

# Audit Committee

**Thursday 25 January 2018**  
**10.00 am Luttrell Room - County Hall,**  
**Taunton**



To: The Members of the Audit Committee

Cllr D Ruddle (Chairman), Cllr N Bloomfield (Vice-Chair), Cllr S Coles, Cllr M Caswell, Cllr B Filmer, Cllr P Ham, Cllr J Lock, Cllr M Rigby and Cllr J Thorne

Issued By Julian Gale, Strategic Manager - Governance and Risk - 17 January 2018

For further information about the meeting, please contact Neil Milne on 01823 359045 or [ndmilne@somerset.gov.uk](mailto:ndmilne@somerset.gov.uk)

Guidance about procedures at the meeting follows the printed agenda.

This meeting will be open to the public and press, subject to the passing of any resolution under Section 100A (4) of the Local Government Act 1972.

This agenda and the attached reports and background papers are available on request prior to the meeting in large print, Braille, audio tape & disc and can be translated into different languages. They can also be accessed via the council's website on [www.somerset.gov.uk/agendasandpapers](http://www.somerset.gov.uk/agendasandpapers)



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# AGENDA

Item        Audit Committee - 10.00 am Thursday 25 January 2018

**\* Public Guidance notes contained in agenda annexe \***

1            **Apologies for absence**

2            **Declarations of Interest**

Details of all Members' interests in District, Town and Parish Councils will be displayed in the meeting room. The Statutory Register of Member's Interests can be inspected via the Community Governance team.

3            **Minutes from the meeting held on 23 November 2017** (Pages 9 - 12)

The Committee is asked to confirm the minutes are accurate.

4            **Public Question Time**

The Chairman will allow members of the public to present a petition on any matter within the Committee's remit. Questions or statements about any matter on the agenda for this meeting will be taken at the time when each matter is considered.

5            **Section 106 Partial Audit** (Pages 13 - 18)

To consider a report and receive a presentation.

6            **External Audit - Progress Report and Audit Plan** (Pages 19 - 48)

To consider these reports.

7            **Internal Audit - Progress report** (Pages 49 - 70)

To consider this report.

8            **Risk Management Update** (Pages 71 - 98)

To consider this report.

9            **Committee Future Workplan** (Pages 99 - 102)

To consider this report

10          **Anti-Fraud and Corruption Review - Appendix 2 is attached for Committee Members Only** (Pages 103 - 132)

The Committee is asked to consider these reports, please note Appendix 2 is Confidential and not for publication and attached for Committee members only. Where it is intended to discuss any matter within Appendix 2 then the Committee will be recommended to consider passing the following resolution:

Exclusion of Press and Public:

Item            Audit Committee - 10.00 am Thursday 25 January 2018

To consider passing a resolution under Section 12A of the Local Government Act, 1972 that the press and public be excluded from the remainder of the meeting on the basis that if they were present during the business to be transacted there would be a likelihood of disclosure to them of exempt information of the following description:

Information relating to the financial or business affairs of any particular person (including the Authority holding that information).

11            **Any other urgent items of business**

The Chair may raise any items of urgent business.

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## Guidance notes for the meeting

### 1. Inspection of Papers

Any person wishing to inspect Minutes, reports, or the background papers for any item on the Agenda should contact the Committee Administrator for the meeting – Michael Bryant on Tel (01823) 359048 or 357628; Fax (01823) 355529 or Email: [mbryant@somerset.gov.uk](mailto:mbryant@somerset.gov.uk)  
They can also be accessed via the council's website on [www.somerset.gov.uk/agendasandpapers](http://www.somerset.gov.uk/agendasandpapers)

### 2. Members' Code of Conduct requirements

When considering the declaration of interests and their actions as a councillor, Members are reminded of the requirements of the Members' Code of Conduct and the underpinning Principles of Public Life: Honesty; Integrity; Selflessness; Objectivity; Accountability; Openness; Leadership. The Code of Conduct can be viewed at: <http://www.somerset.gov.uk/organisation/key-documents/the-councils-constitution/>

### 3. Minutes of the Meeting

Details of the issues discussed and recommendations made at the meeting will be set out in the Minutes, which the Committee will be asked to approve as a correct record at its next meeting.

### 4. Public Question Time

If you wish to speak, please tell Michael Bryant, the Committee's Administrator, by 12 noon the (working) day before the meeting.

