

ISA 240 Responses from Management 2018/19:

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 2018/19?</p>	<p>The continued decline in funding available for Somerset County Council, reflected in the available expenditure for all service areas. There have also been continued significant pressures in Children’s Social Care placements and transportation.</p> <p>As a result of these pressures reflected in the early financial forecasts for the year the management response was to apply in year savings to services to ensure the council managed to deliver services within the budget that was set in February 2018. This response was called the Financial Imperative programme. The delivery of all savings has been very closely monitored with a weekly focus at the Senior Leadership Team meetings, alongside a corporate focus on building financial resilience by taking in-year opportunities to replenish reserves where possible.</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>

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:-

- i) During 2018/19, there has been more regular budgetary and performance information presented to Cabinet and Scrutiny for Policies and Place to show our progress against targets (increasing reporting from quarterly to monthly since September 2018). We take the necessary action, such as the in-year financial imperative programme which culminated in additional in year savings (approved at the meeting of Cabinet in September), 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. During the year the programme was significantly refocussed on the Financial Imperative Programme.
- iii) We publish our County Plan and our Vision aspirations and work towards these agreed aims.
- iv) Key Boards and groups are in place to manage key risks, activity and projects, such as the Strategic Commissioning Group, 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 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).

	<ul style="list-style-type: none"> 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 account to both Audit Committee and SWAP that actions to achieve "Reasonable" assurance are effectively in place and delivered. x) The use of the monthly Core Brief and other means to inform staff of key issues and new policies. xi) 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 is chaired by the Monitoring Officer, and comprises a number of the Senior Leadership Team (including the Director of Finance) and professional leads such as legal, audit, risk, commercial & procurement team and human resources) 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</p>

	<p>Wheel approach) and financial information (through budget monitoring) to SLT, Cabinet and Scrutiny.</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/s9554/Fraud%20Jan%202019%20FINAL.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 feed into the risk basis on which the 2019/20 draft Internal Audit Plan is based.</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 continues to demonstrate 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</p>

	<p>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 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>Have any reports been made under the Bribery Act?</p>	<p>None that I am aware of.</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/s9548/AC%20report-31012019-FINAL.pdf</p> <p>The Audit Committee receives a copy of the latest Strategic Risk Register, and will “called in” risk owners to provide the necessary assurance on their risks and mitigating actions.</p>
<p>As a management team, how do you communicate to staff and employees your views on business practices and ethical behaviour?</p>	<p>We use a wide variety of methods to communicate with and engage with staff. These include:</p> <ul style="list-style-type: none"> - Chief Exec and Leader briefings at all locations, each year; - ‘Ad hoc’ roadshows – e.g. Chief Executive and Director of HR-OD to talk through finances and restructurings in 2018-19 (over 800 staff attended); Culture Workshops (over 700 staff) in 2017-18, which followed a first round in 2016-17;

- Social media, including our internal networking tool 'Yammer', Twitter feeds from some directors (Directors of Adults Services, Public Health & HR-OD);
- Weekly blogs in the staff e-newsletter ('Our Somerset'), plus ad hoc articles;
- Monthly senior manager briefings ('Core Brief') by the Chief Executive or other directors, for cascade to all teams;
- Feedback and commentary on the 3 staff surveys that we do each year;
- Monthly corporate meetings with trade unions plus service specific joint consultation committees;
- Celebrating staff achievements, successes, stories;
- As part of our financial recovery programme, we set out expectations of managers and all staff via a 'Ten Point Plan'. This was set out in writing and referred to at all management briefing sessions, covering areas such as recruitment, establishment control, contract sign-off (scheme of delegation) etc;

Our People Strategy was approved by Cabinet in June-July 2018 and we are now implementing its recommendations, in tandem with our Transformation Programme. This includes a new leadership competencies framework, called the Somerset People Attributes. This sets out 12 key areas and the expectations of staff at all levels of the organisation. It links to appraisal, management & leadership development, performance management, recruitment, career development. This augments our Officer Code of Conduct and 'Our Working Agreement' with staff.

