

Appendix A

Resources Director of Resources

Natalie Clark
Audit Manager
Ernst & Young LLP
400 Capability Green
Luton
Bedfordshire
LU1 3LU

Herts Finance
Hertfordshire County Council
County Hall
Pegs Lane
Hertford SG13 8DE

Tel: 01992 555601
Fax: 01992 555505
Email: owen.mapley@hertfordshire.gov.uk
Contact: Owen Mapley

Private & Confidential

Date: 1st March 2017

Dear Ms Clark

Hertfordshire County Council Audit of Accounts 2016/17 – Understanding how the Audit Committee gains assurance from management

Thank you for your letter dated 19th January 2017 sent to me as Chairman of the Audit Committee, concerning your current work on the Council's accounts for 2016/17.

In response to your request, I can provide you with the following assurances.

- 1 **Oversight of management's processes in relation to:**
 - 1.1 **Undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error**

This risk is considered by the Audit Committee as part of its annual scrutiny of the accounts. Internal Audit audits and reports to the Committee on its work, assessing the controls designed to ensure the accuracy and propriety of the financial statements. As a result of this work during 2016/17, I anticipate that the Head of Assurance will report to the Committee that he does not consider that there is a significant risk of material misstatement in the financial statements due to fraud.

- 1.2 **Identifying and responding to risks of fraud and reporting fraud concerns**

The Director of Resources takes reasonable steps for the prevention and detection of fraud.

In addition, Internal Audit reports to the Audit Committee on its annual planning process, in which they undertake a risk assessment of the Council's systems and

arrangements, including an evaluation of the risk of fraud or other irregularity. The overall assessment of assurance including internal controls and segregation of duties is provided by the Head of Assurance.

The Council's Anti-Fraud and Corruption Strategy has been endorsed by the Audit Committee; the Strategy sets out how the Council responds to suspected or detected fraud or corruption, and includes the requirement on all Council employees and members that such suspicions be reported promptly to the Head of Assurance or the Shared Anti-Fraud Service for investigation. The Council's Whistleblowing procedure, also endorsed by the Audit Committee, sets out how this reporting can be done in confidence, and is issued to all employees and members.

The Council's website, www.Hertfordshire.gov.uk, provides confidential means for members of the public to report suspected fraud direct to the Hertfordshire Anti-Fraud Service, through an on-line portal, by telephone or email.

The Shared Anti-Fraud Service which began operation in April 2015 is resourced to undertake investigations into suspected fraud, and has undertaken a number of these in 2016/17. The service maintains a record of all fraud referrals and actions taken in response. Anti-fraud work also includes participation in the National Fraud Initiative and the investigation of potential data matches which may indicate fraud.

In addition to the increased professional expertise around fraud that the Service brings, its new initiatives will further strengthen the anti-fraud arrangements in place, for example in creating a data-sharing hub which has helped to generate fraud investigation targets by comparing sets of information and looking for anomalies. The service also provides alerts on fraud from agencies such as National Anti-Fraud Network, Action Fraud and City of London Police.

1.3 Communication to employees on business practice and ethics

The Council's Code of Conduct, available on the Council's intranet, sets out clearly the standards expected of its employees including the high standards required in respect working with public funds and complying with Anti-Bribery laws. The Code of Conduct is referenced in all employment related policies.

1.4 Encouraging employees to report their concerns about fraud

The Council's Whistleblowing policy is set out on the Council's intranet. All concerns notified have been investigated. During the year a poster campaign took place to highlight the routes available for reporting concerns.

1.5 Communication to those charged with governance on processes for identifying and responding to fraud

The Head of Assurance presents the annual Internal Audit Plan to the Audit Committee, and provides the Committee with the opportunity to scrutinise those elements of the Plan aimed at identifying and responding to the risks of fraud within the Council. The Committee has also been made aware of the Anti-Fraud and Corruption Strategy and the Anti-Bribery policy. The Committee also receive regular update reports on the work of the Shared Anti-Fraud Service.

In his Annual Report, the Head of Assurance provides an account to the Committee of work done in respect of counter-fraud activities and whether there is any undue organisational or management pressure to meet financial or operating targets.

2 Risk of fraud and breaches of internal control

The Audit Committee receives quarterly reports from the Head of Assurance on the progress of the Internal Audit planned work including, if applicable, any breaches in control. In his Internal Audit Annual Report, the Head of Assurance provides an account to the Committee of work done to test for breaches of internal control, and reports on management responses to these.

In addition, Internal Audit reports to the Audit Committee on its annual planning process in which internal audit undertake a risk assessment of the Council's systems and arrangements, including an evaluation of the risk of fraud or other irregularity.

3 Awareness of actual, suspected or alleged fraud or breaches in internal control

The Head of Assurance via the Shared Anti-Fraud Service maintains a fraud register, which provides for the recording of the nature and extent of each suspected fraud, the way in which each case is resolved, and any wider corrective measures. The upload of the National Fraud Initiative data for 2016/17 has been completed and work to investigate the resulting data matches will commence from February 2017.

4 Awareness of any organisational or management pressure to meet financial or operating targets

The Audit Committee is not aware of any inappropriate organisational or management pressure being applied or incentives offered to meet financial or operating targets

5 Compliance with relevant laws and regulations

The County Council approves the Council's Constitution and any changes to it (most recently July 2016), in which the functions of Monitoring Officer are set out. The Audit Committee members are members of the County Council. It is the role of the Monitoring Officer to ensure that decisions are lawful and fair and, after

consultation with the Head of Paid Service and Director of Resources, to report to the Council (or Executive) if any proposals or decision would give rise to unlawfulness or maladministration.

Formal reports from Monitoring Officers to Council Meeting, at Hertfordshire County Council as elsewhere, are extremely rare. The Monitoring Officer discharges her responsibility by ensuring that Members, including the Audit Committee, are advised as soon as possible about potential unlawfulness or maladministration. There have been no significant issues of non-compliance in 2016/17 reported to the Audit Committee.

6 Awareness of any actual or potential litigation or claims that would affect the financial statements

The Director of Resources is required, as part of the ongoing performance management and monitoring arrangements, to consider any material risk or issues which could impact on the financial statements and recommend that the authority makes appropriate provisions against such risks. This would include any potential litigation or claims. There are no actual or potential litigation or claims that would affect the financial statements for Hertfordshire County Council.

7 Financial Statements are prepared on a going concern basis

The Governance arrangements of the authority include specific requirements for the financial management arrangements to conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer (2010). The ongoing review of internal control by the Audit Committee includes arrangements in place for the financial management of the authority. This includes scrutiny of the robustness of estimates and the adequacy of reserves, as part of the annual budget cycle, together with ongoing monitoring and control of the budget and action necessary to address any variances.

I trust that this answers your queries in this area but if you require any further information, please do not hesitate to contact me.

Yours sincerely

Andrew Williams
Chairman, Hertfordshire County Council Audit Committee