



Members of the Audit Committee:  
(Councillors R P Lillis (Chairman), K Mills (Vice Chairman),  
P Pilkington, N Thwaites, R Thomas, R Woods, T Venner)

Our Ref: Democratic Services  
Contact: Clare Rendell c.rendell@tauntondeane.gov.uk

Date 12 June 2017

**THE PRESS AND PUBLIC ARE WELCOME TO ATTEND THE MEETING  
THIS DOCUMENT CAN BE MADE AVAILABLE IN LARGE PRINT, BRAILLE, TAPE FORMAT  
OR IN OTHER LANGUAGES ON REQUEST**

Dear Councillor

I hereby give you notice to attend the following meeting:

**AUDIT COMMITTEE**

**Date:** Tuesday 20 June 2017  
**Time:** 2.00 pm  
**Venue:** Council Chamber, Council Offices, Williton

Please note that this meeting may be recorded. At the start of the meeting the Chairman will confirm if all or part of the meeting is being recorded.

You should be aware that the Council is a Data Controller under the Data Protection Act. Data collected during the recording will be retained in accordance with the Council's policy.

Therefore unless you advise otherwise, by entering the Council Chamber and speaking during Public Participation you are consenting to being recorded and to the possible use of the sound recording for access via the website or for training purposes. If you have any queries regarding this please contact Committee Services on 01643 703704.

Yours sincerely

A handwritten signature in black ink, appearing to read "B. Lang", with a stylized flourish at the end.

**BRUCE LANG**  
Proper Officer

## RISK SCORING MATRIX

Report writers score risks in reports uses the scoring matrix below

**Risk Scoring Matrix**

<b>Likelihood</b>	5	Almost Certain	Low (5)	Medium (10)	High (15)	Very High (20)	Very High (25)
	4	Likely	Low (4)	Medium (8)	Medium (12)	High (16)	Very High (20)
	3	Possible	Low (3)	Low (6)	Medium (9)	Medium (12)	High (15)
	2	Unlikely	Low (2)	Low (4)	Low (6)	Medium (8)	Medium (10)
	1	Rare	Low (1)	Low (2)	Low (3)	Low (4)	Low (5)
			1	2	3	4	5
			Negligible	Minor	Moderate	Major	Catastrophic
			<b>Impact</b>				

<b>Likelihood of risk occurring</b>	<b>Indicator</b>	<b>Description (chance of occurrence)</b>
1. Very Unlikely	May occur in exceptional circumstances	< 10%
2. Slight	Is unlikely to, but could occur at some time	10 – 25%
3. Feasible	Fairly likely to occur at same time	25 – 50%
4. Likely	Likely to occur within the next 1-2 years, or occurs occasionally	50 – 75%
5. Very Likely	Regular occurrence (daily / weekly / monthly)	> 75%

- Mitigating actions for high ('High' or above) scoring risks are to be reflected in Service Plans, managed by the Group Manager and implemented by Service Lead Officers;
- Lower scoring risks will either be accepted with no mitigating actions or included in work plans with appropriate mitigating actions that are managed by Service Lead Officer.

# **AUDIT COMMITTEE - AGENDA**

**20 June at 2.00 pm**

**Council Chamber, West Somerset House, Williton**

1. **Apologies for Absence**

2. **Minutes**

Minutes of the Meeting of the Committee held on 20 March 2017 – **SEE ATTACHED.**

3. **Declarations of Interest**

To receive and record any declarations of interest in respect of any matters included the Agenda for consideration at this Meeting.

4. **Public Participation**

The Chairman to advise the Committee of any items on which members of the public have requested to speak and advise those members of the public present of the details of the Council's public participation scheme.

For those members of the public wishing to speak at this meeting there are a few points you might like to note.

A three-minute time limit applies to each speaker and you will be asked to speak before Councillors debate the issue. There will be no further opportunity for comment at a later stage. Your comments should be addressed to the Chairman and any ruling made the Chair is not open to discussion. If a response is needed it will be given either oral at the meeting or a written reply made within five working days of the meeting.

5. **Audit Committee Action Plan**

To update the Audit Committee on the progress of resolutions and recommendations from previous meetings.

6. **Audit Committee Forward Plan**

To review the Audit Committee Forward Plan 2017 – **SEE ATTACHED.**

7. **Grant Thornton External Audit – Audit Fees**

To consider Report No WSC 60/17 to be presented by Rebecca Usher, Audit Manager from Grant Thornton – **SEE ATTACHED**

The purpose of the report is to detail the fee forecast for external audit services in 2017/18.

8. **Grant Thornton External Audit – Audit Update**

To consider Report No WSC 61/17 to be presented by Rebecca Usher, Audit Manager from Grant Thornton – **SEE ATTACHED.**

The purpose of the report is to update Members of the work carried out by our external auditors, Grant Thornton. Specifically the report provides an update in relation to their work for the 2016/17 financial year and also provides an update in relation to emerging national issues.

**9. SWAP Internal Audit – Audit Plan 2017/18 Outturn**

To consider Report No WSC 62/17 to be presented by Alastair Woodland, Audit Manager, South West Audit Partnership – **SEE ATTACHED**.

The purpose of the report is to update members on the Internal Audit Plan 2016-17 progress and bring to their attention any significant findings identified through our work.

**10. SWAP Internal Audit – Annual Report**

To consider Report No WSC 63/17 to be presented by Alastair Woodland, Audit Manager, South West Audit Partnership – **SEE ATTACHED**.

The purpose of the report is to inform the Audit Committee of the Annual Opinion Report 2016-17 from Internal Audit.

**11. Review of Effectiveness of Internal Audit**

To consider Report No WSC 64/17 to be presented by Richard Doyle, Corporate Strategy and Performance Officer – **SEE ATTACHED**.

The purpose of the report is to inform the Audit Committee of the recent review of the effectiveness of the delivery of Internal Audit through SWAP (South West Audit Partnership) during 2016/17.

**12. 2016/17 Treasury Management Outturn Report**

To consider Report No WSC 65/17 to be presented by Steve Plenty, Senior Corporate Accountant– **SEE ATTACHED**.

The purpose of the report is to review the treasury management activity and the performance against the Prudential Indicators for the 2016/17 financial year as prescribed by the revised CIPFA Code of Practice and in accordance with the Council's Treasury Management Strategy and Annual Investment Policy.

**13. Annual Governance Statement 2016/17**

To consider Report No WSC 66/17 to be presented by Richard Doyle, Corporate Strategy and Performance Officer – **SEE ATTACHED**.

The purpose of the report is to prepare an Annual Government Statement to be transparent about their compliance with good governance principles. This includes reporting on how they have monitored and evaluated the effectiveness of their governance arrangements in the previous year, and setting out any planned changes in the coming period.

## **COUNCILLORS ARE REMINDED TO CHECK THEIR POST TRAYS**

### **The Council's Vision:**

To enable people to live, work and prosper in West Somerset

### **The Council's Corporate Priorities:**

- Local Democracy:  
Securing local democracy and accountability in West Somerset, based in West Somerset, elected by the people of West Somerset and responsible to the people of West Somerset.
- New Nuclear Development at Hinkley Point  
Maximising opportunities for West Somerset communities and businesses to benefit from the development whilst protecting local communities and the environment.

### **The Council's Core Values:**

- Integrity
- Respect
- Fairness
- Trust



## **AUDIT COMMITTEE**

### **Minutes of the Meeting held on 20 March 2017 at 2.00 pm in the Dunkery Room, Williton**

#### **Present**

Councillor R Lillis.....Chairman  
Councillor T Venner.....Vice Chairman  
Councillor N Thwaites  
Councillor R Woods

#### **Members In Attendance**

Councillor M Chilcott

#### **Officers In Attendance**

Assistant Director – Corporate Services (P Carter)  
Corporate Strategy and Performance Officer (R Doyle)  
Assistant Director – Resources (P Fitzgerald)  
Revenues and Benefits Service Manager (H Tiso)  
Democratic Services Officer (C Rendell)

#### **Also In Attendance**

Peter Barber, Manager, Grant Thornton  
Alastair Woodland, Associate Director, South West Audit Partnership (SWAP)

#### **A.41 Apologies for Absence**

Apologies were received from Councillors A Behan and R Thomas

#### **A.42 Minutes**

(Minutes of the Meeting of the Audit Committee held on 6 December 2016, circulated with the Agenda)

**RESOLVED** that the Minutes of the Audit Committee held on 6 December 2016, be confirmed as a correct record.

#### **A.43 Declarations of Interest**

<b>Name</b>	<b>Minute No.</b>	<b>Member of</b>	<b>Personal or Prejudicial</b>	<b>Action Taken</b>
Cllr N Thwaites	All	Dulverton Town Council	Personal	Spoke and voted
Cllr T Venner	All	Minehead & SCC	Personal	Spoke and voted

#### **A.44 Public Participation**

No members of the public had requested to speak on any item on the Agenda.

#### **A.45 Audit Committee Action Plan**

There were no recorded actions from the last meeting on 6 December 2016.

**RESOLVED** that the report be noted.

#### **A.46 Audit Committee Forward Plan**

(Copy of the Audit Committee Forward Plan circulated with the Agenda).

The Manager from Grant Thornton requested that the Audit Findings report and the Final Accounts (Annual Government Statement) were added to the Forward Plan for the meeting to be held on 18 September 2017.

The Vice Chairman requested that a separate update on the Transformation Project was added to the Forward Plan.

**RESOLVED** that the Audit Committee Forward Plan, with the requested amendments be noted.

#### **A.47 Grant Thornton External Audit – Audit Update**

(Report No. WSC 30/17, circulated with the Agenda).

This was a regular update report for Members by the external auditors, Grant Thornton. Specifically the report provided an update in relation to their work for the 2016/2017 financial year and also provided an update in relation to emerging national issues.

The Audit Manager for Grant Thornton outlined the external auditor's progress as at 31 March 2017. The auditors listed their key outputs and had issued their fees letter in April 2016. The Audit Plan for 2016/2017 had been included in their report. This demonstrated the planning they had undertaken and interim work carried out before providing a more detailed plan as to how they would discharge their responsibilities.

The final accounts audit would be undertaken in June 2017. There were no significant issues found when the interim works were carried out. Once the draft accounts were received, works would be carried out in parallel with Taunton Deane Borough Council (TDBC) to audit both sets of accounts.

The Audit Manager highlighted the three sub criteria for the Value for Money conclusion:-

- Informed decision making;
- Sustainable resource deployment; and
- Working with partners and other third parties.

Reported that the Chartered Institute of Public Finance and Accountancy (CIPFA) had changed its Code of Practice. The main change which affected the Council was to the Income and Expenditure accounts. Historically these had been broken down into defined headings. These had now been re-categorised to align with the internal financial reporting. Work was being carried out with the Finance Department to ensure the changes were implemented effectively.



The Audit Manager for Grant Thornton introduced a new report called The Income Spectrum. The report helped local authorities to achieve revenue and strategic objectives through vibrant economies and creating additional sources of income. The report looked at more innovative ways of raising additional income. The report would be circulated to all Members.

During the discussion of this item the following points were made:-

- Concern was raised about the change to the CIPFA Code of Practice and the removal of the earmarked reserves columns.  
*This concern had been raised at other Audit Committees. The earmarked reserves were not disappearing, it was the way they were categorised within the primary statement. The Council would continue to have earmarked reserves and another category for the general reserves.*
- A query was raised about whether apprenticeships were available at the Council?  
*These were widely available at Deane DLO due to the type of work carried out. However, there were other departments that offered apprenticeships. HR had updated managers on this subject recently.*

**RESOLVED** that the Auditor's update report be noted.

#### **A.48 Grant Thornton External Audit – Audit Plan**

(Report No. WSC 31/17, circulated with the Agenda).

The purpose of the report was to update members on the External Audit Plan 2016-2017 by the external auditors, Grant Thornton. The report summarised their approach to the audit programme, work completed, work to follow and the auditors view on risk.

The Audit Manager for Grant Thornton updated the Committee on the key developments, challenges and financial reporting changes on the Audit Plan.

The key developments included work on the new Council and the financial position and the main challenge was the Medium Term Financial Plan (MTFP). Financial reporting changes identified were the CIPFA Code of Practice and the early closedown.

The Audit Manager reminded the Committee they used the concept of materiality when they planned and performed an audit. The financial statements materiality was based on a proportion of the gross expenditure of the Council. The overall materiality was determined at £425,000, which was 1.8% of gross revenue expenditure.

The significant risks identified were:-

- The revenue cycle included fraudulent transactions;
- Management override of controls;
- Going Concern;
- Valuation of property, plant and equipment; and
- Valuation of pension fund net liability.

During the discussion of this item the following point was made:-

- A query was raised whether any of the community shortfall included any business rates.  
*The five year plan did not include any extra income from the increased Business Rates or from the new power plant. The effects on the MTFP were being checked.*

**RESOLVED** that the Auditor's update report be noted.

#### **A.49 SWAP Internal Audit – Progress Report 2016/2017**

(Report No. WSC 32/17, circulated with the Agenda).

The purpose of the report was to update Members on the Internal Audit Plan 2016/2017 progress and bring to their attention any significant findings identified through the work.

The Associate Director for SWAP presented the report and informed the Committee on the changes to the Audit Plan that had occurred since the last update in December 2016.

These were:-

- The time allocated to the Transformation Programme Audit had been deferred to the 2017/2018 plan. This was an additional 10 days for 2017/2018 to accommodate the current position of the Transformation Programme and where and when Audit's time would be most effectively used.
- With the return of ICT services in December 2016 from Southwest One, the ICT back up routine audit had been exchanged with a review on ICT desktop support. This was to review how the ICT help desk arrangements were working as a single service to both Taunton Deane Borough Council (TDBC) and West Somerset Council (WSC).

Within the summary of the Audit Findings, Licensing and ICT were highlighted as partial under the control assurance definitions and the Healthy Organisation had been dropped and replaced by the Building Control Partnership (BCP).

The Somerset BCP was a partnership between the four Somerset District Councils and commenced operations in April 2016.

Concerns had been raised on the performance of the partnership and SWAP had been asked to undertake a 'health check' audit on the BCP. Fee income for both WSC and TDBC was significantly under budget and other issues had been noted, such as unanswered telephones; unbanked cheques; completion certificates not issued and invoices not raised.

Several factors that had been identified which were likely to have contributed to the shortfall in income were:-

- No administrative support for extended periods;
- A reduction in application numbers;
- Not all invoices were raised for all applications;
- Unrealistic budgets set for some income expectations.

Additional issues highlighted were:-

- Lack of a single ICT system and failure of the on-line application system in June 2016;
- HR issues impacting on handover and staff resources from April 2016;
- No monitoring or reporting of application numbers; and
- Weak system for receiving payments.

During the discussion of this item the following points were made:-

- A query was raised about what work was planned for the partial audits for Licensing and ICT.  
*This would be followed up next year and was due to the fees that needed to be reviewed and ICT access control.*
- Concerns were raised about the issues with the BCP and the Committee requested a written update on the situation from the Assistant Director -Operational Delivery.

**RESOLVED** that the progress made in delivery of the 2016/2017 internal audit plan and significant findings be noted.

#### **A.50 SWAP Internal Audit – Audit Plan 2017/2018 and Audit Charter**

(Report No. WSC 33/17, circulated with the Agenda).