At the Chairman's invitation you may ask questions and/or make statements or comments about any matter on the Committee's agenda – providing you have given the required notice. You may also present a petition on any matter within the Committee's remit. The length of public question time will be no more than 30 minutes in total.

A slot for Public Question Time is set aside near the beginning of the meeting, after the minutes of the previous meeting have been signed. However, questions or statements about any matter on the Agenda for this meeting may be taken at the time when each matter is considered.

You must direct your questions and comments through the Chairman. You may not take direct part in the debate. The Chairman will decide when public participation is to finish.

If there are many people present at the meeting for one particular item, the Chairman may adjourn the meeting to allow views to be expressed more freely. If an item on the Agenda is contentious, with a large number of people attending the meeting, a representative should be nominated to present the views of a group.

An issue will not be deferred just because you cannot be present for the meeting. Remember that the amount of time you speak will be restricted, normally to two minutes only.

## **5. Exclusion of Press & Public**

If when considering an item on the Agenda, the Committee may consider it appropriate to pass a resolution under Section 100A (4) Schedule 12A of the Local Government Act 1972 that the press and public be excluded from the meeting on the basis that if they were present during the business to be transacted there would be a likelihood of disclosure of exempt information, as defined under the terms of the Act.

## **6. Committee Rooms & Council Chamber and hearing aid users**

To assist hearing aid users the following Committee meeting rooms have infra-red audio transmission systems (Luttrell room, Wyndham room, Hobhouse room). To use this facility we need to provide a small personal receiver that will work with a hearing aid set to the T position. Please request a personal receiver from the Committee's Administrator and return it at the end of the meeting.

## **7. Recording of meetings**

The Council supports the principles of openness and transparency. It allows filming, recording and taking photographs at its meetings that are open to the public - providing this is done in a non-disruptive manner. Members of the public may use Facebook and Twitter or other forms of social media to report on proceedings and a designated area will be provided for anyone wishing to film part or all of the proceedings. No filming or recording may take place when the press and public are excluded for that part of the meeting. As a matter of courtesy to the public, anyone wishing to film or record proceedings is asked to provide reasonable notice to the Committee Administrator so that the relevant Chairman can inform those present at the start of the meeting.

We would ask that, as far as possible, members of the public aren't filmed unless they are playing an active role such as speaking within a meeting and there may be occasions when speaking members of the public request not to be filmed.

The Council will be undertaking audio recording of some of its meetings in County Hall as part of its investigation into a business case for the recording and potential webcasting of meetings in the future.

A copy of the Council's Recording of Meetings Protocol should be on display at the meeting for inspection, alternatively contact the Committee Administrator for the meeting in advance.

## **8. Operating Principles for Audit Committee**

### **Reports**

- i. The reports should be clearly and concisely written. The report template available to officers on the intranet will be used.
- ii. Reports should highlight issues for Member consideration, no matter how difficult or complex, for example:
  - All reports should detail current performance levels.
  - All reports should identify cost implications.
- iii. No report should contain a recommendation “to note” the report.
- iv. Any report, which outlines clear priorities for improvement, should contain recommendations and a detailed action plan with timescales and resources.

### **Members**

- i. Members should be clear about cost and resourcing issues highlighted in clearly and concisely written reports.
- ii. Members should seek to understand the impact of reports on Council performance.
- iii. Members can refer reports / issues back to the Cabinet where there are constructive concerns about services and/or performance.

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## Audit Committee

Minutes of a meeting of the Audit Committee held in the Luttrell Room, County Hall, Taunton on Thursday 23 November 2017 at 10.00.

### PRESENT

Cllr D Ruddle (Chairman)

Cllr M Caswell

Cllr S Coles

Cllr B Filmer

Cllr P Ham

Cllr J Lock

Cllr M Rigby

Cllr J Thorne

Cllr J Williams (Substitute)

**Apologies for absence:** Cllr N Bloomfield.

**Other Members present:** Cllr Davies, Cllr Hall, Cllr Aprico Paul and Cllr Redman.

**Officers present:** Kevin Nacey, Director of Finance and Performance; Martin Gerrish, Strategic Manager – Financial Governance

**Also present:** Lisa Fryer - Southwest Audit Partnership; David Bray and David Johnson – Grant Thornton.

### 25 **Declarations of interest** – agenda item 2

25.0 Members of the Audit Committee declared the following personal interests in their capacity as a Member of a District, City/Town or Parish Council: Cllr M Caswell, Cllr S Coles, Cllr B Filmer, Cllr Leyshon, Cllr Rigby, Cllr Ruddle, Cllr Thorne and Cllr Williams.

