assessed?</p>	<p>Yes. There are some specific anti-fraud actions that I refer to below, which greatly reduce the risk of any successful significant fraudulent activities against the County Council.</p> <p>In terms of the general control environment around fraud, and what the Audit Committee and members have seen, I would consider the following points to be relevant:-</p> <p>The County Council continues to operate a zero tolerance policy, which the Audit Committee has absolutely endorsed again at the January 2017 public meeting. There are a number of relevant policies in place that we again reviewed in January and remain suitable for anti-fraud, bribery and money laundering purposes. (These have previously been supported by the HR Policy Committee). Staff are firmly encouraged to come forward with any potentially concerns, and we offer a number of avenues to report suspicions and would obviously treat such concerns with suitable confidentiality.</p> <p>Our financial systems have the necessary built-in controls to prevent fraud such as segregation of duties on order and receiving goods, and only very senior officers having the ability to order goods or services of higher values. From SWAP internal reports on what we term Key Control audits that my Audit Committee has received, I am not aware of any control weaknesses that would expose the County Council to fraud. I am aware from previous reports from yourselves that you have also reached a similar conclusion in your “walkthrough” testing of our systems.</p> <p>As was reported to the Audit Committee in January 2017, there are a number of anti-fraud activities that are undertaken by officers such as participation in the officer’s work on the National Fraud Initiative, CUE in insurance and work with Districts to combat fraudulent claims on Single Person Discount on Council Tax. Whilst there have been some potentially fraudulent activities, I know that officers take great comfort in the fact that many “matches” around Accounts Payable in particular have merely highlighted issues that we already knew about and have resolved.</p> <p>I take further comfort from the knowledge that all fraud concerns are immediately acted upon by officers and by specialised anti-fraud officers in SWAP. The “zero tolerance”</p>

	<p>policy is clearly carried out in all cases. Having seen your audit reports, I can confirm that the sums involved in possible fraud cases are certainly below the levels that you deem “material” in terms of the financial statements.</p> <p>Other controls during the financial year are also relevant. Budget monitoring is carried out by officers and reported to senior budget-holding managers monthly and to Cabinet on a quarterly basis. Active review of income and expenditure by trained finance officers will inevitably unearth any anomalies within the figures and would be strongly investigated. Senior finance staff within the authority are qualified officers with suitable and significant experience in their roles, particularly around compiling the financial statements. Again, I take a great deal of confidence from the previous audits on the Statement of Accounts, and the very positive reactions from the auditor to our work. Key staff attend relevant seminars and workshops.</p>
<p>What are the results of this process?</p>	<p>I do not see any risk of such misstatement because of the controls and processes outlined above, and the anti-fraud activities listed below.</p>
<p>What processes do the Council and Pension Fund have in place to identify and respond to risks of fraud?</p>	<p>I would refer you to the recent Audit Committee paper on this topic, which sets out our actions in combatting fraud. This includes the current and re-endorsed policies. (Please contact Martin Gerrish directly for further information on this topic.</p> <p><a href="http://democracy.somerset.gov.uk/ieListDocuments.aspx?CId=160&amp;MId=196&amp;Ver=4">http://democracy.somerset.gov.uk/ieListDocuments.aspx?CId=160&amp;MId=196&amp;Ver=4</a></p> <p>In addition, Audit Committee can place reliance on the work undertaken by SWAP, as our independent internal auditors. This has not changed since I previously wrote to you on this matter, and the same 4 controls are in place, being:-</p> <p>i) SWAP’s work includes providing assurance on the key financial systems that are in place, with 5 individual audits in the 2016/2017 Audit Plan and a total of 175 days allocated.</p> <p>ii) The 2016/2017 Audit Plan also included 9 audits with a total of 215 days allocated for general Fraud and Governance audits. There were also 55 days dedicated to the Prevention of Fraud in Schools, and 39 days on Financial Governance (SFVS) in schools.</p> <p>iii) Specialist officers within SWAP are effectively “on call” to help our officers to investigate potential frauds. The Strategic Manager – Financial Governance included thanks to SWAP in the fraud report.</p>