The purpose of the report was to inform the Audit Committee of the proposed work to be undertaken by SWAP during 2017/2018 and to seek approval of the Internal Audit Charter which set out the nature, role, responsibility, status and authority of internal auditing within WSC.

The Associate Director for SWAP explained the role of Audit using the three lines of defence model. Management were included in the model and their roles were to manage effective systems of governance, risk management and internal controls. These were used to establish the following:-

- Safeguarding the Council's resources and prevent fraud;
- Ensuring the completeness and reliability of records;
- Monitoring adherence to laws, regulations, policies and procedures;
- Promoting operational efficiency and demonstrating the achievement of value for money; and
- Managing risk.

The Audit Plan was broken down across various audit categories.

**Key Control Audits.** Focused primarily on key risks which related to the Council's major financial systems.

**Governance, Fraud and Corruption Audits.** Focused on the key risks which related to cross cutting areas that were controlled and/or impacted at a corporate rather than service level.

**IT Audits.** Provided the Authority with assurance with regard to their compliance with industry best practice.

**Operational Audits.** Detailed evaluation of service or functions control environment.

**Follow Up Audits.** Where an audit had received a partial or no assurance level, SWAP were required to carry out a follow up review to provide assurance that identified weaknesses had been addressed and risks mitigated.

**Non-Opinion Reviews.** Undertaken at the specific request of management where they might have some concerns or were looking for advice on a particular subject matter.

During the discussion of this item the following point was made:-

- Concern was raised about whether the amount of days allocated to the BCP Audit would be sufficient?  
*SWAP were using time allocated from all the four partners to carry out the audit, so it might not seem like enough time but it would only be used for the WSC section of the partnership and not the whole BCP.*

**RESOLVED** that the 2017/2018 Internal Audit Plan and Internal Audit Charter be noted and approved

#### **A.51 Corporate Risk Management Update**

(Report No. WSC 34/17, circulated with the Agenda).

The purpose of the report was to update the Audit Committee on the corporate risks which were managed by the Joint Management Team (JMT).

The Corporate Risk Register was a 'live' document which highlighted the key corporate risks that the Council faced. The register was a joint one between TDBC and WSC and was formally reviewed by JMT on a regular basis as part of the Corporate Performance Review.

These regular reviews ensured that new strategic-level risks could be recognised; continued risks could be re-assessed and risks which were no longer considered important could be removed.

Risks which were managed at a corporate level were those which had a significant risk to the delivery of a corporate priority or which were cross-cutting risks that did not naturally sit with a single department or team.

There were currently 15 strategic risks identified and approved by JMT. 11 joint risks, 1 WSC risk and 3 TDBC specific risks.

During the discussion of this item the following points were made:-

- Concern was raised on how the MTFP would be impacted by the Business Rates revaluation.  
*Unfortunately the MTFP would be impacted by Business Rates due to the new power station and the amount of risk and volatility.*
- A suggestion was made to loan income raised by the increased Business Rates to create revenue. It was understood that the Council had to be prudent but did not have to be totally risk adverse.

**RESOLVED** that the current position in relation to the identification and tracking of corporate risk be noted.

#### **A.52 Corporate Governance Action Plan Update**

(Report No. WSC 35/17, circulated with the Agenda).

The purpose of the report was to provide the Audit Committee with an update on the progress made against the Annual Governance Statement Action Plan.

The Corporate Strategy and Performance Officer informed the Committee that there were three actions on the Plan. These were for:-

- A corporate process for reviewing and documenting decisions regarding the prioritisation of the internal audit recommendations to be introduced;
- A self-assessment of the effectiveness of the Audit Committee, based upon the CIPFA guidance 2013, to be introduced; and
- A review of the decision-making processes within the Council to ensure it was efficient and effective in terms of both officer and Member involvement to be undertaken.

During the discussion of this item the following points were made:-

- It was highlighted that one of the Members that attended training had thought that it was very negative on the subject of Brexit.

**RESOLVED** that the current progress in relation to completing the actions identified within the Annual Governance Statement be noted.

#### **A.53 Overdue High Priority SWAP Audit Recommendation**

(Report No. WSC 36/17, circulated with the Agenda).

The purpose of the report was to provide the Audit Committee with a position statement on the SWAP audit recommendations for WSC, which were assessed as high and very high priority, where the agreed action was overdue.

The Corporate Strategy and Performance Officer presented the report and highlighted the Priority 4 and 5 audit actions that affected WSC, where the agreed remedial action was overdue. On this occasion there were six Priority 4 actions which were overdue but zero overdue Priority 5 recommendations.

The six Priority 4 actions were:-

- Contract Management Bribery – The Procurement function was not limited enough;
- Contract Management Bribery – No assurance that the contract standing orders and the anti-bribery policy was embedded within the Council;
- Asset Management – Strategy linked to corporate priorities;
- Asset Management – Development of a new Asset Management Plan;
- Asset Management – Fundamental review of the property database;
- Homelessness – Leased properties were not all compliant with gas safety regulations.

During the discussion of this item the following points were made:-

- A query was raised whether the Asset Register was now complete?  
*Yes the register was now complete and available on the Council's website.*
- It was confirmed that the other two Asset Management priorities were due to go before Corporate PAG and Scrutiny and that the Homelessness priority was now cleared.

**RESOLVED** that the overdue actions and the measures taken or being taken to address them be noted.

#### **A.54 Exclusion of the Press and Public**

**RESOLVED** that the press and public be excluded during consideration of Item A.15 on the grounds that, if the press and public were present during this item, there would be likely to be a disclosure to them of exempt information of the class specified in Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 as amended as follows:

The item contains information that could release confidential information relating to the financial or business affairs of any particular person (including the authority holding that information). It was therefore agreed that after consideration of all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

#### **A.55 Corporate Fraud Arrangements**

(Report No. WSC 37/17, circulated with the Agenda).

The purpose of the report was to provide feedback to the Audit Committee on the alternative options for Counter Fraud services. The current South West Counter Fraud Partnership would end on 31 March 2017.

The Revenues and Benefits Service Manager presented the report and requested the Audit Committee to consider two proposals to deliver fraud prevention, detection and investigation services.

**RESOLVED** that Proposal B be supported as the preferred provider to deliver a Corporate Counter Fraud service from 1 April 2017.

**(The meeting closed at 3.35pm.)**

**AUDIT COMMITTEE ACTION PLAN**

Date/Minute Number	Action Required	Action Taken
<b>20 March 2017</b>  <b>A55 – Corporate Fraud Arrangements</b>	<b><u>RESOLVED:-</u></b>  The Audit Committee were recommended to approve the appointment of the preferred provider to deliver a Corporate Counter Fraud service from 1 April 2017.	Following the meeting of the Audit Committee, the appointment of the new provider for Corporate Counter Fraud was in the implementation stage.
<b>20 March 2017</b>  <b>A49 – SWAP Internal Audit – Progress Report 2016/17</b>	<b><u>RESOLVED:-</u></b>  Concerns were raised about the issues with the Building Control Partnership and the Committee requested a written update on the situation from the Assistant Director -Operational Delivery.	Following the meeting of the Audit Committee, the Assistant Director - Operational Delivery had collaborated with the Manager of the Partnership and produced a written response to the Committee which was distributed to Members.
<b>20 March 2017</b>  <b>A46 – Audit Committee Forward Plan</b>	<b><u>RESOLVED:-</u></b>  Request was made by the Vice-Chairman to have a formal update on the Transformation Project added to the Forward Plan	Due to the planned items already scheduled for September Audit Committee, this item has been added onto the Forward Plan for the December Audit Committee.





**West Somerset Council - Audit Committee – Forward Plan 2017**

<b>Meeting</b>	<b>DRAFT AGENDA ITEMS</b>	<b>LEAD OFFICER</b>
20 March 2017	Grant Thornton – Audit Plan Grant Thornton – Audit Update SWAP Internal Audit – Progress Report 2016/17 SWAP Internal Audit - Audit Plan 2017/18 and Audit Charter Corporate Risk Management Update Corporate Governance Action Plan Summary of Overdue Level 4/5 Actions Corporate Fraud Arrangements Forward Plan	Rebecca Usher Rebecca Usher Alastair Woodland Alastair Woodland Richard Doyle Richard Doyle Richard Doyle Heather Tiso
20 June 2017	Grant Thornton External Audit - Audit Fees Grant Thornton External Audit - Audit Update SWAP Internal Audit – Annual Report SWAP Internal Audit – Audit Plan 2016/17 Outturn Review of Effectiveness of Internal Audit 2016/17 Treasury Management Outturn Report  Annual Governance Statement 2015/16 Forward Plan	Rebecca Usher Rebecca Usher Alastair Woodland Alastair Woodland Richard Doyle Steve Plenty/Sue Williamson Richard Doyle
18 Sept 2017	Grant Thornton External Audit – Audit Findings Report Grant Thornton External Audit – Final Accounts (Annual Government Statement) SWAP Internal Audit – Progress Update 2017/18 Approval of the Statement of Accounts Summary of Overdue Level 4/5 Actions Corporate Governance Action Plan Update Corporate Risk Management Update Forward Plan	Rebecca Usher Rebecca Usher  Alastair Woodland Jo Nacey Richard Doyle Richard Doyle Richard Doyle
4 Dec 2017	Grant Thornton External Audit – Annual Audit Letter 2016/17 Grant Thornton External Audit Update SWAP Internal Audit – Progress Report 2015/16 6-Month Review of Treasury Management Activity  Update on the Transformation Project New Data Protection Legislation – May 2018 Forward Plan	Rebecca Usher Rebecca Usher Alastair Woodland Steve Plenty/Sue Williamson Kim Batchelor Richard Doyle



*Report Number: WSC 60/17*

## **West Somerset Council**

### **Audit Committee 21 June 2016**

#### **External Audit Fees 2017/18**

**Cabinet Member: Councillor Mandy Chilcott, Deputy Leader & Resources**

**Report Author: Richard Doyle, Corporate Strategy & Performance Officer**

#### **1 Purpose of the Report**

1.1 This report details the fee forecast for external audit services in 2017/18.

#### **2 Recommendations**

2.1 Members are requested to note the Report.

#### **3 Background and Full details of the Report**

3.1 Each year our external auditors, Grant Thornton, provide details of the forecast fees to be charged for the main audit and the grant certification work relating to the current year.

3.2 The attached letter provides details of the fees and the schedule of payments. Grant Thornton have also provided an outline audit timetable to show the phasing of their work.

3.3 Any additional audit work, outside of the planned audit and grant certification work will be billed separately and will be an addition to the fee quoted.

#### **4 Links to Corporate Aims / Priorities**

4.1 There are no direct implications.

#### **5 Finance / Resource Implications**

5.1 The main audit fee is £42,525 (which is the same as 2016/17). This does not include the fee for the grant certification work which has yet to be set. The fee for this last year was £8,963.

#### **6 Legal Implications**

6.1 There are no legal implications from this report.

#### **7 Environmental Impact Implications**

7.1 There are no direct implications.

## **8 Community Safety Implications**

8.1 There are no direct implications.

## **9 Equality and Diversity Implications**

9.1 There are no direct implications.

## **10 Social Value Implications**

10.1 There are no direct implications.

## **11 Partnership Implications**

11.1 There are no direct implications.

## **12 Health and Wellbeing Implications**

12.1 There are no direct implications.

## **13 Asset Management Implications**

13.1 There are no direct implications.

## **14 Consultation Implications**

14.1 There are no direct implications.

### **Democratic Path:**

- **Audit Committee – Yes**
- **Cabinet – No**
- **Full Council – No**

### **List of Appendices**

<b>Appendix A</b>	Grant Thornton – Audit Fee Letter for 2017/18 dated 25 April 2017
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### **Contact Officers**

Name	Richard Doyle	Name	Richard Sealy
Direct Dial	01823 218743	Direct Dial	01823 217558



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[www.grant-thornton.co.uk](http://www.grant-thornton.co.uk)

25 April 2017

Dear Paul

## **West Somerset District Council Planned audit fee for 2017/18**

The Local Audit and Accountability Act 2014 provides the framework for local public audit. Under these provisions the Secretary of State for Communities and Local Government delegated some statutory functions from the Audit Commission Act 1998 to Public Sector Audit Appointments Limited (PSAA) on a transitional basis.

PSAA will oversee the Audit Commission's audit contracts for local government bodies until they end in 2018, following the announcement by the Department for Communities and Local Government (DCLG) that it will extend transitional arrangements until 2017/18. PSAA's responsibilities include setting fees, appointing auditors and monitoring the quality of auditors' work. Further information on PSAA and its responsibilities are available on the [PSAA website](#).

From 2018/19 PSAA has been specified by the Secretary of State as an appointing person for principal local government and police bodies, and will make auditor appointments and set fees for bodies that have opted into the national auditor appointment scheme it is developing.

### **Scale fee**

PSAA prescribes that 'scale fees are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timescales'.

There are no changes to the overall work programme for local government audited bodies for 2017/18. PSAA have therefore set the 2017/18 scale audit fees at the same level as the scale fees applicable for 2016/17. The Council's scale fee for 2017/18 has been set by PSAA at £42,525.

The audit planning process for 2017/18, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

### **Scope of the audit fee**

Under the provisions of the Local Audit and Accountability Act 2014, the National Audit Office (NAO) is responsible for publishing the statutory Code of Audit Practice and guidance for auditors from April 2015. Audits of the accounts for 2017/18 will be undertaken under this Code, on the basis of the 2017/18 work-programme and scales of fees set out on



the PSAA website. Further information on the NAO Code and guidance is available on the [NAO website](#).

The scale fee covers:

- our audit of your financial statements;
- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money conclusion); and
- our work on your whole of government accounts return (if applicable).

PSAA will agree fees for considering objections from the point at which auditors accept an objection as valid, or any special investigations, as a variation to the scale fee.

### **Value for Money conclusion**

The Code requires us to consider whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The NAO issued its guidance for auditors on value for money work in November 2016. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

The NAO guidance identifies one single criterion for auditors to evaluate:

*In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.*

### **Certification of grant claims and returns**

At the request of the Department for Work and Pensions, auditors appointed by PSAA will continue to certify local authority claims for housing benefit subsidy for 2017/18.

The Council's indicative fee for this certification work has yet to be set by PSAA. We will write to you to confirm the fee when this has been confirmed.

Assurance engagements for other schemes will be subject to separate arrangements and fees agreed between the grant-paying body, the Council and ourselves.

### **Billing schedule**

Fees will be billed as follows:

<b>Main Audit fee</b>	<b>£</b>
September 2017	10,632
December 2017	10,631
March 2018	10,631
June 2018	10,631
<b>Total</b>	<b>42,525</b>
<b>Housing Benefit Certification</b>	
March 2018	Tbc

### Outline audit timetable

We will undertake our audit planning and interim audit procedures in December 2017 to January 2018. Upon completion of this phase of our work we will issue a detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit and work on the VfM conclusion will be completed in June and July 2018.

