

Resources

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28/03/2018

Mr P.Barber
Grant Thornton UK LLP
55 – 61 Victoria Street
Bristol
BS1 6FT

Dear Peter,

**Audit of Bath & North East Somerset Council and Avon Pension Fund
Financial Statements for the year end 31 March 2018**

**Understanding how the Audit Committee gains assurance from
management**

Thank you for your letter of the 2nd February 2018

Sources of Assurance - The Committee takes reliance and assurance from
a number of sources –

Finance –

- The Council prepares a financial dashboard which provides a detailed analysis of each individual service's financial performance.
- This identifies the latest position, current issues or potential risks to meeting service budgets as well as a forecast to the end of the financial year.
- The dashboard provides a view both against revenue and capital budgets with individual commentaries on major projects or initiatives using a RAG status.
- The Accounts themselves are based on the financial ledger used by the Councils Agresso Financial Management System.
- This system is managed and monitored by the Council's Finance Service and has inbuilt into it sufficient controls to reduce or remove the risk of fraud and corruption, i.e. –
 - a) authorisation limits for individual officers; (i.e. journals)
 - b) controlled access to only authorised parts of the system;
 - c) reconciliation processes to balance control accounts
- The Councils finance service contains appropriate skilled and experienced staff to manage the production of the accounts as well

- as providing training for staff in services to use the financial ledger appropriately.
- The Committee takes assurance from the S151 officer regarding the processes underpinning the production of accounts.

Internal Audit –

- The Council provides an Internal Audit Service (in partnership with North Somerset Council) which reviews a range of core and high risk systems throughout the Authority.
- Planned reviews are based on a risk assessment (reasonable assurance model) which takes into account issues in connection with inherent risk of fraud and corruption both within the accounts and in services generally.
- The service works with the external auditor to ensure the appropriate key controls are tested on a regular basis.
- Audit testing is based on ensuring that reasonable assurance can be obtained around fraud and corruption as well as compliance with rules and regulations.
- The audit plan also contains a dedicated 'Counter Fraud' plan which is targeted at high risk areas as well as carrying out investigations where fraud or misuse of resources is suspected
- In addition fraud bulletins are produced which translate learning from real-life case studies and emphasise best practice to management.
- The Committee receives and approves the audit plan as well as receiving update reports on progress against the plan.
- The Committee is not aware of any actual or suspected frauds which would have any material impact on the accounts

Risk Management/Corporate Governance –

- The Council carries out an Annual Governance review which is designed to assess whether there are any significant issues in any of its key governance systems.
- The review is carried out independently by the Internal Audit service as well as involving an element of self-assessment from senior management.
- This includes formal comments from the Councils statutory officers, Head of Paid Service, S151 Officer & Monitoring Officer around compliance with laws etc and ethical behaviour.
- The Council has its own code of corporate governance and processes for declarations of interests as well as gifts and hospitality covering members and officers.
- The committee oversees the whole process and has an opportunity to provide its own opinion around any issues which they feel are important or significant.

- The review enables the committee therefore to be satisfied that it has reasonable assurance over whether there is compliance with statutory and regulatory functions, that risks are being managed and resources spent effectively and efficiently
- 1) **Workplan** - The Committee has a detailed workplan for the year which ensures that it considers:
- The summary financial statements and the auditor's report – with the opportunity to receive explanations from the Chief Financial Officer and the auditor
 - Audit plans for both external and internal audit – the latter includes a fraud testing plan
 - Periodic progress reports from external audit
 - Periodic progress reports from Internal Audit which highlight key areas of work that contribute to good internal control, the results of any fraud investigations and report on any communications to employees on fraud issues or code of conduct issues
 - All audit reports issued by external audit
 - Review of Treasury Management Strategy and outturn reports
 - Updates to the Council's Anti- Fraud and Corruption Strategy
 - Ad hoc reports on fraud awareness initiatives, which include the issue of fraud bulletins and the results of the National Fraud Initiative
 - An annual assurance report from internal audit providing an overall opinion on the Council's systems of internal control
 - And approves the Annual Governance Statement

The committee has considered within the Counter Fraud plan the key outcomes from the report on Protecting the Public Purse which includes the checklist for those in governance to assess the extent to which we have sound governance and counter-fraud arrangements that are working as intended.

I also deliver an annual report on the Committee's work to Full Council which provides further opportunity for consideration of the effectiveness of internal control.

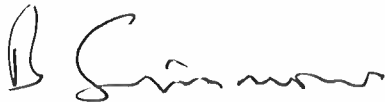
I am confident that I have the opportunity to gain sufficient oversight of management processes to gauge their effectiveness in assessing the risk that the financial statements may be materially misstated due to fraud, promoting effective internal control and enabling the prevention or identification of fraud. I am assured that the processes are working well.

- 2) **Fraud** - I have no knowledge of any actual, suspected or alleged frauds, other than the minor ones reported to the Committee via internal audit's regular progress reports.

