

ISA 240 Responses from Management 2017/2018:

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 2017/18?</p>	<p>The continued decline in funding available for Somerset County Council, reflected in the available expenditure for all service areas.</p> <p>Significant demographic pressures in adult social care requirements.</p> <p>Continued pressures in Children’s Social Care.</p>
<p>Have you considered the appropriateness of the accounting policies adopted by the Council and the 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. Compliance with the CIPFA Code will mean that we use appropriate accounting policies.</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 Council’s and the Pension Fund’s regulatory environment that may have a significant impact on the Council’s financial statements?</p>	<p>There are no changes that have a significant impact on the Council’s financial statements this year.</p>
<p>How would you assess the quality of the Council’s and Pension Fund’s internal control processes?</p>	<p>(Further information is available to support all of the points that I make below – please let me know if you require more detail and I will alert the relevant officers).</p> <p>Our internal controls remain very strong. There are a number of processes that I would draw to your attention, many of which are already known to Grant Thornton:-</p> <ul style="list-style-type: none"> i) We produce regular budgetary and performance information (on our Performance Wheel), for Cabinet to show our progress against targets. We take the necessary action, such as the in-year spending freeze, in order to mitigate any adverse variations. ii) We continue to 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

	<p>Board and the Governance Board, and project-specific reporting. We have also operated a Strategic Opportunities Board during 2017/2018 to look at procurement opportunities.</p> <ul style="list-style-type: none"> 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 robust stakeholder consultation exercises. 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 award-winning South West Audit Partnership (SWAP), who works for an increasing number of local councils in the region. Where audits only achieve “Partial” assurance, the officers must convince both Audit Committee and SWAP that actions to achieve “Reasonable” assurance are effectively delivered. x) The use of Core Brief and other means to inform staff of key issues and new policies. xi) We reviewed our governance procedures against the new CIPFA / SOLACE framework that underpin the Annual Governance Statement and were able to demonstrate a very high degree of compliance and best practice. xii) We undertake a bi-annual Health Organisation exercise, led by SWAP, which covers all aspects of governance and leads to an action plan owned by the Governance Board.
<p>How would you assess the process for reviewing the effectiveness of internal control?</p>	<p>As above.</p> <p>The officer Governance Board (which includes the s151 Officer, the Monitoring Officer, the Head of HR, the County Solicitor, the Chief Internal Auditor, the Risk Officer and members of the Senior Leadership Team) meets monthly and continues to monitor our internal controls and to consider any governance issues arising.</p> <p>SWAP’s Internal Audit Plan always includes a number of audits around our system of internal controls, and any recommendations are assigned to a suitable officer for delivery.</p>

<p>How do the Council's and Pension Fund's risk management processes link to financial reporting?</p>	<p>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 own Senior Management Team agenda for financial risks.</p> <p>In terms of reporting to members and senior officers, we continue the established twin processes of performance information (through the Performance Wheel approach) and financial information (through budget monitoring) to Cabinet and SLT.</p> <p>Risk Management reports are presented quarterly to the Senior Leadership Team and Audit Committee, and key risks are covered within each Director's scorecard, and reported to the Chief Executive and the officer Governance Board.</p>
<p>How would you assess the Council's and Pension Fund's arrangements for identifying and responding to the risk of fraud?</p>	<p>Please see the recent report to Audit Committee on the anti-fraud work undertaken for both the County Council and the Pension Fund.</p> <p>http://democracy.somerset.gov.uk/documents/s5781/Item%209%20-%201%20Fraud%20Jan%202018%20for%20AC.pdf</p> <p>http://democracy.somerset.gov.uk/documents/s5782/Item%209%20-%202%20Appendix%201%20Fraud%20Policy%20and%20Strategy.pdf</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 (where SCC is an active participant) and a targeted audit looking at our local defences against know national fraud areas and emerging trends. The outcomes of this audit have been directly added to the 2018/2019 draft Internal Audit Plan.</p> <p>I take strong assurance from the work that has been undertaken and the planned approach going forward. In particular, the work around our Accounts Payable (creditors) system from the National Fraud Initiative has clearly demonstrated that our existing controls are picking up any potential issues long before the Initiative data checks.</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>The Audit Committee has re-endorsed our Anti-Fraud and Corruption policy, and our "zero tolerance" approach. I am confident that every allegation that is received is investigated by suitable SCC or SWAP officers.</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 (e.g. benefits and housing). But as a local authority we need to be vigilant around a wide variety of fraud risks such as pensions, insurance, Blue Badges, concessionary fares travel and social care.</p> <p>Like every organisation with a multitude of financial transactions, there is always a risk of fraud or corruption. Standards systems such as payroll, Accounts Receivable and Accounts Payable can always be the subject of fraudulent activity.</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>Yes, we have received a number of allegations that we are investigating, because of whistle blowing by our staff. This is a positive reaction from our staff who have taken advantage of the policy to raise concerns with senior managers or with the Strategic Manager – Financial Governance.</p> <p>All allegations that are whistle blown are investigated, as per our Anti-Fraud and Corruption policy. In accordance with our Whistle Blowing policy, the whistle blowers are updated with any results of the investigations that can be shared. This has included feedback up to the Chief Executive, Director of Finance and Head of HR. Where lessons can be learned, the relevant Senior Leadership Team member will be tasked with making any necessary improvements.</p> <p>Also, at the instigation of the Chief Executive, there has been a presentation to the Senior Leadership Team and all Strategic Managers by the Strategic Manager – Financial Governance on the need for continued vigilance against fraud and corruption, and the need to encourage staff to report any reasonable concerns.</p>
<p>Have any reports been made under the Bribery Act?</p>	<p>One of the allegations that are currently being investigated is an allegation of bribery that would be covered under the Bribery Act 2010.</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 and also at Cabinet. The latest Audit Committee report link is attached below.</p> <p>http://democracy.somerset.gov.uk/documents/s5791/Item%2008%20F%20-%20Quarterly%20Risk%20Management%20Update.pdf</p> <p>The Audit Committee receives a copy of the latest Strategic Risk Register, and has previously “called in” risk owners (such as Health and Safety and Children’s Social Care) to provide the necessary assurance on their risks and</p>