Phase of work	Timing	Outputs	Comments
Audit planning and interim audit	Dec 17 – Jan 18	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of the Council's accounts and VfM.
Final accounts audit	Jun – Jul 17	Audit Findings (Report to those charged with governance)	This report sets out the findings of our accounts audit and VfM work for the consideration of those charged with governance.
VfM conclusion	Jun – Jul 17	Audit Findings (Report to those charged with governance)	As above
Whole of government accounts	Jul 17	Opinion on the WGA return	This work will be completed alongside the accounts audit.
Annual audit letter	Jul 17	Annual audit letter to the Council	The letter will summarise the findings of all aspects of our work.
Grant certification	Dec 17	Grant certification report	A report summarising the findings of our housing benefit certification work

### Our team

The key members of the audit team for 2017/18 are:

	Name	Phone Number	E-mail
Engagement Lead	Peter Barber	0117 305 7897	peter.a.barber@uk.gt.com
Engagement Manager	Rebecca Usher	0117 305 7662	rebecca.usher@uk.gt.com
In Charge Auditor	Stephen Clarke	0117 305 7884	stephen.t.clarke@uk.gt.com



**Additional work**

The scale fee excludes any work requested by the Council that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed and a detailed project specification and fee agreed with the Council.

**Quality assurance**

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact Jon Roberts, our Public Sector Assurance regional lead partner, via [jon.roberts@uk.gt.com](mailto:jon.roberts@uk.gt.com).

Yours sincerely

A handwritten signature in black ink, appearing to read 'P Barber', with a stylized flourish at the end.

Peter Barber

Engagement Lead

For Grant Thornton UK LLP



*Report Number: WSC 61/17*

## **West Somerset Council**

### **Audit Committee 20 June 2017**

#### **External Audit (Grant Thornton) Update Report**

**This is the responsibility of Cabinet Member Councillor Mandy Chilcott**

**Report Author: Richard Sealy, Assistant Director – Corporate Services**

#### **1 Purpose of the Report**

1.1 This is a regular update report for Members by our external auditors, Grant Thornton. Specifically the report provides an update in relation to their work for the 2016/17 financial year and also provides an update in relation to emerging national issues.

#### **2 Recommendations**

2.1 Members are requested to note the update report.

#### **3 Risk Assessment**

##### **Risk Matrix**

The details of any specific risks identified will be contained in the attached report

#### **4 Background and Full details of the Report**

4.1 Each year our external auditors, Grant Thornton, are required to carry out prescribed audit work and this report provides a useful progress update on the work undertaken to date.

4.2 Additionally, the report shares headlines on some national issues that may have an impact upon the Council.

#### **5 Links to Corporate Aims / Priorities**

5.1 There are no direct implications.

#### **6 Finance / Resource Implications**

6.1 There are no direct implications.

#### **7 Legal Implications**

7.1 There are no legal implications from this report.

#### **8 Environmental Impact Implications**

8.1 There are no direct implications.

## **9 Community Safety Implications**

9.1 There are no direct implications.

## **10 Equality and Diversity Implications**

10.1 There are no direct implications.

## **11 Social Value Implications**

11.1 There are no direct implications.

## **12 Partnership Implications**

12.1 There are no direct implications.

## **13 Health and Wellbeing Implications**

13.1 There are no direct implications.

## **14 Asset Management Implications**

14.1 There are no direct implications.

## **15 Consultation Implications**

15.1 There are no direct implications.

### **Democratic Path:**

- **Audit Committee – Yes**
- **Cabinet – No**
- **Full Council – No**

### **List of Appendices**

Appendix A	Grant Thornton – Audit Update
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### **Contact Officers**

Name	Richard Doyle	Name	Richard Sealy
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Email	r.doyle@tauntondeane.gov.uk	Email	r.sealy@tauntondeane.gov.uk

# Audit Committee Progress Report and Update West Somerset District Council Year ended 31 March 2017

20 June 2017

**Peter Barber**

Engagement Lead

**T** 0117 305 7897

**E** [peter.a.barber@uk.gt.com](mailto:peter.a.barber@uk.gt.com)

**Rebecca Usher**

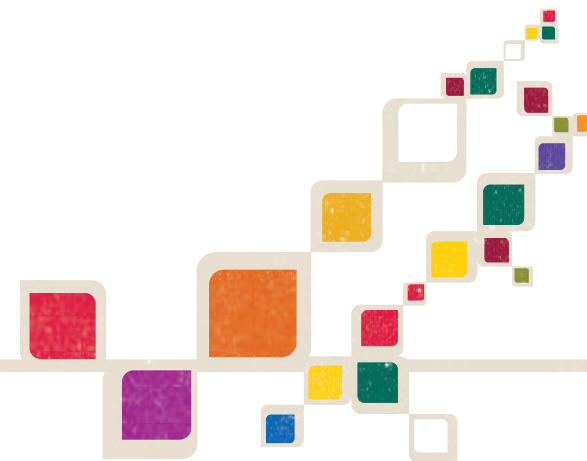
Manager

**T** 0117 305 7662

**E** [rebecca.usher@uk.gt.com](mailto:rebecca.usher@uk.gt.com)



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.



# Introduction

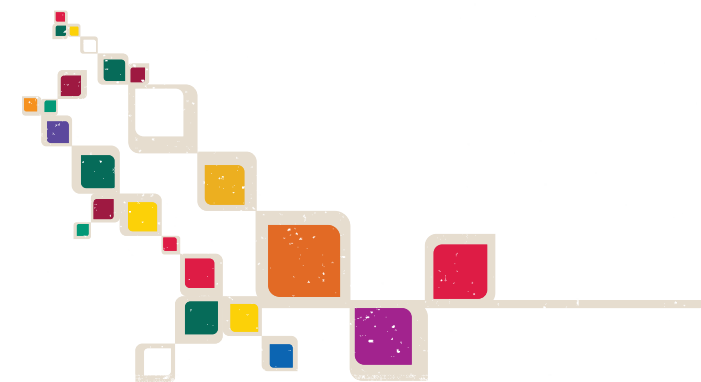
This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

Members of the Audit Committee can find further useful material on our website [www.grant-thornton.co.uk](http://www.grant-thornton.co.uk), where we have a section dedicated to our work in the public sector. Here you can download copies of past publications:

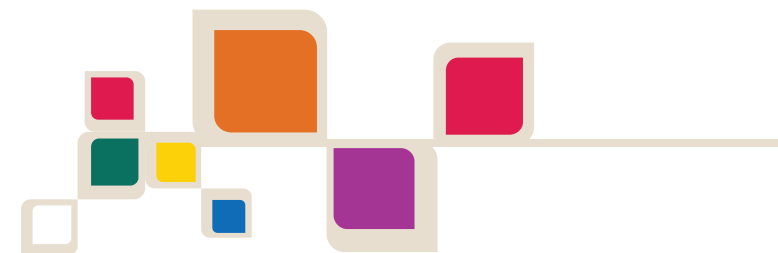
- The Income Spectrum (March 2017)  
<http://www.grantthornton.co.uk/en/insights/the-income-generation-report-local-leaders-are-ready-to-be-more-commercial/>
- The Board: Creating and Protecting Value (May 2017)  
<http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/board-effectiveness-report-2017.pdf>

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.



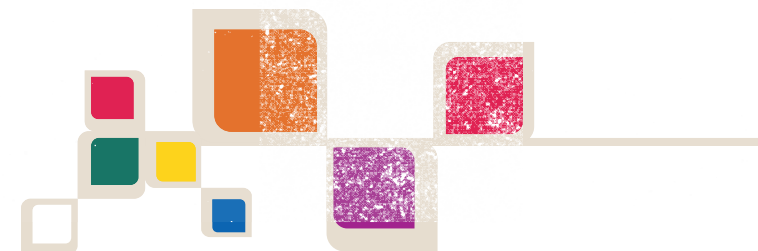
# Progress at 31 May 2017



2016/17 work	Planned Date	Complete?	Comments
<b>Fee Letter</b> We are required to issue a 'Planned fee letter for 2016/17' by the end of April 2016	April 2016	yes	The 2016/17 fee letter was issued in April 2016
<b>Accounts Audit Plan</b> We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2016-17 financial statements.	March 2017	Yes	Presented at the 20 <sup>th</sup> March 2017 Audit Committee
<b>Interim accounts audit</b> Our interim fieldwork visit plan included: <ul style="list-style-type: none"> <li>• updated review of the Council's control environment</li> <li>• updated understanding of financial systems</li> <li>• review of Internal Audit reports on core financial systems</li> <li>• early work on emerging accounting issues</li> <li>• early substantive testing</li> <li>• Value for Money conclusion risk assessment.</li> </ul>	February 2017	Yes	Reported in the Audit Plan
<b>Final accounts audit</b> Including: <ul style="list-style-type: none"> <li>• audit of the 2016/17 financial statements</li> <li>• proposed opinion on the Council's financial statements</li> <li>• proposed Value for Money conclusion</li> <li>• review of the Council's disclosures in the financial statements against the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16</li> </ul>	To commence June 2017	No	At the time of this report, the final accounts audit had not yet commenced, however we expect to be able to give a verbal update at Audit Committee



# Progress at 31 May 2017



2016/17 work	Planned Date	Complete?	Comments
<p><b>Value for Money (VfM) conclusion</b></p> <p>The scope of our work is unchanged to 2015/16 and is set out in the final guidance issued by the National Audit Office in November 2016. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".</p> <p>The guidance confirmed the overall criterion as; "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".</p> <p>The three sub criteria for assessment to be able to give a conclusion overall are:</p> <ul style="list-style-type: none"> <li>• Informed decision making</li> <li>• Sustainable resource deployment</li> <li>• Working with partners and other third parties</li> </ul>	<p>Initial risk assessment completed February 2017</p> <p>Conclusion will be given September 2017</p>	<p>No</p>	<p>We reported the results of our risk assessment in the Audit Committee in March, as detailed in our Audit Plan.</p> <p>The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report and in the Annual Audit Letter, which will be presented to Audit Committee in September 2017.</p> <p>We will include our conclusion in our auditor's report on your financial statements.</p>
<p><b>Grant claims and certification.</b></p> <p>We anticipate that we will be required to certify the Council's 2016/17 Housing benefit and council tax subsidy claim.</p>	<p>June 2017 to November 2017.</p>	<p>Not yet due</p>	<p>The work on the 2016/17 claim will be completed by 30 November 2017.</p>



# Sector issues and developments





## Local authority accounts – a guide to your rights

In addition to his statutory duties and powers in respect of the Code of Audit Practice and guidance to auditors, the Comptroller and Auditor General has agreed to maintain and publish Local authority accounts – a guide to your rights

This document provides information on how people can ask questions and raise objections about the accounts of their local authority

<https://www.nao.org.uk/code-audit-practice/council-accounts-a-guide-to-your-rights>

## LAAP BULLETIN 105 Closure of the 2016/17 Accounts and Related matters

This bulletin covers the closure of accounts and related matters for the 2016/17 year and provides further guidance and clarification to complement the 2016/17 *Code of Practice on Local Authority Accounting in the United Kingdom Guidance Notes for Practitioners* (Code Guidance Notes). It addresses frequently asked questions, and other issues that have arisen since the publication of the Code Guidance Notes.

The bulletin focuses on those areas that are expected to be relevant for most authorities. It is not intended to replace authorities' processes for identifying issues, but to complement them.

In addition, the bulletin addresses matters that will generally be applicable to authorities across England, Wales, Scotland and Northern Ireland.



# Grant Thornton





# The Board: creating and protecting value

## Our new cross sector Board Effectiveness Report

In all sectors, boards are increasingly coming under pressure from both the market and regulators in terms of effectiveness and accountability. Building on the success of our cross sector audit committee effectiveness survey- Knowing The Ropes, the Grant Thornton Governance Institute extended its research to look at the effectiveness of boards across the corporate, public and not for profit sectors.

This report raises key questions that all boards should ask themselves to challenge their effectiveness. Their organisations may operate in different sectors and be subject to a variety of statutory and governance requirements, but they all share a common overriding principle: the governing body is a collective charged with developing the organisation's purpose.

Key messages:

- There is a strong future focus on boards
- Executive behaviours tend to dominate - not the best scenario for good governance or an organisation's future focus
- There are strongly held opinions about the relationship between the board and the executive which will impact on efficiency
- More than 88% of respondents see their executives as being strong leaders of the organisation
- There is a clear focus on organisational culture and values across all sectors – 93% see the executive board members modelling the values of the organisation
- Non-executives also need to live and breathe those values – only 82% of respondents agreed that the non-executives inspire and guide the executive to realise the organisation's purpose
- Only 75% of respondents feel that the recruitment process of non-executives is rigorous, well-documented or transparent
- Over 60% of board members believe that there are adequate processes in place to evaluate performance

This report uses the DLMA analysis which categorises skills into four areas: Directorship, Leadership, Management and Assurance. This framework allows organisations to have a better understanding about where they are focusing their energies.

Download the report here: <http://www.grantthornton.co.uk/en/insights/the-board-creating-and-protecting-value/>

Grant Thornton reports

## The income spectrum

Helping local authorities to achieve revenue and strategic objectives to create a vibrant economies

### Grant Thornton market insight

Income generation is increasingly an essential part of the solution to providing sustainable local services, alongside managing demand reduction and cost efficiency. Our report gives local authorities the tools needed to maximise their ability to do so.

Our new research on income generation which includes our CFO Insights too suggests that:

- councils are increasingly using income generation to diversify their funding base, and are commercialising in a variety of ways. This ranges from fees and charges (household garden waste, car parking, private use of public spaces), asset management (utilities, personnel, advertising, wifi concession license) and company spin-offs (housing, energy, local challenger banks), through to treasury investments (real estate development, solar farms, equity investment).
- the ideal scenario to commercialise is investing to earn with a financial and social return. Councils are now striving to generate income in way which achieves multiple strategic outcomes for the same spend; examining options to balance budgets while simultaneously boosting growth, supporting vulnerable communities and protecting the environment.
- stronger commercialisation offers real potential for councils to meet revenue and strategic challenges for 2020 onwards. Whilst there are examples of good practice and innovation, this opportunity is not being fully exploited across the sector due to an absence of a holistic and integrated approach to corporate strategy development (a common vision for success, understanding current performance, selecting appropriate new opportunities, the capacity and culture to deliver change).

To support local authorities as they develop income generation strategies, the report provides:

- case study examples
- local authority spend analysis
- examples of innovative financial mechanisms
- critical success factors to consider





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*Report Number: WSC 62/17*

Presented by: Alastair Woodland, Assistant Director

Author of the Report: Alastair Woodland, Assistant Director

Contact Details:

Tel. No. Direct Line: 01823 356160

Email: Alastair.woodland@southwestaudit.co.uk

Report to a Meeting of: Audit Committee

To be Held on: 20<sup>th</sup> June 2017

## **INTERNAL AUDIT PLAN 2016-17 OUTTURN REPORT**

### **1. PURPOSE OF REPORT**

- 1.1 To update members on the Internal Audit Plan 2016-17 progress and bring to their attention any significant findings identified through our work.

### **2. CONTRIBUTION TO CORPORATE PRIORITIES**

- 2.1 Delivery of the corporate objectives requires strong internal control. The attached report provides a summary of the audit work carried out to date this year by the Council's internal auditors, South West Audit Partnership.

### **3. RECOMMENDATIONS**

- 3.1 Members are asked to note progress made in delivery of the 2016/17 internal audit plan and note the significant findings since previous update in March 2017.

### **4. RISK ASSESSMENT (IF APPLICABLE)**

- 4.1 Any organisation needs to have a well-established and systematic risk management framework in place to identify and mitigate the risks it may face. WSC has a risk management framework, and within that, individual internal audit reports deal with the specific risk issues that arise from the findings. These are translated into mitigating actions and timetables for management to implement. The most significant findings are reported to this committee in terms of significant corporate risks or in terms of high priority findings at an individual service level.