	<p>iv) Overall, audit coverage in the plan is specifically and deliberately targeted at high risk and high budget areas. This has been stated in recent internal audit plan papers as a specific approach to setting the plan.</p>
<p>Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?</p>	<p>There are no fraud risks that are specific to Somerset County Council, as reflected in the Audit Committee reports above. Some of the traditional fraud risk areas are more a concern for District Councils (housing, benefits, Council Tax).</p> <p>Because the County Council would suffer financially from Council Tax evasion, (such as Single Person Discount fraudulently claimed), I understand that the County Council has again made significant funds available to our District Councils to investigate.</p>
<p>Are internal controls, including segregation of duties, in place and operating effectively?</p>	<p>Yes. The relevant SWAP internal audits have given Audit Committee no reason to suggest that these are not working effectively.</p>
<p>If not, where are the risk areas and what mitigating actions have been taken?</p>	<p>We have had a recent debt management audit completed (commissioned by the Strategic Manager – Financial Governance) that only achieved Partial Assurance and will return to Audit Committee at a later date. Whilst these pointed out a number of areas for improvement in terms of debt management, it did not suggest any failure on segregation of duties or any particular risks of fraud to be concerned about.</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>I am not aware of any cases where undue pressure has been brought on a budget holder to act inappropriately to remain on budget.</p> <p>A number of measures collectively termed the Ten Point Plan were introduced by the Chief Executive in order to address the current year's budget overspend, but this was simply a directive to cease spending on non-essential areas and to introduce some controls to that effect.</p>
<p>Are there any areas where there is a potential for misreporting?</p>	<p>No.</p>
<p>How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud?</p>	<p>See audit reports and SWAP information above.</p>

<p>What arrangements are in place to report fraud issues and risks to the Audit Committee?</p>	<p>Our Anti-Fraud and Corruption Policy paper sets out the ways in which fraud can be reported, with a number of potential officers and members to whom an allegation could be raised (including myself as Chair).</p> <p>I would expect that any necessary fraud reporting would come through the Strategic Manager – Financial Governance, as the Lead Officer for the Audit Committee. He has kept myself, as Chair, and my Vice-Chair aware of progress on individual cases as they progress.</p>
<p>How do the Council and Pension Fund communicate and encourage ethical behaviour of its staff and contractors?</p>	<p>Staff are mainly informed through HR activities and campaigns, such as the 4Cs and staff awards. All staff get key messages in a monthly Core Brief. The Director of Finance’s response will detail many of these initiatives. There are also a number of specific HR policies that set out acceptable behaviour as officers, and a Code of Conduct and Standards Committee for members.</p> <p>Officers have confirmed that our procurement processes have built-in processes, such as Anti-Collusion declarations.</p>
<p>How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?</p>	<p>The Anti-Fraud and Corruption Policy specifically states every effort will be made to keep allegations anonymous. By giving many alternative contact points, an officer would not have to approach their line manager if that was a potential problem. Anyone outside the County Council would not have to address concerns back to their normal contacts, again if that was a sensitive issue or the source of the allegation. Similar provisions are to be found in the Whistleblowing Policy.</p>
<p>Are you aware of any related party relationships or transactions that could give rise to risks of fraud?</p>	<p>No. Officers and Members are both governed by their respective Codes. Members are required to declare interests at all relevant meetings.</p>
<p>Are you aware of any instances of actual, suspected or alleged, fraud, either within the Council as a whole or within specific departments since 1 April 2016?</p>	<p>I am aware that the Strategic Manager – Financial Governance and key staff are continually reviewing data from the National Fraud Initiative, but that other than the case reported above in the Audit Committee reports there are no other current allegations under investigation.</p>

## Law and regulation

<b>Auditor Question</b>	<b>Response</b>
What arrangements do the Council and Pension Fund have in place to prevent and detect non-compliance with laws and regulations?	Anti-fraud and corruption measures as outlined above. There is also strong procurement and contract monitoring arrangements when the service is delivered by other parties. We have SWAP as an internal audit function who covers the majority of services through the Audit Plan. There is also the role of the Monitoring Officer.
How does management gain assurance that all relevant laws and regulations have been complied with?	By employing staff with the correct professional qualifications, skills and knowledge to the relevant posts. From the results of various inspections and audits of services. Our risk management processes would also flag up noncompliance.
How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?	As above. The Audit Committee has the right to “call in” services where there is concern. “Partial” assurance results are subject to an automatic call-in, as above.
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2016?	None that I am aware of.
What arrangements do the Council and Pension Fund have in place to identify, evaluate and account for litigation or claims?	Generally speaking, I understand that our lawyers will be initiating litigation rather than defending it. Details of individual cases are, I understand, being compiled and sent with the Director of Finance’s response.
Is there any actual or potential litigation or claims that would affect the financial statements?	All outstanding legal cases against the Council are assessed at year end for their potential impact and treated in accordance with prudent accounting policies to ensure that the full extent of our liability exposure is understood.
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance?	None that I am aware of.