### 26 **Minutes of the last meetings – 21 September 2017** - agenda item 3

26.0 The Committee agreed that the minutes of the meeting held on 21 September 2017 were accurate and the Chairman signed them.

### 27 **Public question time** – agenda item 4

27.0 There were no members of the public present, and hence no questions asked, statements/comments made or petitions presented.

### 28 **Partial Audit – Children’s Independent Placements, Financial Controls** – agenda item 5

28.0 The Committee considered a report from the Internal Auditors that provided an update following the recommendations received with the Independent Placements – Financial Controls audit undertaken in November 2016. Members considered and discussed the report which had the recommendations and progress made to date attached as Appendix A.

28.1 Progress made to date was accepted and it was noted that the outcomes of a follow up Audit would be considered at a future meeting. The report was accepted.

**29 Partial Audit – The Planned Use of Schools Balances - Agenda item 6**

29.0 The Committee considered a report from the Internal Auditors that provided an update following the recommendations received with the Planned use of School balances audit undertaken in October 2016. Members considered and discussed the internal auditor's report which was supplemented by 2 additional reports to the Schools Forum.

29.1 An overview was provided on the current situation regarding the balances of schools in Somerset, which indicated that balances/reserves had reduced. The report was accepted.

**30 External Audit update - Agenda item 7**

30.0 The Committee considered and discussed this report, introduced by the External Auditor's that provided an overall summary of progress in delivering this year's audit.

30.1 Members noted that since the last meeting the External Auditors had completed the Annual Audit Letter, which gave an unqualified opinion, for 2016/17 and this had been provided to the Public Sector Audit Appointments (PSAA) by the deadline of 30 October. It was noted that the accounts audit plan setting out the external auditors proposed approach would be issued on completion of the audit planning.

30.2 The Council had once again complied with the earlier deadline for submitting its final accounts so was well placed for continuing this when the earlier date came in to force in 2018. The Committee thanked and said goodbye to the Engagement Manger and welcomed his successor to the position.

30.3 Members accepted the report and noted that a further update would be presented to the 25 January 2018 meeting.

**31 Internal Audit update - Agenda item 8**

31.0 The Committee considered and discussed this report from the Internal Auditors that summarised progress against the 2017/18 audit plan. It was noted that since the last report a further 5 audits had been completed with the Better Care Fund audit receiving a partial assurance.

31.1 The Committee sought and received assurances that the Council had plans in place to ensure improvements in this important area and a report would be represented to a future meeting.

31.2 Members were pleased to note that the report indicated that good progress was being made although some follow-up audits were delayed due to more time being needed to implement recommendations. As a result some reviews were scheduled to take place later than planned with some scheduled for the

final quarter of the year. Members considered and briefly discussed Appendix B that provided details of audit completed, in progress and those not started.

- 31.3 There was a brief discussion about the follow up audit regarding Section 106 agreements and the Director for Finance and Performance agreed to provide Members with an update. The report was accepted.

## **32 Debt Management - Agenda item 9**

- 32.0 The Committee considered a report and received a presentation on the recovery of outstanding debts as at the end of October, including a comparison with the previous report and equivalent values over the last 12 months. It was noted that 99.8% of debt was collected however there remained a problem with some debts (a total of 62 debts) that were over 90 days old and for amounts over £10K.

- 32.1 The Committee noted that although the overall debts outstanding and the proportion of those over 90 days had increased when compared to the same time last year, the recent upward trend had been arrested. The report was accepted.

## **33 Partial Audit – Debt Management - Agenda item 10**

- 33.0 The Committee considered a report from the Internal Auditors that provided an update following the recommendations received with the Debt Management audit undertaken in last February.

- 33.1 It was noted that that there had been sufficient work on the debtors system to provide confidence there had been improvements and those changes had addressed the suggested outcomes from the audit.

- 33.2 It was also explained that the on-going work was focussed on ensuring future changes had a positive impact on behaviours and practice where possible, to ensure prompt payment.