### **5. BACKGROUND INFORMATION**

This report summarises the work of the Council's Internal Audit Service and provides:

- Details of any new significant weaknesses identified during internal audit work completed since the last report to the committee in March 2017.

- A schedule of audits completed during the period, detailing their respective assurance opinion rating, the number of recommendations and the respective priority rankings of these.

**6. FINANCIAL/RESOURCE IMPLICATIONS**

6.1 There are no specific finance issues relating to this report.

**7. COMMENTS ON BEHALF OF SECTION 151 OFFICER**

7.1 No Specific comments.

**8. EQUALITY & DIVERSITY IMPLICATIONS**

8.1 There are no direct implications from this report.

**9. CRIME AND DISORDER IMPLICATIONS**

9.1 There are no direct implications from this report.

**10. CONSULTATION IMPLICATIONS**

10.1 There are no direct implications from this report.

**11. ASSET MANAGEMENT IMPLICATIONS**

11.1 There are no direct implications from this report.

**12. ENVIRONMENTAL IMPACT IMPLICATIONS**

12.1 There are no direct implications from this report.

**13. HEALTH & WELLBEING**

13.1 There are no direct implications from this report.

**14. LEGAL IMPLICATIONS**

14.1 There are no specific legal issues relating to this report.

# West Somerset Council

## Report of Internal Audit Activity

### Plan Progress 2016/17 Outturn

## Contents

### The contacts at SWAP in connection with this report are:

#### Gerry Cox

Chief Executive

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[gerry.cox@southwestaudit.co.uk](mailto:gerry.cox@southwestaudit.co.uk)

#### Ian Baker

Director of Quality

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[ian.baker@southwestaudit.co.uk](mailto:ian.baker@southwestaudit.co.uk)

#### Alastair Woodland

Assistant Director

Tel: 07872500675

[Alastair.woodland@southwestaudit.co.uk](mailto:Alastair.woodland@southwestaudit.co.uk)

➡	Role of Internal Audit	Page 1
➡	Internal Audit Work	Page 2
➡	Approved Changes to the Audit Plan	Page 3
➡	Appendices:	
	Appendix A – Internal Audit Definitions	Page 4 - 5
	Appendix B – Internal Audit Work Plan	Page 6 – 7
	Appendix C – Significant Risks & Partial Opinions	Page 8

## Internal Audit Plan Progress 2016/2017 Outturn

### Our audit activity is split between:

- **Operational Audit**
- **Governance Audit**
- **Key Control Audit**
- **IT Audit**
- **Grants**
- **Other Reviews**



### Role of Internal Audit

The Internal Audit service for the West Somerset Council is provided by South West Audit Partnership Limited (SWAP). SWAP is a Local Authority controlled Company. SWAP has adopted and works to the Standards of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS), and also follows the CIPFA Code of Practice for Internal Audit. The Partnership is also guided by the Internal Audit Charter approved by the Audit and Governance Committee at its meeting in March 2016.

Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work includes:

- Operational Audit Reviews
- Cross Cutting Governance Audits
- Annual Review of Key Financial System Controls
- IT Audits
- Grants
- Other Special or Unplanned Review

Internal Audit work is largely driven by an Annual Audit Plan. This is approved by the Section 151 Officer, following consultation with the Corporate Management Team and External Auditors. This year's Audit Plan was reported to this Committee and approved by this committee at its meeting in March 2016.

Audit assignments are undertaken in accordance with this Plan to assess current levels of governance, control and risk.

## Internal Audit Plan Progress 2016/2017 Outturn

### Outturn to Date:

We rank our recommendations on a scale of 1 to 5, with 1 being minor or administrative concerns to 5 being areas of major concern requiring immediate corrective action



### Internal Audit Work

The schedule provided at **Appendix B** contains a list of all audits as agreed in the Annual Audit Plan 2015/16. It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

Each completed assignment includes its respective “assurance opinion” rating together with the number and relative ranking of recommendations that have been raised with management. In such cases, the Committee can take assurance that improvement actions have been agreed with management to address these. The assurance opinion ratings have been determined in accordance with the Internal Audit “Audit Framework Definitions” as detailed in **Appendix A** of this document.

As agreed with this Committee where a review has a status of ‘Final’ and has been assessed as ‘Partial’ or ‘No Assurance’, I will provide further detail to inform Members of the key issues identified. Since the last update in March 2017 I am pleased to report that none of the reviews returned an adverse opinion. Therefore there are no significant weaknesses that I need to bring to your attention at this time in **Appendix C**.

## Internal Audit Plan Progress 2016/2017 Outturn

We keep our audit plans under regular review so as to ensure that we auditing the right things at the right time.



### Approved Changes to the Audit Plan

The audit plan for 2015/16 is detailed in **Appendix B**. Inevitably changes to the plan will be required during the year to reflect changing risks and ensure the audit plan remains relevant to West Somerset Council. Members will note that where necessary any changes to the plan throughout the year will have been subject to agreement with the appropriate Service Manager and the Audit Client Officer.

Since the March 2017 there are no further changes to the Audit Plan that I need to bring to your attention.

At the conclusion of audit assignment work each review is awarded a “Control Assurance Definition”;

- Substantial
- Reasonable
- Partial
- No Assurance



## Audit Framework Definitions

### Control Assurance Definitions

<b>Substantial</b>	▲ ★ ★ ★	I am able to offer substantial assurance as the areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.
<b>Reasonable</b>	▲ ★ ★ ★	I am able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
<b>Partial</b>	▲ ★ ★ ★	I am able to offer Partial assurance in relation to the areas reviewed and the controls found to be in place. Some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
<b>No Assurance</b>	▲ ★ ★ ★	I am not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

**Non-Opinion/Advice** – In addition to our opinion based work we will provide consultancy services. The “advice” offered by Internal Audit in its consultancy role may include risk analysis and evaluation, developing potential solutions to problems and providing controls assurance. Consultancy services from Internal Audit offer management the added benefit of being delivered by people with a good understanding of the overall risk, control and governance concerns and priorities of the organisation.



Recommendations are prioritised from 1 to 5 on how important they are to the service/area audited. These are not necessarily how important they are to the organisation at a corporate level.



## Audit Framework Definitions

### Categorisation of Recommendations


When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors; however, the definitions imply the importance.

- Priority 5: Findings that are fundamental to the integrity of the unit's business processes and require the immediate attention of management.
- Priority 4: Important findings that need to be resolved by management.
- Priority 3: The accuracy of records is at risk and requires attention.
- Priority 2: Minor control issues have been identified which nevertheless need to be addressed.
- Priority 1: Administrative errors identified that should be corrected. Simple, no-cost measures would serve to enhance an existing control.

Each audit covers key risks. Each audit a risk assessment is undertaken whereby with management risks for the review are assessed at the Corporate inherent level (the risk of exposure with no controls in place) and then once the audit is complete the Auditors assessment of the risk exposure at Corporate level after the control environment has been tested. All assessments are made against the risk appetite agreed by the SWAP Management Board.

### Definitions of Risk

Risk	Reporting Implications
Low	Issues of a minor nature or best practice where some improvement can be made.
Medium	Issues which should be addressed by management in their areas of responsibility.
High	Issues that we consider need to be brought to the attention of senior management.

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor			5 = Major		Comments
						Recommendation					
						1	2	3	4	5	
FINAL											
Governance, Fraud & Corruption	Absence Management	Q1	Final	Reasonable	5	0	0	5	0	0	
Follow up	Private Water Supplies	Q1	Final	Non-Opinion	0	0	0	0	0	0	
Governance, Fraud & Corruption	Members Expenses	Q1	Final	Reasonable	5	0	0	5	0	0	
Governance, Fraud & Corruption	Imprest/Cash Spot Checks	Q1	Final	Reasonable	8	0	0	8	0	0	
ICT	User Management <i>(Starters and Leavers - HR, Facilities, ICT)</i>	Q2	Final	Partial	9	0	0	7	2	0	
Operational Audits	Licensing	Q2	Final	Partial	6	0	0	5	1	0	
Follow up	Asset Management Follow Up	Q2	Final	Follow Up	8	0	1	3	4	0	
Governance, Fraud & Corruption	Building Control Partnership	Q3	Final	Non-Opinion	12						
Key Controls	Housing Benefits	Q3	Final	Reasonable	2	0	0	2	0	0	
Key Controls	Main Accounting	Q3	Final	Reasonable	5	0	0	5	0	0	
Key Controls	Creditors	Q3	Final	Reasonable	4	0	0	3	1	0	
Key Controls	Debtors	Q3	Final	Reasonable	5	0	0	5	0	0	
Key Controls	Council Tax & NNDR	Q3	Final	Substantial	3	0	0	3	0	0	
Operational Audits	Supported Housing (both Extra Care and Sheltered)	Q4	Final	Reasonable	5	0	0	5	0	0	

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor		↔	5 = Major		Comments
						Recommendation					
						1	2	3	4	5	
DRAFT											
Operational Audits	Capital Programme Approval & Monitoring / linked with Contract monitoring	Q2	Review								
Key Controls	Treasury Management	Q3	Draft	Substantial	0	0	0	0	0	0	
ICT	Help Desk <b>(New)</b>	Q4	Draft	Reasonable							
IN PROGRESS											
Governance, Fraud & Corruption	Information/Data Security/Data Protection	Q4	In Progress								
DROPPED											
ICT	Back-up routines <i>(Resilience)</i>	Q4	Replaced by Help desk								
Governance, Fraud & Corruption	Transformational Programme	Q4	Added to the 2017-18 Audit Plan								
Governance, Fraud & Corruption	Healthy Organisation	Q2	Dropped to accommodate the Building Control Partnership								

## Schedule of potential significant risks identified from Internal Audit work in the period March to June 2017

Ref	No	Name of Audit	Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action	Agreed Date of Action	Manager's Update (Date)
There are no significant findings to bring to the attention of the Audit Committee in this period.								

*Report Number: WSC 63/17*

Presented by: Alastair Woodland, Assistant Director

Author of the Report: Alastair Woodland, Assistant Director

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Report to a Meeting of: Audit Committee

To be Held on: 20<sup>th</sup> June 2017

## **INTERNAL AUDIT ANNUAL OPINION REPORT FOR 2016-17**

### **1. PURPOSE OF REPORT**

- 1.1 To inform the Audit Committee of the Annual Opinion Report 2016-17 from Internal Audit.

### **2. CONTRIBUTION TO CORPORATE PRIORITIES**

- 2.1 Delivery of the corporate objectives requires strong governance, risk management and internal controls. The attached report provides a summary on internal audit's view on the effectiveness of internal controls, risk management and governance based on the work completed during 2016-17.

### **3. RECOMMENDATIONS**

- 3.1 Members are asked to note Internal Audits Annual Opinion Report.

### **4. RISK ASSESSMENT (IF APPLICABLE)**

- 4.1 Any organisation needs to have a well-established and systematic risk management framework in place to identify and mitigate the risks it may face. WSC has a risk management framework, and within that, individual internal audit reports deal with the specific risk issues that arise from the findings. These are translated into mitigating actions and timetables for management to implement. The most significant findings are reported to this committee in terms of significant corporate risks or in terms of high priority findings at an individual service level.

### **5. BACKGROUND INFORMATION**

- 5.1 The Accounts and Audit Regulations (England) 2015 requires public authorities to publish an Annual Governance Statement (AGS). The Statement is an annual review of the Systems of Internal Control and gathers assurance from various sources to support it. One such source is Internal Audit. The Head of Internal Audit should provide a written annual report to those charged with governance to support the AGS. This report provides that opinion based on the work undertaken during 2016-17.

**6. FINANCIAL/RESOURCE IMPLICATIONS**

6.1 There are no specific finance issues relating to this report.

**7. COMMENTS ON BEHALF OF SECTION 151 OFFICER**

7.1 The Internal Audit opinion on the control environment has been noted for the Annual Governance Statement.

**8. EQUALITY & DIVERSITY IMPLICATIONS**

**Members need to demonstrate that they have consciously thought about the three aims of the Public Sector Equality Duty as part of the decision making process.**

The three aims the authority **must** have due regard for:

- Eliminate discrimination, harassment, victimisation
- Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it

8.1 There are no direct implications from this report.

**9. CRIME AND DISORDER IMPLICATIONS**

9.1 There are no direct implications from this report.

**10. CONSULTATION IMPLICATIONS**

10.1 There are no direct implications from this report.

**11. ASSET MANAGEMENT IMPLICATIONS**

11.1 There are no direct implications from this report.

**12. ENVIRONMENTAL IMPACT IMPLICATIONS**

12.1 There are no direct implications from this report.

**13. HEALTH & WELLBEING**

13.1 There are no direct implications from this report.

**14. LEGAL IMPLICATIONS**

14.1 There are no specific legal issues relating to this report.

# West Somerset Council

## Report of Internal Audit Activity

### Annual Opinion Report 2016/17

## Contents

### The contacts at SWAP in connection with this report are:

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### Summary:

Purpose & Background

Page 1-2

Annual Opinion

Page 3-4



### Summary of Audit Work:

Internal Audit Work Programme

Page 5

Significant Corporate Risks

Page 6

Summary of Audit Opinions 2016-17

Page 7

Yearly Comparison of Priority Actions

Page 8



### Plan Performance:

Added Value

Page 9 - 10

SWAP Performance

Page 11 -12



### Appendices:

Appendix A – Audit Framework Definitions

Page 13-14

Appendix B – Summary of Work Plan

Page 15-16



## Summary

**The Assistant Director is required to provide an opinion to support the Annual Governance Statement.**



### Purpose

The Accounts and Audit Regulations (England) 2015 requires public authorities to publish an Annual Governance Statement (AGS). The Statement is an annual review of the Systems of Internal Control and gathers assurance from various sources to support it. One such source is Internal Audit. The Head of Internal Audit should provide a written annual opinion report to those charged with governance to support the AGS. This report should include the following:

- an opinion on the overall adequacy and effectiveness of the organisation's risk management systems and internal control environment;
- disclose any qualifications to that opinion, together with the reasons for the qualification;
- present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies;
- draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement;
- compare the work undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and criteria;
- comment on compliance with these standards and communicate the results of the internal audit quality assurance programme.

The purpose of this report is to satisfy this requirement and Members are asked to note its content and the Annual Internal Audit Opinion given.

## Summary

The Assistant Director is required to provide an opinion to support the Annual Governance Statement.