<p>As a management team, how do you communicate to staff and employees your views on business practices and ethical behaviour?</p>	<p>mitigating actions.</p> <p>We continue to use a wide variety of communication methods with our staff, and am continuing to widen this range, through the use of Yammer and other social media options.</p> <p>I think that it is important to remember that we do emphasise positive behaviours and successes as well as reminders about the need for compliance with the various codes of conduct and expectations. This is particularly clear in a number of positive messages that come out through:-</p> <ul style="list-style-type: none"> i) The annual Staff Awards, where we celebrate staff at all levels in the organisations who have demonstrated the 4Cs, which remains our core values and expectations. ii) Positive messages about our achievements that come from the Chief Executive in Core Brief, such as our improving performance in regards of OFSTED. iii) “Thank yous” from the Leader and SLT members in Our Somerset where staff have excelled, such as those staff who went the extra mile to assist in the recent bad weather. iv) Celebrating success, such as the recent news that an SCC apprentice is a joint winner of the Public Sector Apprentice of the Year 2018. v) “Roadshows” where staff have had the opportunity to meet the Leader and the Chief Executive and to ask questions. <p>The forthcoming People Strategy will further reinforce what behaviours we are seeking from our staff.</p> <p>Core Brief (with key messages to Strategic Managers which are required to be cascaded to all staff) and Our Somerset (the weekly e-mail of news) remain our major communications channels to all staff.</p> <p>Core Brief in particular is used to cascade new policies and expectations to all staff, and to remind them of how we expect them to act on behalf of the County Council. Previously, this has included reminders on the rules for accepting Gifts and Hospitality, for example.</p> <p>As would be expected, we have the usual range of Codes of Conduct and HR guidance for officers, and also key ethical policies such as Anti-Fraud and Corruption and Whistleblowing in place. In terms of business practices, we have Financial Regulations and a number of subsidiary requirements in place.</p>
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<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 Statement of Accounts. During 2017/18 we invested £10m in the CCLA Property Fund and the investment in this fund will be disclosed within the Statement of Accounts.</p>
<p>Are you aware of any significant transaction outside the normal course of business?</p>	<p>No</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>
<p>Are you aware of any guarantee contracts?</p>	<p>Guarantee bonds that are in place have been assessed as not material.</p>
<p>Are you aware of allegations of fraud, errors, or other irregularities during the period?</p>	<p>No</p>
<p>Are you aware of any instances of non-compliance with laws or regulations or is the Council or the Pension Fund on notice of any such possible instances of non-compliance?</p>	<p>No</p>

<p>Have there been any examinations, investigations or inquiries by any licensing or authorising bodies or the tax and customs authorities?</p>	<p>None</p>
<p>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?</p>	<p>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.</p>
<p>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>	<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>
<p>Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?</p>	<p>Yes, we are aware of all outstanding legal cases which are assessed for any loss contingencies as part of our Statement of Accounts processes.</p>
<p>Has the management team carried out an assessment of the going concern basis for preparing the financial statements for both the Council and the Pension Fund? What was the outcome of that assessment?</p>	<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 12th February 2018, 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=381&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 2017/18 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</p>

	<p>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 confirms 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 major element of change regarding the Pension Fund is the merger of fund assets through Brunel. The process of transferring the Somerset Pension Fund Assets will begin in May 2018. The first to transfer will be Global Equities.</p>
<p>Other than in house solicitors, can you provide details of those solicitors utilised by the Council or the Pension Fund during the year. Please indicate where they are working on open litigation or contingencies from prior years?</p>	<p>Legal Services has instructed DAC Beachcroft, Michelmores, Foot Anstey, Mendip District Council, Carbon Law Partnership, DWF, and Mills and Reeves in 2017/18. Only 1 of these matters relates to litigation, which commenced in April 2017.</p> <p>Additionally there is ongoing litigation in respect of a specific claim against the Council, but Legal Services are not directly involved as the case needed specialist external advice.</p> <p>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 Council’s or 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>	<p>No</p>