- 33.3 The Committee accepted the report.

## **34 Income Code of Practice - Agenda item 11**

- 34.0 The Committee considered a report that highlighted key areas within the proposed new Income Code of practice. It was noted that the Internal Auditors commented that the previous code was out of date and not robust enough. The revised Income Code of Practice would be mandatory and must be complied with and would include specific points raised in the audit.

- 34.1 Members considered and discussed the report with questions being asked and answers provided and there was a brief discussion including about the lowest amount for which to raise an invoice.

- 34.2 It was also explained that the new Code was focussed on ensuring future changes had a positive impact to tighten up and simplify the existing

procedures.

- 34.2 The Committee accepted the report and endorsed the new income Code of Practice.

**35 Forward Work Plan** – agenda item 12

- 35.0 The Committee considered and discussed its Forward Work Plan of future agenda items and reports for the first 2 meetings in 2018.

- 35.1 There was a brief update on several matters and it was confirmed that the same number of fraud cases remained under investigation (6).

**36 Other business of urgency** – agenda item 13

- 36.0 There were no other items for consideration and the Chairman thanked all those present for attending. The meeting closed at 11.42.

**Cllr Dean Ruddle  
Chairman – Audit Committee**

## **Management of s106/s278 Agreements – follow up**

Lead Officer: Alyn Jones, Director of Economic and Community Infrastructure Operations

Author: Alyn Jones, Director of Economic and Community Infrastructure Operations

Contact Details: [agjones@somerset.gov.uk](mailto:agjones@somerset.gov.uk), 01823 356636

Cabinet Member: Cllr John Woodman, Cabinet Member for Highways and Transport Division and Local Member: All

### **1. Summary / link to the County Plan**

- 1.1. The purpose of this report is to provide an update to Audit Committee on management and administration of Section 106 and Section 278 agreements prior to a follow up audit scheduled to commence in February and March 2018.

### **2. Issues for consideration / recommendations**

- 2.1. The Committee is asked to note the latest position in response to the audit findings regarding the management and administration.

### **3. Background**

- 3.1. Section 106 (S106) Agreements or Planning Obligations are an established and valuable mechanism for securing planning matters arising from a development proposal. They are commonly used by Local Authorities to bring development schemes in line with the objectives of sustainable development as articulated through the relevant local, regional and national planning policies.
- 3.2. Planning obligations can be provided by developers "in kind" (where the developer builds or provides directly the matters necessary to fulfil the obligation), by means of a financial payment, or in some cases a combination of both. Planning obligations in the form of financial contributions can be made by developers as a one-off contribution towards the total cost, or as a series of payments phased over time, depending on how the payment schedule has been negotiated. In terms of highways obligations, the provision of traffic calming measures, a new roundabout or other junction improvements are a few examples where such an Agreement would be necessary. Highway works can be secured by other means, such as S278 Agreements, and contributions can also relate to transport matters, such as contributions towards bus services.
- 3.3. Development schemes of a significant size that will impact on existing education provision will require a contribution towards school facilities. These payments are usually calculated using recognised formulae based on an estimated number of pupils for primary, secondary, and sixth form education that are likely to be generated from each house that is built. Other types of contribution can include affordable housing, community infrastructure and open space provision, which are the responsibility of the District Council.
- 3.4. Whilst not directly relevant to the management and coordination of s106 agreements it is relevant to point out that infrastructure delivery can also be funded through the use of Community Infrastructure Levy (CIL). Legislation was introduced in 2010 that allows local councils to set a CIL. CIL is the

Government's preferred method of collecting contributions from developers to fund infrastructure such as roads and schools, flood defences, medical facilities, recreational facilities and open space; and it can also be used for maintenance investment. The process for CIL is that money is obtained from the developer via evidence-based rates expressed in a "charging schedule". CIL is to be charged on buildings. Local Planning Authorities need to draw up a list of required infrastructure projects (or types) to deliver the growth strategy for the area and this is normally contained in the Infrastructure Delivery Plan. The Local Planning Authority must issue a 'Regulation 123' list of all infrastructure projects or types to be financed from CIL income. Charging rates must not jeopardise the viability of developments.