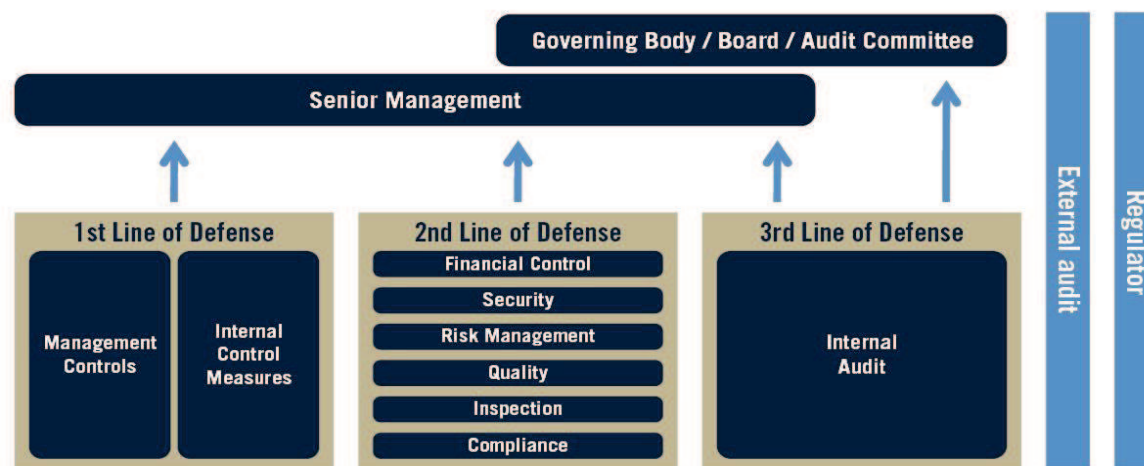


### Background

The Internal Audit service for West Somerset Council is provided by the South West Audit Partnership Limited (SWAP). SWAP is a Local Authority controlled Company. SWAP has adopted and works to the Standards of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS). The Partnership is also guided by the Internal Audit Charter which is reviewed annually. Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness through the work based on the Annual Plan agreed by Senior Management and this Committee.

The position of Internal Audit within an organisation's governance framework is best summarised in the three lines of defence model shown below.

### The Three Lines of Defense Model



Adapted from ECIIA/FERMA *Guidance on the 8th EU Company Law Directive, article 41*

## Internal Audit Annual Opinion 2016/17

The Assistant Director is required to provide an opinion to support the Annual Governance Statement.



### Annual Opinion

This Annual Report gives the opinion of the Assistant Director on the adequacy and effectiveness of internal control, governance and risk management within West Somerset Council. Internal Audit has not reviewed all risks and assurances relating to West Somerset Council and cannot provide absolute assurance on the internal control environment. Our opinion is derived from the completion of the risk based internal audit plan at [Appendix B](#), and as such it is one source of assurance on the adequacy of the internal control environment.

Members through the various committees are ultimately responsible for ensuring an effective system of internal control. The purpose of internal control is to manage risk rather than eliminate it. Getting the balance of internal control right is essential for organisational success—to knowingly take risk rather than be unwittingly exposed to it. Under control could expose the organisation to unacceptable risk and destroy value as over control takes valuable resources and can create inefficiency. Therefore, the Internal Control Environment needs the right balance to help West Somerset Council to deliver its services with ever decreasing resources.

For the 2016-17 audit plan for West Somerset Council there will be a total of 18 reviews delivered. In agreement with management, and previously reported to this Committee, some reviews were 'exchanged' or 'removed' as the need to respond to new and emerging risks was identified.

All reviews except two have been completed to report stage. Of the 18 2016-17 reviews, 13 have returned opinions with only two (15%) having received Partial Assurance. I am encouraged by the management response and readiness to accept and address the matters raised in audit reports. There have been two (15%) reviews that have received a Substantial Assurance and this is highly commendable with, nine (70%) reviews also receiving Reasonable Assurance.

## Internal Audit Annual Opinion 2016/17

The Assistant Director is required to provide an opinion to support the Annual Governance Statement.

I have considered the balance of audit work in 2016-17 and the assurance levels provided, profile of each audit and outcomes together with the response from Senior Management and offer '**Reasonable Assurance**' in respect of the areas reviewed during the year, as most were found to be adequately controlled. Generally, risks are well managed but some areas require the introduction or improvement of internal controls to ensure the achievement of objectives.

In keeping with the public sector in general, there continues to be challenges for the Senior Management at West Somerset Council. If the Secretary of State for Communities and Local Government approves the formation of a new Council covering West Somerset and Taunton Deane there will be significant challenges and risks ahead to ensure this is delivered successfully. In particular, the utilisation of officers/staff on the transformation project could have an impact in the short term on the effectiveness of the control environment and performance of the authority. Acceptable risk taking will be required to deliver the transformation project successfully.

## Summary of Audit Work 2016/17

Our audit activity is split between:

- Operational Audits
- Key Control Audits
- Governance, Fraud & Corruption Audits
- IT Audits
- Special Reviews
- Follow-up



### Internal Audit Work Programme

The schedule provided at **Appendix B** contains a list of all audits agreed for inclusion in the Annual Audit Plan 2016-17 and the final outturn for the financial year. In total, 18 will be delivered. It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

Of the 18 reviews in the revised 2016-17 audit plan, they are broken down as follows:

Type of audit	2016-17 original plan	2016-17 revised plan
• Operational Audits	3	3
• Information Systems	2	2
• Key Control	6	6
• Governance, Fraud & Corruption	6	5
• Grants	0	0
• Special Reviews	0	0
• Follow-up	2	2
• TOTAL	19	18

The variation in relation to the total number of projects relates to the deferred Transformation Programme audit, which has been added to the 2017-18 plan.

## Summary of Audit Work 2016/17

### Significant Corporate Risks

Identified Significant Corporate Risks should be brought to the attention of the Audit Committee.



### Significant Corporate Risks

Where a risk is assessed as inherently high within an audit review and further assessed as high after we have tested the controls in place it is to be considered as a significant risk for consideration by Senior Management.

During 2016-17 the following are risks that were identified as High from our audits undertaken as contained in **Appendix B**.

Review/Risks	Auditors Assessment
<b>Licensing (2016-17)</b> 'Licence Fees are charged in excess of the Service's 'reasonable costs' and/or the Service's 'reasonable costs' are excessive.	High

Note that this review is due to be followed up in quarter 1 of the 2017-18 Audit Plan.

## Summary of Audit Work 2016/17

### SWAP Performance - Summary of Audit Opinions

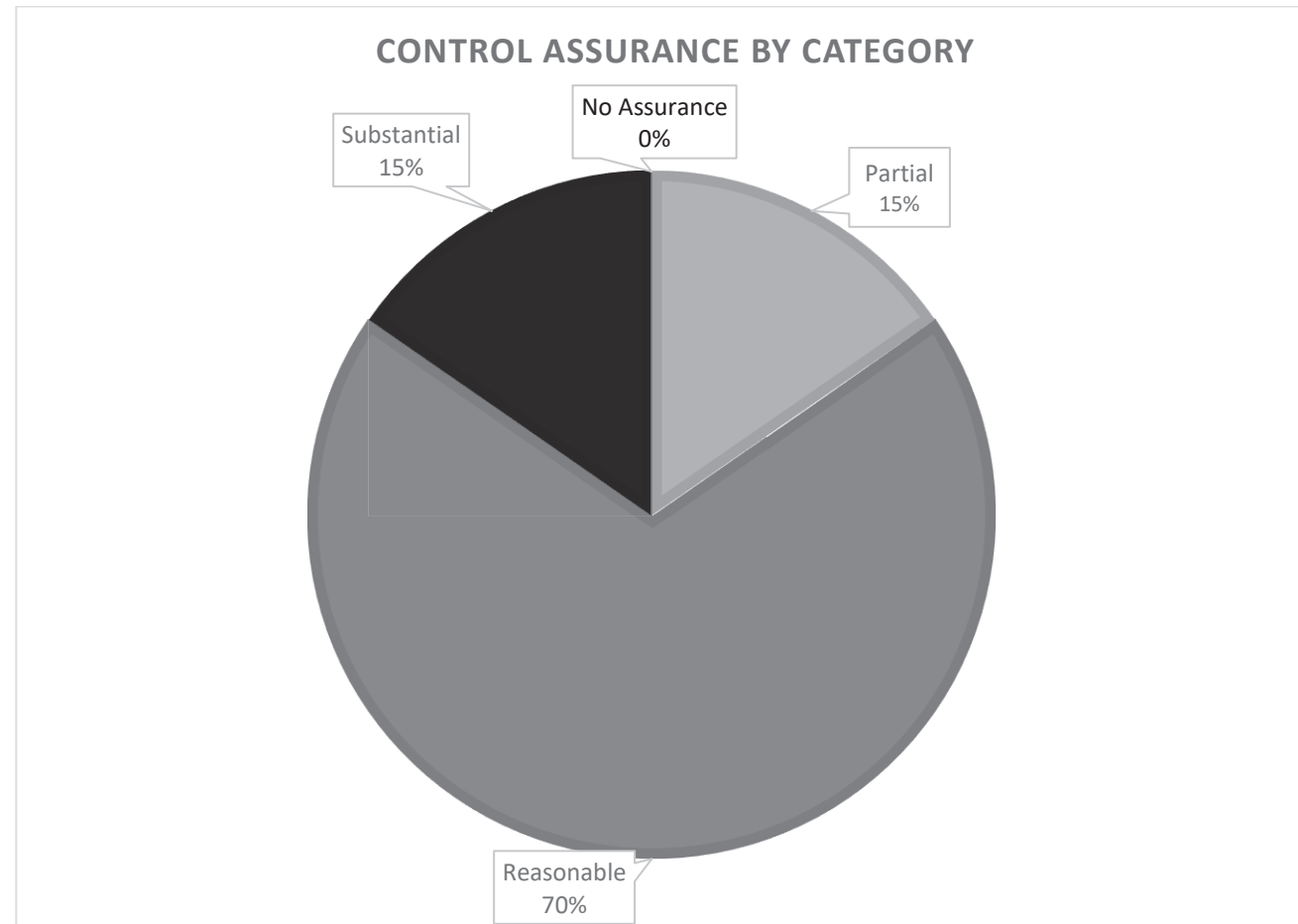
At the conclusion of audit assignment work each review is awarded a "Control Assurance Definition";

- Substantial
- Reasonable
- Partial
- No Assurance



### Summary of Audit Opinion

Out of the 16 reviews, of those at Final or Draft where there is an opinion (13 reviews), the breakdown is as follows:



## Summary of Audit Work 2016/17

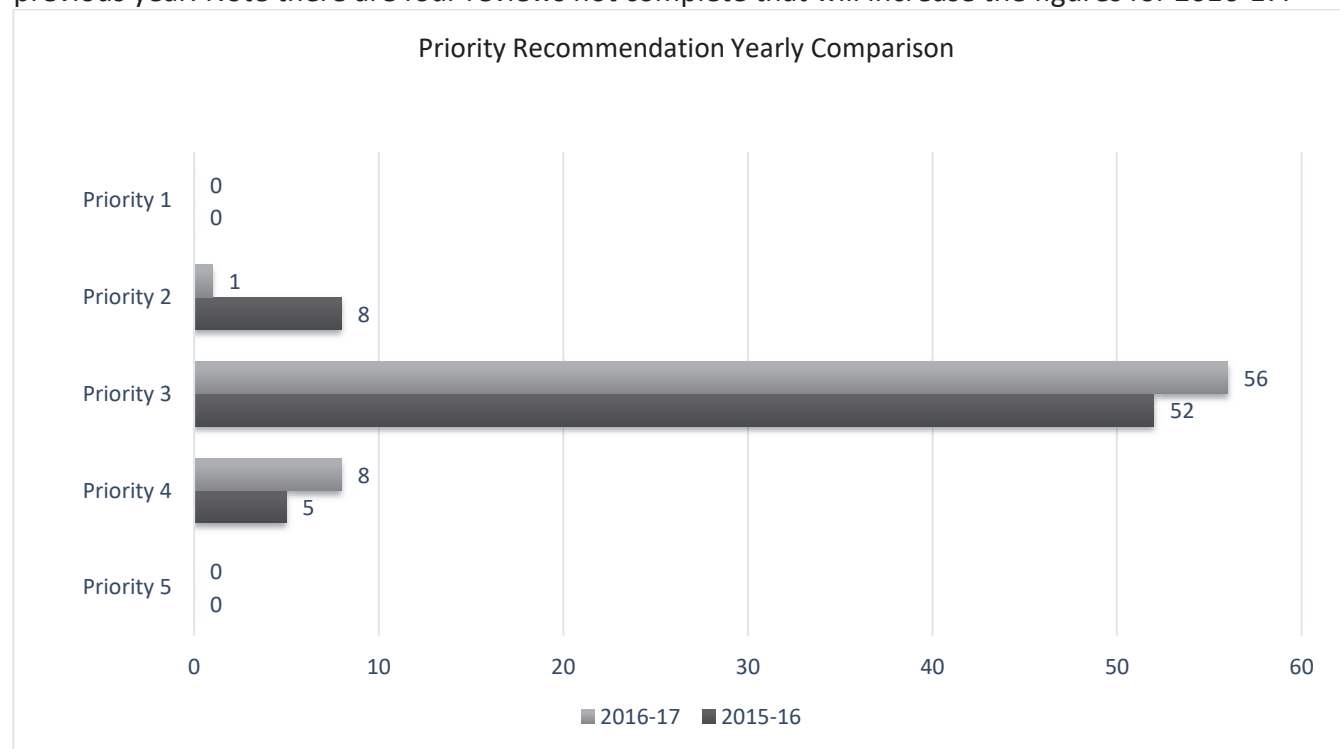
### SWAP Performance - Summary of Audit Recommendations by Priority

We rank our recommendations on a scale of 1 to 5, with 1 being minor or administrative concerns to 5 being areas of major concern requiring immediate corrective action



### Priority Actions

When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. Therefore recommendations are assessed as to how important they are to the scope of the area audited. Priority 5 recommendations being more important than priority 1. All recommendations as currently contained in **Appendix B** are summarised below and compared to the previous year. Note there are four reviews not complete that will increase the figures for 2016-17.





### Added Value

Extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something more while adding little or nothing to its cost.



### Added Value

Primarily Internal Audit is an assurance function and will remain as such. However, as we complete our audit reviews and through our governance audit programmes across SWAP we seek to bring information and best practice to managers to help support their systems of risk management and control. The SWAP definition of “added value” is; “it refers to extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something "more" while adding little or nothing to its cost”.

In addition to audits undertaken in [Appendix B](#), where requested by client officers we look to share risk information, best practice and benchmarking data/information. The following are some of the areas where TDBC has requested or participated in enabling us to produce benchmarking reports across the partnership:

- Regular fraud bulletins highlighting where there are attempted frauds and what officers need to be on the lookout for.
- Comparison of debt recovery policies across all SWAP Partners
- Planning Fees Refund comparison resulting from the Planning Guarantee that was introduced on the 1 October 2013 and steps to ensure the LA does not fall foul of the Guarantee.
- Comparison of Social Media Policies across SWAP partners for best practice.
- Health & Safety Training Comparison across SWAP partners.
- Section 151 Officer Assurance Map.
- Pest Control Survey Comparison on structure, costs and pricing.
- Cyber Security Staff Awareness and Training Advice Report.
- Fees & Charges comparison to see if there was a clear rationale, and calculations to support the fees and charges set, for the sample of discretionary services.

- Equality Impact Assessment Process Comparison.
- Audit Committee Work Plans comparison.
- Land Charges Service comparison on staffing structure, response times & workload.
- Housing Benefits Service Delivery performance comparison.

## Plan Performance 2015/16

The Assistant Director for SWAP reports performance on a regular basis to the SWAP Management and Partnership Boards.