- 3) **Compliance** - The Audit Committee relies on the work of internal audit undertaking specific reviews to ensure compliance with laws and regulations. In addition as part of the preparation of the Annual Governance Statement, Chief Officers complete an assurance questionnaire which specifically asks them to confirm that they are not aware of any non-compliance with laws, regulations and the Constitution or of any legal or financial issues relating to their department. The Annual Governance Statement is reviewed by the Audit Committee.
- 4) **Claims** - I am not aware of any potential claims against the Council that are material in relation to the Accounts.

I have also completed the appendix to your letter – please see attached – which provides further information regarding the assurance the Committee is able to rely on.

Yours Sincerely

A handwritten signature in black ink, appearing to read 'B Simmons', written in a cursive style.

CLlr Brian Simmons – Chair of Corporate Audit Committee

**Response from Audit Committee Chair, Bath & North East Somerset Council
(Including response for Avon Pension Fund)**

Fraud risk assessment

	Auditor Question	Response
1	Has the Council assessed the risk of material misstatement in the financial statements due to fraud?	The work of the finance service and internal audit provides assurance that material misstatement due to fraud is not occurring.
2	What are the results of this process?	S151 Officer & Internal audit have provided assurance that appropriate arrangements are operated to deter and detect fraud which include the provision of appropriate internal controls.
3	What processes does the Council have in place to identify and respond to risks of fraud?	Audit plan which is agreed by the Audit Committee includes a Counter Fraud Plan and most audit reviews consider Fraud & Corruption risks. Review & Investigation of NFI Data Whistleblowing Policy. Anti-Fraud and Corruption Strategy.
4	Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?	To my knowledge (and as informed by management and the Head of Audit) I am not aware of any specific frauds (risks), or areas with a high risk of fraud where fraud has been identified.
5	Are internal controls, including segregation of duties, in place and operating effectively?	I have received assurances from internal audit that internal controls are operating satisfactorily through their reports.
6	If not, where are the risk areas and what mitigating actions have been taken?	I am informed by the Head of Internal Audit of areas where improvements have been recommended and the progress in implementing such improvements.
7	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)?	I am not aware of any such areas. I rely on internal audit to bring such issues to the attention of the Audit Committee.
8	Are there any areas where there is a potential for misreporting?	The Financial Reporting process and internal controls and governance processes minimise the potential for misreporting.
9	How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud?	Reports from the Head of Audit to the Committee. Approval of the Counter Fraud Plan & Anti-Fraud & Corruption Strategy.

	Auditor Question	Response
10	What arrangements are in place to report fraud issues and risks to the Governing Body?	The Audit Committee receives reports from the Head of Internal Audit which highlight any fraud issues, if any exist, none in this year.
11	How does the Council communicate and encourage ethical behaviour of its staff and contractors?	<p>Staff are reminded from their induction course and on a periodic basis of the Code of Conduct and the various sections within it and the need to declare any relationships (financial and non financial) which staff may have with contractors employed by the council. Reminders are done formally through the Monitoring Officer and disseminated through management team meetings and via email and intranet.</p> <p>The Whistle blowing policy applies to staff, members, suppliers, contractors, volunteers and anybody acting on behalf of the council. The independent staff counselling service has agreed to act as a 'signpost' for anybody who wishes to raise any concerns they may have, anonymously.</p> <p>Participation in the NFI data matching exercise and messages on payslips.</p> <p>There is also an organisational development programme which support positive values and behaviours.</p>
12	How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?	<p>Through my role as Chair both at Committee and in my other roles as a Member.</p> <p>Publication of Fraud Bulletin through Council News on the Intranet, always endorsed by the Chair of the Audit Committee.</p> <p>No significant issues have been reported.</p>
13	Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	I am not aware of any such relationships or transactions but each year all Chief

	Auditor Question	Response
		Officers and Statutory Officers are required to make declarations regarding such issues as part of the closure of the accounts.
14	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?	I am not aware – through assurances from the Head of Internal Audit - of any specific fraud which would require specific reporting to the Audit Committee or to the External Auditor.

Law and regulation

	Auditor Question	Response
15	What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?	Decision reports require legal and financial implications to be signed off. The work of Legal and Democratic Services and Internal Audit includes a focus on compliance with law and regulation and the Annual Governance Statement covers this area in detail.
16	How does management gain assurance that all relevant laws and regulations have been complied with?	Decision Making reports to Cabinet and Council. S151 Reports Internal audit reports. Whistle blowing procedures. The Annual Governance Statement and Assurance Framework
17	How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?	Internal Audit Reports. Annual Governance Statement.
18	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.
19	What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	General monitoring of legal work i.e. we receive 'letters before action'. Risk registers.
20	Is there any actual or potential litigation or claims that would affect the financial statements?	None that I am aware of.
21	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.