3.5. Following an audit into the management of s106 agreements the key findings for the service were;

- There is no formal policy that documents the agreed approach to agreeing and obtaining S106 contributions from developers.
- There is a lack of co-ordination in the recording and monitoring processes for S106 contributions by different sections of the Council, with highways contributions being added to a database.
- There are no defined minimum standards for data entry of the detail of legal agreements into the systems used for monitoring of contributions.

3.6. In response the summary findings above the service has been addressing these through a number of different actions. The findings and summary action are set out below in the paragraphs below.

3.7. **There is no formal policy that documents the agreed approach to agreeing and obtaining S106 contributions from developers.** The management response to this finding stated that there is no formal Policy (to address highway issues) because legislation and development plan documents adopted by Local Planning Authorities and SCC as Highway Authority set a framework within which we must consider planning applications and any s106 obligations. SCC has adopted DfT Guidance on Transport Assessments as local Policy and there is adopted Travel Plan Guidance.

3.8. It was recognised however that there is a need for clarity on the use and application of commuted sums. Commuted sums are those amounts collected from developers for the ongoing maintenance of certain highway infrastructure assets. Commuted sums have always been held in an interest accruing account. A project was completed in the summer of 2016 to create a 'manageable' commuted sums account which entailed the interrogation of 150 plus agreement files and the accumulation of over 2500 data entries. This 'managed' account is now being utilised by the relevant Asset Managers in determining future funding for maintenance of those assets to which the payments relate. A protocol, 'Committed Sums for Highway Infrastructure', has now been produced for use by developers. For many years Somerset County Council, as highway authority, have secured commuted sums from developers as a financial contribution towards the future maintenance of new highway infrastructure delivered by them in the County and have done so with due regard to prevailing national best practice.

- 3.9. Further guidance from The Association of Directors of Environment, Economy, Planning and Transport ADEPT in September 2014 reported that ‘when authorities followed the process and principles (in their 2009 guidance document) and added local supplementary guidance, a robust, auditable methodology had been demonstrated’. Their summary recommendations to authorities were therefore to both adopt their 2009 guidance as best practice but to also consider producing a supplementary guidance document outlining local policy and/or procedures. Whilst Somerset County Council’s current approach to commuted sums is closely aligned to ADEPT’s ‘accepted national standard,’ the recognition of the benefits to all parties of introducing local guidance form the catalyst for a County specific guidance document.
- 3.10. As such the document aims to provide a transparent and consistent approach to the seeking of and calculation of Commuted Sums for developer funded highway assets in Somerset. The guidance outlines the clarity of approach in order to:
- Remove uncertainty and risk for developers at an early stage in the process
  - Provide greater scrutiny to support highway maintenance budgets
  - Enable developments to progress with much more certainty about the overall requirements and commitments for all parties involved
  - Provide a more flexible approach to the adoption of new and alternative ‘non-standard’ layouts without stifling innovation and the desire to create better places to live.
- 3.11. **There is a lack of co-ordination in the recording and monitoring processes for S106 contributions by different sections of the Council, with highways contributions being added to a database, and, there are no defined minimum standards for data entry of the detail of legal agreements into the systems used for monitoring of contributions.** Since the audit a new software system has been procured that enables the better recording of contributions expected and received from Legal Agreements. It was originally envisaged that this system would have been implemented by the end the summer 2017. The new database, MasterGov, provided and hosted by DEF Software, is now reaching the final stages of implementation and will ‘go live’ in January 2018. Data migration issues from the old Atrium System have been hampered by the lack of support and information from Trimble, who purchased the Atrium database software from AtriumSoft. The lack of support from the provider Trimble has delayed the data migration process as SCC officers have had to work through the systems to provide data field mapping so that the data held in Atrium could be migrated to the new MasterGov System. Data migration of information held on the Atrium system was completed and the data was subject to user testing in December 2017. The data transferred appears to be an accurate duplication of the information held on Atrium.
- 3.12. AtriumSoft system was complicated and not particularly user friendly. Any changes to the way information is stored or reported on, including minimum data requirements, requires intervention from the software provider and incurs costs. The new system is much more user friendly and minimum details required for creating datasets can be controlled more easily and by suitably trained SCC

officers. The new system has introduced a list of requirements and minimum standards will be provided for every entry. The MasterGov database suite is the replacement for Atrium. The database suite has been developed by DEF Software as a product for local planning authorities to record and monitor Planning Applications, Highways Consultation Responses, Road Adoptions (S38 and S278) and S106 Legal Agreements.