### SWAP Performance

SWAP now provides the Internal Audit service for 18 Councils, 3 Police Authorities and 3 Office of Police Crime Commissioners and also many subsidiary bodies. SWAP performance is subject to regular monitoring review by both the Board and the Member Meetings. The respective outturn performance results for West Somerset Council for the 2016-17 year are as follows;

Performance Target	Average Performance
<b><u>Audit Plan – Percentage Progress</u></b> Final, Draft and Discussion Fieldwork Completed awaiting report In progress	88% 88% 100%
<b><u>Draft Reports</u></b> Issued within 5 working days	56%
<b><u>Final Reports</u></b> Issued within 10 working days of draft report	33%
<b><u>*Quality of Audit Work</u></b> Customer Satisfaction Questionnaire	84%

\*At the close of each audit review a Customer Satisfaction Questionnaire is sent out to the Service Manager or nominated officer. The aim of the questionnaires is to gauge satisfaction against timeliness, quality and professionalism. A score of 80% would reflect the fact that the client agreed that the review was delivered to a good standard of quality, i.e. agreed with the statement in the questionnaire and satisfied with the audit process and report.

The Assistant Director for SWAP reports performance on a regular basis to the SWAP Management and Partnership Boards.



### SWAP Performance

Internal audit is responsible for conducting its work in accordance with the Code of Ethics and Standards for the Professional Practice of Internal Auditing as set by the Institute of Internal Auditors and further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS). SWAP has been independently assessed and found to be in Conformance with the Standards.

SWAP carried out such an assessment in 2012 and again in 2016. SWAP was found to be in full conformance to the International Professional Practices Framework and the PSIAS. As a result of the quality review, a Quality Assessment Improvement Plan (QAIP) is produced. This document is a live document, reviewed regularly by the SWAP Board to ensure continuous improvement.

At the conclusion of audit assignment work each review is awarded a “Control Assurance Definition”;

- Substantial
- Reasonable
- Partial
- No Assurance



## Audit Framework Definitions

### Control Assurance Definitions

<b>Substantial</b>	▲ ★ ★ ★	I am able to offer substantial assurance as the areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.
<b>Reasonable</b>	▲ ★ ★ ★	I am able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
<b>Partial</b>	▲ ★ ★ ★	I am able to offer Partial assurance in relation to the areas reviewed and the controls found to be in place. Some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
<b>No Assurance</b>	▲ ★ ★ ★	I am not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

**Non-Opinion/Advice** – In addition to our opinion based work we will provide consultancy services. The “advice” offered by Internal Audit in its consultancy role may include risk analysis and evaluation, developing potential solutions to problems and providing controls assurance. Consultancy services from Internal Audit offer management the added benefit of being delivered by people with a good understanding of the overall risk, control and governance concerns and priorities of the organisation.

Recommendations are prioritised from 1 to 5 on how important they are to the service/area audited. These are not necessarily how important they are to the organisation at a corporate level.



## Audit Framework Definitions

### Categorisation of Recommendations

When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors; however, the definitions imply the importance.


- Priority 5: Findings that are fundamental to the integrity of the unit's business processes and require the immediate attention of management.
- Priority 4: Important findings that need to be resolved by management.
- Priority 3: The accuracy of records is at risk and requires attention.
- Priority 2: Minor control issues have been identified which nevertheless need to be addressed.
- Priority 1: Administrative errors identified that should be corrected. Simple, no-cost measures would serve to enhance an existing control.

Each audit covers key risks. Each audit a risk assessment is undertaken whereby with management risks for the review are assessed at the Corporate inherent level (the risk of exposure with no controls in place) and then once the audit is complete the Auditors assessment of the risk exposure at Corporate level after the control environment has been tested. All assessments are made against the risk appetite agreed by the SWAP Management Board.

### Definitions of Risk

Risk	Reporting Implications
Low	Issues of a minor nature or best practice where some improvement can be made.
Medium	Issues which should be addressed by management in their areas of responsibility.
High	Issues that we consider need to be brought to the attention of Senior Management and the Audit Committee.

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ↔ 5 = Major				
						Recommendation				
						1	2	3	4	5
Governance, Fraud & Corruption	Absence Management	Q1	Final	Reasonable	5	0	0	5	0	0
Follow up	Private Water Supplies	Q1	Final	Non-Opinion	0	0	0	0	0	0
Governance, Fraud & Corruption	Members Expenses	Q1	Final	Reasonable	5	0	0	5	0	0
Governance, Fraud & Corruption	Imprest/Cash Spot Checks	Q1	Final	Reasonable	8	0	0	8	0	0
ICT	User Management (Starters and Leavers - HR, Facilities, ICT)	Q2	Final	Partial	9	0	0	7	2	0
Operational Audits	Licensing	Q2	Final	Partial	6	0	0	5	1	0
Follow up	Asset Management Follow Up	Q2	Final	Follow Up	8	0	1	3	4	0
Governance, Fraud & Corruption	Building Control Partnership	Q3	Final	Non-Opinion	12					
Key Controls	Housing Benefits	Q3	Final	Reasonable	2	0	0	2	0	0
Key Controls	Creditors	Q3	Final	Reasonable	4	0	0	3	1	0
Key Controls	Debtors	Q3	Final	Reasonable	5	0	0	5	0	0
Key Controls	Council Tax & NNDR	Q3	Final	Substantial	3	0	0	3	0	0
Key Controls	Main Accounting	Q3	Final	Reasonable	5	0	0	5	0	0
Operational Audits	Supported Housing (both Extra Care and Sheltered)	Q4	Final	Reasonable	5	0	0	5	0	0

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor			5 = Major	
						Recommendation				
						1	2	3	4	5
Operational Audits	Capital Programme Approval & Monitoring / linked with Contract monitoring	Q2	Review							
Key Controls	Treasury Management	Q3	Draft	Substantial	0	0	0	0	0	0
ICT	Help Desk <b>(New)</b>	Q4	Draft	Reasonable	5	0	0	5	0	0
Governance, Fraud & Corruption	Information/Data Security/Data Protection	Q4	In Progress							
ICT	Back-up routines (Resilience) – <i>Replaced with Help Desk.</i>	Q4	Dropped							
Governance, Fraud & Corruption	Transformational Programme – <i>Moved to 2017-18 Plan as additional review</i>	Q4	Dropped							
Governance, Fraud & Corruption	Healthy Organisation – <i>Replaced with Building Control review.</i>	Q2	Dropped							



Report Number: WSC 64/17

## West Somerset District Council

### Audit Committee – 20 June 2017

#### Review of Effectiveness of Internal Audit

Report Author: Richard Doyle, Corporate Strategy and Performance Officer

#### 1 Purpose of the Report

- 1.1 To inform the Audit Committee of the recent review of the effectiveness of the delivery of Internal Audit through SWAP (South West Audit Partnership) during 2016/17.

#### 2 Recommendations

- 2.1 The Audit Committee is requested to note the findings of the review of effectiveness of internal audit for 2016/17.

#### 3 Risk Assessment

##### Risk Matrix

Description	Likelihood	Impact	Overall
The Authority fails to maintain an adequate system of internal control; monitored and controlled by internal audit leading to financial exposure and reputational and operational risk	3	4	12
The Authority has put in place suitable internal audit arrangements.	1	4	4

### Risk Scoring Matrix

<b>Likelihood</b>	5	Almost Certain	Low (5)	Medium (10)	High (15)	Very High (20)	Very High (25)
	4	Likely	Low (4)	Medium (8)	Medium (12)	High (16)	Very High (20)
	3	Possible	Low (3)	Low (6)	Medium (9)	Medium (12)	High (15)
	2	Unlikely	Low (2)	Low (4)	Low (6)	Medium (8)	Medium (10)
	1	Rare	Low (1)	Low (2)	Low (3)	Low (4)	Low (5)
			1	2	3	4	5
			Negligible	Minor	Moderate	Major	Catastrophic
			<b>Impact</b>				

<b>Likelihood of risk occurring</b>	<b>Indicator</b>	<b>Description (chance of occurrence)</b>
1. Very Unlikely	May occur in exceptional circumstances	< 10%
2. Slight	Is unlikely to, but could occur at some time	10 – 25%
3. Feasible	Fairly likely to occur at same time	25 – 50%
4. Likely	Likely to occur within the next 1-2 years, or occurs occasionally	50 – 75%
5. Very Likely	Regular occurrence (daily / weekly / monthly)	> 75%

## 4 Background and Full Details of the Report

- 4.1 The South West Audit Partnership (SWAP) is a partnership that provides the Internal Audit service to all of the six Somerset authorities. In total SWAP provides audit services for 18 Councils, 3 Police Authorities, 3 Office of Police Crime Commissioners as well as a number of related bodies such as the Somerset Waste Partnership.
- 4.2 Internal audit forms a part of the corporate governance and internal control framework that provides accountability to stakeholders on all areas of the Council Plan. Their opinion on the adequacy and effectiveness of the Council's internal control framework forms a part of the evidence used in preparing the corporate Annual Governance Statement (AGS) for 2016/17, which will be published alongside the Council's Statement of Accounts in September 2017.
- 4.3 There are several statutory requirements regarding Internal Audit:
- The Accounts and Audit (England) Regulations 2011 require authorities to review the effectiveness of the system of Internal Audit. They also state "A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control." Section 151 of the Local Government Act 1972 states

that every local authority in England and Wales should “make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs.” CIPFA has defined “proper administration” as including “compliance with the statutory requirements for accounting and internal audit”.

- The CIPFA Statement on the Role of the Chief Finance Officer in Local Government states that the Chief Finance Officer (CFO) must:
  - Ensure an effective internal audit function is resourced and maintained;
  - Ensure that the authority has put in place effective arrangements for internal audit of the control environment;
  - Support the authority’s internal audit arrangements: and;
  - Ensure that the Audit Committee receives the necessary advice and information, so that both functions can operate effectively.

- 4.4 Therefore it is important that the findings of the review of the effectiveness of the system of Internal Audit are considered by a committee such as the Audit Committee as a part of the consideration of the system of internal control. This review has to be carried out by someone independent of SWAP.

## **5. Compliance with PSIAS and Local Government Application Note**

- 5.1 The 2006 CIPFA Code of Practice for Internal Audit has been superseded by the Public Sector Internal Audit Standards (PSIAS) and a Local Government Application Note on the 1<sup>st</sup> April 2013 that sets out how an internal audit function should be fulfilled. The main focus is the internal audit service itself, but the Standards also refer to the wider elements of the “system of internal audit”, including the importance of the direct relationship between Internal Audit and the Audit Committee. The Standards cover:

- Purpose, authority, and responsibility;
- Independence and objectivity;
- Proficiency and due professional care;
- Quality Assurance and Improvement Programme;
- Managing the Internal Audit Activity;
- Nature of Work;
- Engagement Planning;
- Performing the Engagement;
- Communicating Results;
- Monitoring Progress.
- Communicating the acceptance of risks

## **6. The Review of Internal Audit (SWAP)**

- 6.1 West Somerset Councils’ review of Internal Audit has been carried out by the Council’s S151 Officer. The findings have been reported as part of the overall evaluation and will also provide supporting evidence for the Annual Governance Statement. The following criteria were used in the evaluation:

- Annual report and opinion of the Assistant Director of SWAP;
- Audit plan and monitoring reports; Reports on significant findings; Key performance measures and service standards;

- View of the Council's External Auditor covering the extent of reliance placed on internal audit work on key financial systems.

6.2 The table below shows some of the overall performance of the service during the year compared to the previous three years:

<b>Performance Measure</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016-17</b>
Levels of satisfaction from feedback questionnaires	86%	83% (Issued 6 Returned 4)	80% (Issued 5 Returned 2)	84%
Audits and reviews completed in year compared to the plan (all at least at final draft stage)	88% + 2 audits deferred by client	58% + 2 audits dropped (11 out of 19 audits completed)	59% End of March (100% for year)	83% end of March
Key Controls audits completed in year compared to plan	100%	80%	50% end of March (100% for year)	100%
Total completed audits and reviews	15 (2 deferred)	11 (+ 7 draft & 1 in progress)	11 (+ 5 draft & 1 in progress)	14 (+ 3 draft & 1 in progress)
Cost of audit service to WSC	£56,780	£56,780	£56,780	£56,780
Number of actions for improvements agreed by managers.	48	100	65	65*
No of audit recommendations considered High Risk (Priority 5)	0	0	0	0
Value for Money – average cost of audit day compared to private sector (benchmarking)	SWAP = £280 Private Sector = £320	SWAP = £280 Private Sector = Not Benchmarked	SWAP = £280 Private Sector = Not benchmarked	SWAP = £280 Private Sector = Not benchmarked
SWAP A/Cs outturn on spend compared to budget – (brackets indicate net income)	Budget (£0) Actual (£97,840)	Budget (£73,890) Actual (£120,900)	Budget (£85,812) Surplus  Actual (projected) (£44,600) Surplus	Budget ( <b>not yet available</b> ) Surplus  Actual (projected) ( <b>not yet available</b> ) Surplus

\* Only in relation to assignments at final report stage.

- 6.3 The table shows that the satisfaction from client feedback questionnaires for the audits carried out at WSC is broadly consistent with previous years.
- 6.4 The average cost of an 'audit day' for SWAP remains unchanged at £280.
- 6.5 In total 83% of the audit plan for 2016/17 has been delivered by 31 March 2017. SWAP are committed to completing the plan and are on track to deliver 100% of the plan. The process of Internal Audit requires engagement from TDBC officers at all levels and with competing delivery priorities with services and late changes to the audit plan there will be invariably some delays and work carried over from the 31 of March.
- 6.6 There were no new high priority recommendations (service level priority 5) in 2016/17.
- 6.7 The outturn position for SWAP is likely to show that, as in previous years, the partnership makes a surplus from operations.
- 6.8 As SWAP is a company limited by guarantee the Directors of the company will be required to act in the interests of the company. The Section 151 Officer has access to the SWAP Management Team to influence service delivery and priorities from a customer's perspective. Additionally, the 'Members Board', which is comprised of Elected Member representatives from each partner authority, meets quarterly to review the performance of the company.

## 7. Service Standards

- 7.1 In assessing SWAP's performance it is important to review the standards of service to ensure that each authority is afforded the same standards and also senior officer time. The following table outlines the minimum standards to be introduced and whether they would have been delivered for West Somerset Council had they been in place:

Service Standard	Expected Standard	Delivery of Standard
<b>Attendance by SWAP Chief Executive / Director of Quality at Audit Committee.</b>	At least 1 times per annum	1 time in 2016/17
<b>Attendance by Audit Assistant Director at Audit Committee.</b>	At least 4 times per annum	4 times in 2016/17
<b>Attendance by SWAP Chief Executive at Corporate Governance Officer Group</b>	4 times per annum	0 times (Was Attended by Assistant Director SWAP). Note group has not met 4 times this year.
<b>Liaison meetings with S151 Officer and Audit Assistant Director.</b>	6 times per annum	Monthly meetings were held with the Assistant Director for SWAP and relevant TDBC Client Officers.

<b>Agreement of Audit Plan:</b>		
Prepared for Management Board/S151	By mid-January each year	Delivered
Prepared for Audit Committee	By end January each year	Prepared by end February and presented to March 2017 meeting
Audit Plan monitoring reports	4 times per annum including Annual Report	4 times (quarterly report) per annum
<b>Agreement of Audit Charter:</b>		
Prepared for Management Board/S151	By mid-January each year	Delivered.
Prepared for Audit Committee	By end January each year	Presented to Corporate Governance Committee in March 2017.
<b>To assist with member/officer training in audit and governance</b>	As necessary	Two half day sessions were held for Members in the autumn of 2016.

## 8. 2016/17 Action Plan

8.1 The following shows progress against the actions to be completed in 2016/17:

- SWAP to work with TDBC to ensure that the percentage of audits completed in year for 2016/17 increases to 95% of the audit plan delivered (with the remaining 5% delivered in the first 2 months of the following year).