During 2017 a new Income Code of Practice was issued to consolidate and improve business practices around debt recovery. Work has continued during the year to embed a consistent approach with training and awareness sessions forming part of the communication approach.

- There were no staff allegations made during 2018/19

The Role of the Somerset Manager audit was completed during 2018/19 and partial assurance was given. The audit objective was to evaluate the effectiveness of systems and policies in place for the training, support and monitoring of managers. The overall recommendation made was that a

	<p>Management Leadership Training Framework is written and implemented which addresses the weaknesses identified.</p> <p>Ethical Governance – controls in place satisfactory and reasonable assurance given.</p>
What are your policies and procedures for identifying, assessing and accounting for litigation and claims?	Generally speaking within Legal Services, we are instigating claims rather than defending them. Claims are assessed on an individual basis as they are known.
Is there any use of financial instruments, including derivatives?	All financial instruments are disclosed in our notes to the accounts within our Statement of Accounts in accordance with the regulation.
Are you aware of any significant transaction outside the normal course of business?	No
Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	An assessment is made annually by our valuers of our non-current assets and whether any impairment has occurred in the year. We have seen a decline in value in a particular group of assets and this will be fully disclosed with our Statement of Accounts in accordance with the regulation.
Are you aware of any guarantee contracts?	Guarantee bonds that are in place have been assessed as not material.
Are you aware of allegations of fraud, errors, or other irregularities during the period?	None
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?	None
Have there been any examinations, investigations or inquiries by any licensing or authorising bodies or the tax and customs authorities?	HMRC have visited as part of their normal inspection regime with 2 separate focussed visits for both VAT and PAYE.
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	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 are data is reliable and applicable.

<p>uncertainty inherent in the estimate?</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 was reported to the County Council meeting on 12th February 2018 by the Director of Finance at that time, the developed budget and proposals were assessed as robust and the reserves and contingency were assessed as adequate considering our size, structure and risks we are exposed to (agenda item 6, paper C).</p> <p>http://democracy.somerset.gov.uk/ieListDocuments.aspx?CIId=137&MIId=763&Ver=4</p> <p>However, you will also be aware of the significant financial challenges that have been faced over the last year and the amendments that were reflected in the Medium Term Financial Plan (2019-22) approved by Council in February 2019. You will be aware of the improved resilience achieved during 2018/19 and more robust plans looking ahead, in particular noting the significantly reduced gap the council expects to have to find for the forthcoming years.</p> <p>The 2018/19 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</p>

	<p>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 Pension Fund risk register contains explicit reference to the pension fund being able to meet its short-term liabilities (next 6 months) and its long-term eventual liabilities. This demonstrates that monitoring the funds position as a going concern is both a key risk and management focus for the fund.</p> <p>Currently the fund's income from contributions exceeds the amount of benefits paid out, meaning there is no need to liquidate investments to meet immediate expenditure. Whilst we do not assume this will remain the case in perpetuity it does demonstrate that we are comfortably able to meet current expenditure and therefore demonstrate we can meet a going concern test. If we investigate the extreme outcome that the fund ceases to receive any contributions the current value of the investment assets would allow us to comfortably meet current levels of expenditure on benefits for in excess of 15 years.</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 have not been instructed by the Pension Fund during the last financial year.</p> <p>As previously notified to Grant Thornton, we do use external solicitors for some matters, drawing down from appropriate framework agreements. Legal Services have used DAC Beachcroft, Michelmores, Foot Anstey and DWF in the past financial year. Only Foot Anstey are working on open litigation.</p>
<p>Can you provide details of other advisors consulted during the year and the issue on which they were consulted?</p>	<p>Several 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. In addition, during 2018/19 the Council has used the services of two</p>

	experienced S151 Officers (sequentially) to lead the council through its financial challenges.
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?	None to report.