- 3.13.** The software will be used by Somerset County Council Development Control, Highways Development Control, Estate Roads and Development Implementation teams to record all aspects of the process from Application through delivery to adoption. MasterGov will be used to record data that will be reported on as part of performance indicators applicable to each team and the Service as a whole. There are designated Mandatory Fields within the system, that will have to be completed before records can be saved. This is to ensure that we have sufficient data within the database to provide accurate reports and audits. (Migrated data, from Atrium to MasterGov, may not have all the mandatory fields completed. These will need to be updated and completed as and when new information is added to the record).
- 3.14.** The main aims of MasterGov database suite are to:
- Record all aspects of County Planning Applications; give the ability to provide the statutorily required public and consultee access to all planning applications in an online facility. The system has been developed to provide a full life cycle, workflow driven solution for Minerals and Waste applications as well as County Council developments.
  - Record details of Enforcements and Site Monitoring as well as Appeals details. Past and future visit information can be recorded and reports can be run detailing visit history.
  - The Legal Agreements module has been designed to ensure that we have the capability to manage the obligations and financial implications of S106 and S278 Legal Agreements. From preliminary discussions through to the completed project. We are able to track and govern every aspect of the process ensuring that all work is complete, finances received and allocated and all obligations met.
  - The Road Adoptions module is designed to manage the transition, processes and intricacies of S38 and S278 Adoptions and Advanced Payment Code procedures. It is a logical system that automates processes and enables effective, analytical reporting whilst ensuring milestones are met.
  - The Application Response module is used to handle the planning requests made to Highways as statutory consultees. With automated processes, requests can be forwarded electronically to an allocating officer who then assigns the cases to individual officers. All correspondence regarding a consultation request can be returned electronically the system ensuring records are kept up to date automatically and providing an easy reporting and auditing process.
  - Within the database suite is a Management Dashboard. This will be used to track and manage workloads as well as provide real time reporting to



front line personnel and managers.

- 3.15.** A follow up audit has been requested by the service to consider whether the actions undertaken have addressed the risks identified, provide further guidance to the Service and to inform any future service improvement plans.

#### **4. Consultations undertaken**

- 4.1.** Not applicable

#### **5. Implications**

- 5.1.** The audit report identified that if management actions were not put in place there was a risk that contributions due to the County Council via legal agreements are not received or the actions from developers do not materialise.
- 5.2.** The actions of the service are designed to address this risk and ensure that the actions recommended by the South West Audit Partnership are addressed.

#### **6. Background papers**

- 6.1.** SWAP Section 106 Agreements – final audit report. November 2016.

**Note:** For sight of individual background papers please contact the report author.

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# Audit Progress Report and Sector Update

Somerset County Council  
Year ending 31 March 2018

January 2018



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# Introduction



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

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a Council and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

We are delighted to introduce to you your new Engagement Manager, David Johnson, who has previously worked with you as your in-charge auditor.

Members of the Audit Committee can find further useful material on our website where we have a section dedicated to our work in the public sector. Here you can download copies of our publications. Click on the Grant Thornton logo below to be directed to the website.

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.

Grant Thornton

# Progress at January 2018

## Financial Statements Audit

We have started planning for the 2017/18 financial statements audit and are due to commence our interim audit in January 2018. Our interim fieldwork visit will include:

- Updated review of the Council's control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Early work on emerging accounting issues
- Early substantive testing

We will report any findings from the interim audit to you in our Progress Report at the April Audit committee.

The final accounts audit is due to begin in June 2018 with findings reported to you in the Audit Findings Report by the deadline in July 2018.

## Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. 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".

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".

The three sub criteria for assessment to be able to give a conclusion overall are:

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

We will begin our initial risk assessment to determine our approach in January 2018 and will report our work for the 2017/18 value for money opinion in the Audit Findings Report in July 2018.

## Other areas

### Certification 2016/17

We have completed our audit work on the Teachers Pension return with no significant issues identified.

### Meetings

We continue to meet with Finance Officers as part of our quarterly liaison meetings and have regular discussions on emerging issues and developments and the impact of these and the financial statements.