CURRENT STATUS: As at time of writing this report SWAP were on track to completing 100% of the 2016/17 plan.

- Improving engagement with TDBC as a customer of SWAP so as to ensure TDBC are aware at an early point of known changes to service delivery, changes to key personnel or other relevant matters affecting the delivery of audit services to the Council.

CURRENT STATUS: Monthly liaison meetings are held. Any issues with the progress of audits are raised for TDBC client officers to pursue.

- SWAP to undertake a review of the current report template structure in order to identify improvements in clarity and content, in consultation with client officers.

CURRENT STATUS: This has been completed and we now have consistent reports across the two councils in a useful and easy to read format

- Current Key Performance Indicators (KPIs) will be reviewed and where necessary new ones will be introduced in consultation with client officers.

CURRENT STATUS: Ongoing

**10. Actions to be completed in 2017/18**

10.1 The following new actions are to be progressed during 2017/18:-

- To update and maintain the Quality Assurance and Improvement Programme

**11. Links to Corporate Aims / Priorities**

11.1 It is the responsibility of the S151 Officer to ensure the Authority has put in place effective arrangements for internal audit of the control environment and systems of internal control as required by professional standards and in line with CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom.

**12 Finance / Resource Implications**

12.1 There are no financial implications arising from this report.

**13 Legal Implications**

13.1 There are no direct legal implications within this report although poor governance arrangements, leading to unmitigated risks could expose the Council to unanticipated claims / litigation. An effective internal audit function helps mitigate these risks.

**14 Environmental Impact Implications**

14.1 There are no implications in respect of this report.

**15 Safeguarding and/or Community Safety Implications**

15.1 There are no implications in respect of this report.

**16 Equality and Diversity Implications**

16.1 There are no implications in respect of this report.

**17 Social Value Implications**

17.1 There are no implications in respect of this report.

**18 Partnership Implications**

18.1 There are no implications in respect of this report.

**19 Health and Wellbeing Implications**

19.1 There are no implications in respect of this report.

**20 Asset Management Implications**

20.1 There are no implications in respect of this report.

**21 Consultation Implications**

21.1 There are no implications in respect of this report.

**Democratic Path:**

- **Audit Committee – Yes**
- **Cabinet – No**
- **Full Council – No**

**Reporting Frequency: Annually**

**Contact Officers**

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*Report Number:* WSC 65/17

*Presented by:* Cllr M Chilcott, Lead Member for Resources

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*Report to a Meeting of:* Audit Committee

*To be Held on:* 20<sup>th</sup> June 2017

## TREASURY MANAGEMENT OUTTURN REPORT 2016/17

### 1 PURPOSE OF REPORT

- 1.1 To review the treasury management activity and the performance against the Prudential Indicators for the 2016/17 financial year as prescribed by the revised CIPFA Code of Practice and in accordance with the Council's Treasury Management Strategy and Annual Investment Policy.

### 2 CONTRIBUTION TO CORPORATE PRIORITIES

- 2.1 None directly in relation to this report.

### 3 RECOMMENDATIONS

- 3.1 To note the Treasury Management activity for the 2016/17 financial year (Appendix A) before recommendation to Full Council for approval.

### 4 RISK ASSESSMENT (IF APPLICABLE)

**Risk Matrix**

Description	Likelihood	Impact	Overall
The Council fails to maintain an adequate system of internal control	Possible (2)	Major (3)	Medium (6)
<i>The Council has an agreed TMSS and effective management practices to ensure compliance</i>	(1)	(2)	(2)

The scoring of the risks identified in the above table has been based on the scoring matrix. Each risk has been assessed and scored both before the mitigation measures have been actioned and after.

## **5 BACKGROUND INFORMATION**

- 5.1 On 24 February 2016 the Council approved the Treasury Management Strategy Statement, Minimum Revenue Provision Policy and Annual Investment Strategy for 2016/17 in line with the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").
- 5.2 The Council is required to receive and approve, as a minimum, three main reports each year, these being the Treasury Management Strategy Statement, a Half Year Update and an Outturn Report (this report), which incorporate a variety of policies, estimates and actuals.
- 5.3 These reports are required to be adequately scrutinised by committee before being recommended to the Council. This role is undertaken by the Audit Committee.
- 5.4 Treasury management in this context is defined as:
- "The management of the local authority's cash flows, its borrowings and its investments, the management of the associated risks, and the pursuit of the optimum performance or return consistent with those risks".
- 5.5 Overall responsibility for treasury management remains with the Council. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives.

## **6 FINANCIAL/RESOURCE IMPLICATIONS**

- 6.1 The Treasury Management function has been well-managed during the year in compliance with the Treasury Management Strategy Statement. As interest rates remain low the opportunities to generate significant income through investments has been limited.
- 6.2 Appendix A provides full details of the Treasury Management activity during the year. A summary of the key points follows:
- As at 31 March 2017, West Somerset's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £5.347m, while usable reserves and working capital which were the underlying resources available for investment were £10,825,000.
  - As at 31 March 2017, West Somerset had no external borrowing and £16.885m of investments, of which £10.874m are in respect of Hinkley S106 funds managed by the Council.
  - The Authority's current strategy was to maintain borrowing and investments below their underlying levels, referred to as internal borrowing.
- 6.3 The Council currently has no external loans, however, finance officers will continue to monitor the need to borrow closely.

## **7      SECTION 151 OFFICER COMMENTS**

- 7.1      Effective management of the Council's cash flow, investments and borrowing arrangements are an important part of the governance, risk management, and financial control arrangements. The Council manages significant cash flows on a daily basis, and uses appropriately skilled staff within the Finance 'One Team' to monitor and manage these within the parameters set by the Council through the Treasury Management Strategy. The Council is also supported in delivering its treasury management arrangements through advice from our external treasury management advisors Arlingclose.

## **8      EQUALITY & DIVERSITY IMPLICATIONS**

**Members need to demonstrate that they have consciously thought about the three aims of the Public Sector Equality Duty as part of the decision making process.**

The three aims the authority **must** have due regard for:

- Eliminate discrimination, harassment, victimisation
- Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it

- 8.1      None in respect of this report.

## **9      CRIME AND DISORDER IMPLICATIONS**

- 9.1      None in respect of this report.

## **10     CONSULTATION IMPLICATIONS**

- 10.1     None in respect of this report.

## **11     ASSET MANAGEMENT IMPLICATIONS**

- 11.1     None in respect of this report.

## **12     ENVIRONMENTAL IMPACT IMPLICATIONS**

- 12.1     None in respect of this report.

## **13     LEGAL IMPLICATIONS**

- 13.1     The S151 Officer has a legal requirement to ensure appropriate arrangements are in place to adequately control the Council's resources.

## Prudential Indicator Outturn Report 2016/17

**Introduction:** The Local Government Act 2003 requires the Council to have regard to the Chartered Institute of Public Finance and Accountancy's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

This report compares the approved indicators with the outturn position for 2016/17. Actual figures have been taken from, or prepared on a basis consistent with, the Council's Statement of Accounts 2016/17. Therefore, these figures will be subject to the findings of the external audit by Grant Thornton.

**Capital Expenditure:** The Council's capital expenditure and financing may be summarised as follows.

<b>Capital Expenditure and Financing</b>	<b>2016/17 Estimate £m</b>	<b>2016/17 Actual £m</b>	<b>Difference £m</b>
General Fund	0.376	<b>3.911</b>	<b>3.535</b>
<b>Total Expenditure</b>	<b>0.376</b>	<b>3.911</b>	<b>3.535</b>
Capital Receipts	(0.018)	(1.007)	(0.989)
Government Grants	(0.358)	(0.496)	(0.138)
Reserves	0.000	(0.036)	(0.036)
Revenue	0.000	(0.086)	(0.086)
Planning Obligation Grants	0.000	(2.286)	(2.286)
<b>Total Financing</b>	<b>(0.376)</b>	<b>(3.911)</b>	<b>(3.535)</b>

The 'Actual' figures above includes all schemes approved by Members during 2016/17 and therefore also includes any carry forwards put forward as part of the Revenue and Capital Outturn Report 2016/17 reported to Scrutiny Committee at its meeting on 15 June 2017.

This also includes expenditure of £2.286m which is being financed by Planning Obligation Grants received, either as Hinkley-Funded Schemes (£2.123m) or General-Funded Schemes (£0.163m).

**Capital Financing Requirement:** The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose.

<b>Capital Financing Requirement</b>	<b>31/03/17 Estimate £m</b>	<b>31/03/17 Actual £m</b>	<b>Difference £m</b>
General Fund	5.347	<b>5.347</b>	0.000
<b>Total CFR</b>	<b>5.347</b>	<b>5.347</b>	<b>0.000</b>

The CFR fell in line with what was estimated in the Treasury Management Strategy Statement approved in February 2016, as capital expenditure financed by debt was outweighed by resources put aside for debt repayment.

**Actual Debt:** The Council had no external debt as at 31<sup>st</sup> March 2017.

**Gross Debt and the Capital Financing Requirement:** In order to ensure that over the medium term debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

<b>Debt and CFR</b>	<b>31/03/17 Estimate £m</b>	<b>31/03/17 Actual £m</b>	<b>Difference £m</b>
Total debt	0	<b>0</b>	0
Capital financing requirement	5.347	<b>5.347</b>	0
<b>Headroom</b>	<b>5.347</b>	<b>5.347</b>	<b>0</b>

Total debt remained below the CFR during the forecast period.

**Operational Boundary for External Debt:** The Operational Boundary is based on the Council's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring.

<b>Operational Boundary and Total Debt</b>	<b>31/03/17 Boundary £m</b>	<b>31/03/17 Actual Debt £m</b>	<b>Complied</b>
Borrowing	7.700	<b>0.000</b>	✓
<b>Total Debt</b>	<b>7.700</b>	<b>0.000</b>	✓

**Authorised Limit for External Debt:** The Authorised Limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit and Total Debt	31/03/17 Boundary £m	31/03/17 Actual Debt £m	Complied
Borrowing	10.000	0.000	✓
<b>Total Debt</b>	<b>10.000</b>	<b>0.000</b>	✓

**Ratio of Financing Costs to Net Revenue Stream:** This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	31/03/17 Estimate %	31/03/17 Actual %	Difference %
General Fund	0.00	-0.83	-0.83

The actual percentage is -0.83%. The reason for this negative percentage is due to the fact that at the current point in time the Council does not have any external borrowing and therefore no borrowing costs are charged to the Revenue Account against investment income returns received. The Council does however have 'internal borrowing' for which it makes a Minimum Revenue Provision (MRP) charge, however in 2016/17 it was approved that this charge would be funded from Capital Receipts set aside and therefore does not fall as a charge on the Revenue Account.

**Adoption of the CIPFA Treasury Management Code:** The Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* in March 2012.

# Treasury Management Outturn Report 2016/17

## **Introduction**

The Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code) requires the Council to approve a treasury management annual report after the end of each financial year.

This report fulfils the Council's legal obligation to have regard to the CIPFA Code.

The Council's treasury management strategy for 2016/17 was approved at Full Council on 24 February 2016 and can be found on the website at the following address: <http://www.westsomersetonline.gov.uk/Council---Democracy/Council-Meetings/Full-Council/Full-Council---24-February-2016>

The Council has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy.

## **External Context – Commentary by Arlingclose**

**Economic background:** Politically, 2016/17 was an extraordinary twelve month period which defied expectations when the UK voted to leave the European Union and Donald Trump was elected the 45<sup>th</sup> President of the USA. Uncertainty over the outcome of the US presidential election, the UK's future relationship with the EU and the slowdown witnessed in the Chinese economy in early 2016 all resulted in significant market volatility during the year. Article 50 of the Lisbon Treaty, which sets in motion the 2-year exit period from the EU, was triggered on 29<sup>th</sup> March 2017.

UK inflation had been subdued in the first half of 2016 as a consequence of weak global price pressures, past movements in sterling and restrained domestic price growth. However the sharp fall in the Sterling exchange rate following the referendum had an impact on import prices which, together with rising energy prices, resulted in CPI rising from 0.3% year/year in April 2016 to 2.3% year/year in March 2017.

In addition to the political fallout, the referendum's outcome also prompted a decline in household, business and investor sentiment. The repercussions on economic growth were judged by the Bank of England to be sufficiently severe to prompt its Monetary Policy Committee (MPC) to cut the Bank Rate to 0.25% in August and embark on further gilt and corporate bond purchases as well as to provide cheap funding for banks via the Term Funding Scheme to maintain the supply of credit to the economy.

Despite growth forecasts being downgraded, economic activity was fairly buoyant and GDP grew 0.6%, 0.5% and 0.7% in the second, third and fourth calendar quarters of 2016. The labour market also proved resilient, with the ILO unemployment rate dropping to 4.7% in February, its lowest level in 11 years.

Following a strengthening labour market, in moves that were largely anticipated, the US Federal Reserve increased rates at its meetings in December 2016 and March 2017, taking the target range for official interest rates to between 0.75% and 1.00%.

**Financial markets:** Following the referendum result, gilt yields fell sharply across the maturity spectrum based on the view that Bank Rate would remain extremely low for the foreseeable future. After September there was a reversal in longer-dated gilt yields which moved higher, largely due to the MPC revising its earlier forecast that Bank Rate would be dropping to near 0% by the end of 2016. The yield on the 10-year gilt rose from 0.75% at the end of September to 1.24% at the end of December, almost back at pre-referendum levels of 1.37% on 23<sup>rd</sup> June. 20- and 50-year gilt yields also rose in Q3 2017 to 1.76% and 1.70% respectively, however, in Q4 yields remained flat at around 1.62% and 1.58% respectively.

After recovering from an initial sharp drop in Q2, equity markets rallied, although displaying some volatility at the beginning of November following the US presidential election result. The FTSE-100 and FTSE All Share indices closed at 7,342 and 3,996 respectively on 31<sup>st</sup> March, both up 18% over the year. Commercial property values fell around 5% after the referendum, but had mostly recovered by the end of March.

Money market rates for overnight and one week periods remained low since Bank Rate was cut in August. 1- and 3-month LIBID rates averaged 0.36% and 0.47% respectively during 2016-17. Rates for 6- and 12-months increased between August and November, only to gradually fall back to August levels in March, they averaged 0.6% and 0.79% respectively during 2016-17.

**Credit background:** Various indicators of credit risk reacted negatively to the result of the referendum on the UK's membership of the European Union. UK bank credit default swaps saw a modest rise but bank share prices fell sharply, on average by 20%, with UK-focused banks experiencing the largest falls. Non-UK bank share prices were not immune, although the fall in their share prices was less pronounced.

Fitch and Standard & Poor's downgraded the UK's sovereign rating to AA. Fitch, S&P and Moody's have a negative outlook on the UK. Moody's has a negative outlook on those banks and building societies that it perceives to be exposed to a more challenging operating environment arising from the 'leave' outcome.

None of the banks on the Council's lending list failed the stress tests conducted by the European Banking Authority in July and by the Bank of England in November, the latter being designed with more challenging stress scenarios, although Royal Bank of



Scotland was one of the weaker banks in both tests. The tests were based on banks' financials as at 31st December 2015, 11 months out of date for most. As part of its creditworthiness research and advice, the Council's treasury advisor Arlingclose regularly undertakes analysis of relevant ratios - "total loss absorbing capacity" (TLAC) or "minimum requirement for eligible liabilities" (MREL) - to determine whether there would be a bail-in of senior investors, such as local authority unsecured investments, in a stressed scenario.