### Events

We provide a range of workshops, along with network events for members and publications to support the Council. Our next event is our local government accounts workshop which is scheduled for 2 February in Bristol and the 6 February in Plymouth. Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

# Audit Deliverables

2017/18 Deliverables	Planned Date	Status
<b>Fee Letter</b> Confirming audit fee for 2017/18.	April 2017	Complete
<b>Accounts Audit Plan</b> We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2017-18 financial statements.	January 2018	Complete
<b>Interim Audit Findings</b> We will report to you the findings from our interim audit within our Progress Report.	April 2018	Not yet due
<b>Audit Findings Report</b> The Audit Findings Report will be reported to the July Audit Committee.	July 2018	Not yet due
<b>Auditors Report</b> This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2018	Not yet due
<b>Annual Audit Letter</b> This letter communicates the key issues arising from our work.	September 2018	Not yet due

# Sector Update

Local authorities are under pressure. You're grappling with severe budgets cuts, making it harder to keep vital services going. You're also being given new powers, which means you're doing even more to support local communities. And on top of all this, you've got to work within a system of internal and external relationships that's getting more complicated every day.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and healthcare sections on the Grant Thornton website by clicking on the logos below:

**Public Sector**

**Local  
Government**



# Commercial Healthcheck: commercial investments and governance

Our latest healthcheck report was launched at CIPFA's Income Generation Summit in November. It is part of our 'The Income Spectrum' series, giving leaders of local government and public services insights into why and how local authorities are changing their approach to commercialisation, some of the related governance and risk management issues, and the latest innovation trends with case studies ranging from Angus and Luton to Oldham and Stirling.

The research shows that councils need to do more than simply adhere to the drafted rules to ensure an approach to commercialisation that balances outcomes and risks. The report therefore also includes a healthcheck diagnostic tool designed to give local government leaders extra comfort and confidence that they are pursuing a suitably balanced approach

Governance of commercial commitments is key to building confidence in the path to financial sustainability. The CIPFA code is the sector's primary rule book for treasury management and is expected to place a stronger emphasis on how councils will balance security, liquidity and return.

## Key findings from the report include:

- While property has tended to be the focus, it is just one of a number of areas of activity. In the past year, borrowing includes £4.8 billion on bonds and commercial paper, and investment includes £7 billion in inter-authority lending (Investment in property for councils is a growing trend – a third of councils have done so since 2010, spending more than £2.4 billion between them, but this is not the only major area of investment activity)
- More entrepreneurial councils are adopting innovative approaches such as place-based market offerings, working together locally to add social value and cross-boundary franchising
- For many councils, investing in commercial assets is key to developing anchor institutions that contribute to place – ranging from airports, business parks and forestry to GP surgeries and cinemas
- A 'beyond compliance' approach to governance of commercial activities is required by progressive councils wanting to do more with less

[Click on the report cover to download and read more](#)



## Grant Thornton Publication

### Challenge question:

Is your Council considering the risks and governance issues for its commercialisation agenda?



# Through a local lens: SOLACE summit 2017

The Industrial Strategy matters to places but places also matter to the Industrial Strategy.

This was a strong message coming out of discussions at the recent SOLACE (Society of Local Authority Chief Executives) summit where we facilitated 100 local authority CEOs and senior leaders to consider how the Industrial Strategy could be brought to life at a local level.

For some time now we have engaged in an ongoing and inclusive dialogue with communities and business, local authority and third sector leaders from across the country, to share aspirations, ideas and insight focused on building a vibrant economy for the UK. These discussions have helped to form the basis of our Vibrant Economy 'Blueprint for the UK' and they will go on to inform our recommendations to Government around a place-based approach to the Industrial Strategy.

This year's summit provided us with an invaluable opportunity to take this dialogue further.

We focused on the integral role local government will have in delivering the Industrial Strategy. Delegates applied a local lens to the national growth agenda, encouraging them to consider what strategies and approaches were already working in their place; what they could be doing more of to support growth in their area, and how they could steer the Industrial Strategy agenda from a local level.

Using the appreciative inquiry technique, we discussed the following questions:

What role would leaders and local institutions be playing if they were delivering positive outcomes from the industrial strategy?

Looking ahead and considering our diverse local authority agendas, the industrial strategy and surrounding policy landscape what aspects might work well for everyone?