## **Local Context**

As at 31<sup>st</sup> March 2017, the Council had no external borrowing and £16.885m (£10.874m S106 Hinkley Funds) of investments. This is an increase on 2016 of £0.527m.

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment.

These factors and the year-on-year change are summarised in table 1 below.

**Table 1: Balance Sheet Summary**

	<b>31/03/16 Actual £m</b>	<b>2016/17 Movement £m</b>	<b>31/03/17 Actual £m</b>
General Fund CFR	5,490	(143)	5,347
Less: Usable reserves	(8,130)	1,290	(6,840)
Add: Working capital	2,198	1,787	3,985
<b>Net Investments</b>	<b>(442)</b>	<b>2,934</b>	<b>2,492</b>

Over the year the Council has reduced its CFR. However, this may increase going forward as a result of the need to borrow externally to provide a loan to the Somerset Waste Partnership (SWP) as approved in the 2017/18 Budget Setting Report and Treasury Management Strategy Statement. Appropriate advice will be sought from Arlingclose should this become necessary. The timing of the loan to Waste Partnership has not yet been finalised. We will therefore assess the need to borrow externally when we have actual dates.

The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low. The treasury management position as at 31 March 2017 and the year-on-year change is shown in table 2 below.

Table 2: Treasury Management Summary

	<b>31/03/16 Balance £m</b>	<b>2016/17 Movement £m</b>	<b>31/03/17 Balance £m</b>
Long-term borrowing	0.000	0.000	0.000
Short-term borrowing	0.000	0.000	0.000
<b>Total borrowing</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>
Long-term investments	2.997	(2.498)	0.499
Short-term investments	6.014	6.378	12.392
Cash and cash equivalents	3.482	0.615	4.097
<b>Total investments</b>	<b>12.493</b>	<b>4.495</b>	<b>16.988</b>
<b>Net Investments</b>	<b>12.493</b>	<b>4.495</b>	<b>16.988</b>

Note: the figures in the table are from the balance sheet in the Council's Statement of Accounts.

## **Borrowing Activity**

As at 31 March 2017, the Council had no external borrowing, no change from the position as at 31 March 2016.

The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective.

In furtherance of these objectives, no new borrowing was undertaken in 2016/17. This strategy enabled the Council to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

The "cost of carry" analysis performed by the Council's treasury management advisor Arlingclose did not indicate any value in borrowing in advance for future years' planned expenditure and therefore none was taken.

## **Investment Activity**

The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2016/17, the Council's investment balance ranged between £14.07m (£10.16m S106 Hinkley Funds) and £24.43m (£12.26m S106 Hinkley Funds).

The year-end investment position and the year-on-year change is shown in table 3 below.

Table 3: Investment Position As At 31 March 2017

	<b>31/03/16 Balance £m</b>	<b>2016/17 Movement £m</b>	<b>31/03/17 Balance £m</b>	<b>31/03/17 Rate %</b>
Banks & building societies (unsecured)	0.197	0.179	0.376	0.23%
Covered bonds (secured)	3.000	0.000	3.000	
Government (incl. local authorities)	6.000	3.874	9.874	
Money Market Funds	3.597	0.038	3.635	
<b>Total investments</b>	<b>12.794</b>	<b>4.091</b>	<b>16.885</b>	<b>0.23%</b>

Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2016/17.

## **Performance Report**

The average cash balances were £19.593m during the year including S106 Hinkley funds. The UK Bank Rate was reduced to 0.25% in August 2016. Short-term money market rates have remained at relatively low levels (see Table 1 in Appendix 2). New deposits were made at an average rate of 0.30%. Investments in Money Market Funds generated an average rate of 0.31%.

The Council's General Fund budgeted investment income for the year was £0.015m. The Council's investment outturn for the year was £0.028m. NB additionally £0.030m of investment income has been achieved during the year and allocated to the Hinkley S106 funds.

## **Compliance Report**

The Section 151 Officer is pleased to report that all treasury management activities undertaken during 2016/17 complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 4 below.

**Table 4: Investment Limits**

	<b>2016/17 Maximum</b>	<b>31/03/17 Actual</b>	<b>2016/17 Limit</b>	<b>Complied</b>
Any single organisation, except UK Government	£2m	£0m	£2m	✓
Any group of funds under the same management	£2m per Manager	£0m	£2m per Manager	✓
Investments held in a broker's nominee account	£5m per Broker	£0m	£5m per Broker	✓
Foreign countries	£2m per Country	£0m	£2m per Country	✓
Registered Providers	£5m in Total	£0m	£5m in Total	✓
Loans to unrated corporates	£2m in Total	£0m	£2m in Total	✓
Money Market Funds	£10m in Total	£3.6m	£10m in Total	✓
Non-specified investments	£14m	£0m	£14m	✓

Compliance with the authorised limit and the operational boundary for external debt is demonstrated in table 5 below.

**Table 5: Debt Limits**

	<b>2016/17 Maximum</b>	<b>31/03/17 Actual</b>	<b>2016/17 Operational Boundary</b>	<b>2016/17 Authorised Limit</b>	<b>Complied</b>
Borrowing	0	0	£7.7m	£10.0m	✓
<b>Total debt</b>	<b>0</b>	<b>0</b>	<b>£7.7m</b>	<b>£10.0m</b>	<b>✓</b>

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure. Total debt was never above the operational boundary during 2016/17.

Included as part of the 2017/18 Treasury Management Strategy Statement approved by Full Council in February 2017, it was agreed to increase both the operational boundary and authorised limit for external debt to £12m and £24m respectively. These increases reflect the potential borrowing requirement of up to £3.5m to support a loan to SWP, and also incorporate scope to consider further schemes (not currently developed) where capital investment may deliver income generation and/or revenue savings to the Council. These would be assessed following strong business case principles.

## **Treasury Management Indicators**

The Council measures and manages its exposures to treasury management risks using the following indicators.

**Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment.

	<b>31/03/17 Actual</b>	<b>2016/17 Target</b>	<b>Complied</b>
Portfolio average credit rating	AA	A-	✓

The above target of A- was recommended by the Council's Treasury Management advisors, Arlingclose, as the minimum rating West Somerset should achieve in relation to its investments placed during the year. On a quarterly basis the Council submits details of its current investments and Arlingclose produce an investment benchmarking document, which as at 31 March 2017, reported that West Somerset had an average credit rating of AA, which is above the recommendation suggested by Arlingclose. This therefore means that the Council's investments are exposed to less credit risk than is recommended by our advisors.

**Liquidity:** The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period.

	<b>31/03/17 Actual</b>	<b>2016/17 Target</b>	<b>Complied</b>
Total cash available within 3 months	£14.00m	£3.50m	✓

During 2016/17 a decision was taken to move investments to shorter durations and therefore this is reflected in the table above showing £14.0m was available within 3 months as at 31 March 2017.

**Interest Rate Exposures:** This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed was:

	<b>31/03/17 Actual</b>	<b>2016/17 Limit</b>	<b>Complied</b>
Upper limit on fixed interest rate exposure	58.00%	100.00%	✓
Upper limit on variable interest rate exposure	42.00%	100.00%	✓

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

As at 31 March 2017 investment returns ranged between 0.10% (investments held in the Debt Management Office and Call Accounts held with National Westminster Bank) and 0.68% (Covered Bond – Floating Rate Note).

**Maturity Structure of Borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing were:

	<b>31/03/17 Actual</b>	<b>Upper Limit</b>	<b>Lower Limit</b>	<b>Complied</b>
Under 12 months	0%	100%	0%	✓
12 months and within 24 months	0%	100%	0%	✓
24 months and within 5 years	0%	100%	0%	✓
5 years and within 10 years	0%	100%	0%	✓

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

**Principal Sums Invested for Periods Longer than 364 days:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>
Actual principal invested beyond year end	£0.5m	£0	£0
Limit on principal invested beyond year end	£6m	£6m	£6m
Complied	✓	✓	✓







Report Number: WSC 66/17

# West Somerset District Council

## Audit Committee – 20 June 2017

### Draft Annual Governance Statement 2016/17

Report Author: Richard Doyle, Corporate Strategy & Performance Manager

#### 1 Purpose of the Report

Local authorities are required to prepare an Annual Government Statement (AGS) to be transparent about their compliance with good governance principles. This includes reporting on how they have monitored and evaluated the effectiveness of their governance arrangements in the previous year, and setting out any planned changes in the coming period.

This report outlines the changes to the format of the Statement as recommended in good practice guidance, and sets out a review of actions from last year's Statement and a proposed set of actions for the 2017/18 year.

#### 2 Recommendations

##### 2.1 It is recommended that:-

Members of the Audit Committee are asked to review the draft Annual Governance Statement attached to this report and to recommend its adoption by the Leader of the Council and the Chief Executive.

#### 3 Risk Assessment

##### Risk Matrix

Description	Likelihood	Impact	Overall
None in respect of this report			

#### 4. Changes to the format of the Annual Governance Statement (AGS)

##### 4.1 Good practice guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA) has led to changes to the format of this year's Statement. Previously the Council's AGS included a good deal of description about the Council's governance arrangements in addition to providing a set of actions and an opinion on the Council's governance.

However, best practice now requires that Statements shed the description in order to give greater prominence to:

- An opinion on the Council's governance arrangements from the Council's senior managers and the leader of the Council
- A review of the effectiveness of the Council's governance arrangements
- A review of the action plan from last year's statement
- An action plan for 2017/18

The AGS for 2016/17 will now follow this structure.

- 4.2.1 The Corporate Governance Officers Group has led the 2016/17 review of the governance framework. The group includes the Monitoring Officer (Assistant Chief Executive), the deputy s151 Officer the internal Audit Manager, the Assistant Director Corporate Services and the Corporate Strategy & Performance Manager
- 4.3 The conclusions from this review is that overall, the council's governance framework is reasonable and fit for purpose.
- 4.4 The draft Annual Governance Statement is appended to this report.

## **5 Links to Corporate Aims / Priorities**

- 5.1 This report includes highlights of progress against delivery of the corporate priorities.

## **6 Finance / Resource Implications**

- 6.1 None in respect of this report.

## **7 Legal Implications**

The Accounts and Audit Regulations 2015 require councils to undertake an annual review of their governance. The Regulations require that an Annual Governance Statement prepared to fulfil this requirement should form part of the Council's Statement of Accounts. The report is therefore coming to the Committee to meet this purpose and that timescale. The Regulations also state that the Annual Governance Statement should be prepared in accordance with proper practices. Compliance with the CIPFA guidance (*Delivering Good Governance in Local Government: Framework (2016)*) fulfils this requirement and I confirm that the Statement put forward with this report is compliant with that guidance/framework.

## **8 Environmental Impact Implications**

- 8.1 None in respect of this report.

## **9 Safeguarding and/or Community Safety Implications**

- 9.1 None in respect of this report.

## **10 Equality and Diversity Implications**

10.1 There are no equality and diversity implications associated with this report.

## **11 Social Value Implications**

11.1 There are no Social Value implications associated with this report.

## **12 Partnership Implications**

12.1 None associated with this report.

## **13 Health and Wellbeing Implications**

13.1 None associated with this report.

## **14 Asset Management Implications**

14.1 None associated with this report.

## **15 Consultation Implications**

15.1 The Annual Governance Statement has been developed by the Corporate Governance Officers Group which includes the deputy S151 officer.

### **Democratic Path:**

- **Audit Committee - Yes**
- **Scrutiny – No**
- **Cabinet – No**
- **Full Council – No**

**Reporting Frequency: Annually**

### **List of Appendices (delete if not applicable)**

Appendix A	Draft Annual Governance Statement 2016/17
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### **Contact Officers**

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# Annual Governance Statement 2016/17

## INTRODUCTION

1. This is West Somerset's District Council's Annual Governance Statement for 2016/17. It provides:
  - An *opinion* on the Council's governance arrangements from the Council's Chief Executive and the Leader of the Council
  - A review of the *action plan* from last year's statement
  - An *action plan for 2017/18*
  - A review of the *effectiveness* of the Council's governance arrangements
2. The Statement will be published on the Council's website and will also form part of the Council's Statement of Accounts. The Annual Governance Statement is required by Regulation 6(1) (b) of the Accounts and Audit (England) Regulations 2015.

## STATEMENT OF OPINION

It is our opinion that the Council's governance arrangements in 2016/17 were sound and give reasonable assurance in order to achieve the Council's priorities and challenges in 2017/18.

## SIGNATURES

Signed on behalf of West Somerset District Council

.....

Date .....

.....

Date .....

Penny James  
Chief Executive

Cllr Anthony Trollope-Bellew  
Leader of the Council

## SIGNIFICANT GOVERNANCE ISSUES

### Progress in 2016/17

3. This is a review of the progress during 2016/17 on the priorities for that year:

<b>Actions that were planned for 2016/17</b>	<b>Progress</b>	<b>Status</b>
Introduce a corporate process for reviewing and documenting decisions regarding the prioritisation of internal audit recommendations.	There is now a process in place and the Corporate Governance are satisfied that in the current climate it is fit for purpose. There is no need for a further review	<b>Completed and Closed</b>
Facilitate a self-assessment of the effectiveness of the Corporate Governance Committee (based upon CIPFA guidance 2013) and identify training needs flowing from this.	Audit Committee Training was provided by SWAP in October 2016 and received positive feedback. Good progress made on self-assessment for members but this will need to continue. More training planned to be provided by SWAP in 2017/18	<b>In Progress and ongoing</b>
Undertake a review of the Scrutiny/ Decision-Making Processes within the Council to ensure it is efficient and effective in terms of both officer and member involvement	Following the Council's decision in the summer of 2016 this will be progressed as part of Transformation and the possible new Council implementation.	<b>Completed and closed</b>

## Action Plan for 2017/18

4. This is an Action Plan of particular governance priorities that the Council will address during 2017/18.

	<b>Action now planned for 2017/18</b>	<b>Timescale for Completion</b>	<b>Monitoring Body</b>
<b>1</b>	Review our approach to the Risk Management culture. Research and consider risk appetite statements, improving manager's perception of risk and taking into account good practice elsewhere.	March 2018	Audit Governance Officer Group
<b>2</b>	To prepare the Audit Governance process for Transformation and the possibility of a new Council	March 2018	Audit Governance Officer Group

## **Reviewing Our Effectiveness**

West Somerset District Council has responsibility for conducting, at least annually, a review of its governance framework including the effectiveness of the system of internal control.

The review for the 2016/17 statement was carried out on 5<sup>th</sup> June 2017 by officers of the Corporate Officers Governance Group, made up of the Internal Audit Manager, Section 151 Officer, Monitoring Officer and the Corporate Strategy & Performance Manager.

The review of the effectiveness is informed by senior managers within the Council who have responsibility for the development and maintenance of the governance environment, and also by the work of the internal auditors and external auditors

The opinion of the Internal Auditors was that overall the control environment was reasonable in 2016/17 (the opinion was also "reasonable" in 2015/16).

In its review of effectiveness, the Authority has assessed its overall governance arrangements remain adequate and fit for purpose.

Some areas where further improvements could be made have been identified and have been included within the 2017/18 Action Plan which we will seek to address during the 2017/18 financial year.

## AGS Process and Sources of Assurance Overview