You can see and hear what delegates thought on our [website](#)

# Cost Assurance

## Did you know....

**40**  
Number of Public Sector engagements to date

**£125m**  
Annual spend analysed

**£3.55m**  
Rebate opportunities identified

**£1.1m**  
Fee income identified

**2.84%**  
Error rate – rebates versus spend volume

**55%**  
Of Public Sector engagements are Local Government

Our Cost Assurance service line provides Local Authorities with an independent and retrospective audit of their legacy telecommunications and utilities costs incurred during the past 6 years (as per the Statute of Limitation).

We find that there are repeat errors contained within a Suppliers' invoice arrangements – errors that aren't necessarily picked up by the end client. This is due to the fact that they tend to be contained in suppliers' billing systems 'at source' and are much further down the supply chain which the user won't necessarily have visibility of.

We are supported by a comprehensive library of legacy supplier pricing that has been collated since 2011. Our one aim is to ensure that the client has only paid for the services used during the period by:

- ensuring that bills presented by Suppliers' are in line with their contracts and relevant pricing mechanisms
- ensuring the client receives the Supplier refunds where errors have been identified by us
- ensuring consequential savings are identified and implemented immediately for the client

Our Cost Assurance work is based on a contingent-fee model and is supported by PSAA Ltd. Each of our Local Authority engagements include a fee cap to ensure governance and regulatory standards are maintained.

In summary, we are able to bring much needed financial benefit to the sector as well as providing insight into errors that may be prone to repeat offence by suppliers long after our work is concluded.

### Grant Thornton Challenge question:

Has your Council considered the potential for an independent review of telecommunications and utility costs?

# DCLG Consultation

## DCLG are currently consulting with Local Authorities and other interested parties on proposed changes to the prudential framework of capital finance.

The statutory framework for the Prudential System is set out in Chapter 1 of the Local Government Act 2003 and in the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended. The framework includes four statutory codes. Alongside CIPFA's Prudential Code and Treasury Management Code, the DCLG is responsible for Statutory Guidance on both Local Authority Investments and on the Minimum Revenue Provision.

Over the past years the regulatory and economic environment has changed significantly and led the sector to consider more innovative types of investment activity. The government has also monitored changes in the practices used for calculating Minimum Revenue Provision.

As a result the Department for Communities and Local Government is seeking views on proposals to update the guidance on Local Authorities Investments and on Minimum Revenue Provision for full implementation in 2018/19. This consultation closes on 22 December 2017 and may be accessed [here](#).

### Local Authorities Investment Code

The Government recognises that there is great variation in the objectives and nature of local authority investment, including local economic regeneration projects, however it believes that local authorities need to be better at explaining "why" not just "what" they are doing with their investment activity.

That means that the sector needs to demonstrate more transparency and openness and to make it easier for informed observers to understand how good governance and democratic accountability have been exercised.

To this end a number of proposals are made including requiring local authorities to:

- prepare a Capital Strategy which includes clear disclosure of the Investment Strategy
- disclose the contribution that investment activities make to their core functions
- use indicators to assess total risk exposure
- apply the principles of prioritising security and liquidity over yield for investment in non financial assets (in the same way that they are required to do for financial assets)
- disclose their dependence on commercial income to deliver statutory services and the amount of borrowing that has been committed to generate that income
- disclose additional information where authorities borrow to invest in revenue generating investments
- Disclose steps to ensure expertise of key officer and councillors involved in the decision making process.

### Minimum Revenue Provision Guidance

Local authorities are normally required each year to set aside some of their revenues as provision for debt. More precisely, the provision is in respect of capital expenditure financed by borrowing or long term credit arrangements. Given the changes in current practice and recent interest, the Government feels that it is time to look into updating the guidance as part of the more general update of the statutory codes comprising the prudential system. Four proposals are made:

- change to the definition of the basis of MRP
- confirmation that a charge to the revenue account cannot be a credit
- confirmation that a change to the MRP methodology would not generate an overpayment of MRP calculated retrospectively
- Introduces maximum useful economic lives for MRP calculations based on asset life

#### DCLG consultation

- The Council has responded to the consultation



# Independent Review of Building Regulations and Fire Safety

The Government has published the terms of reference for the independent Review of Building Regulations and Fire Safety, commissioned following the Grenfell Tower fire tragedy.

The DCLG press release states:

“This Review will urgently assess the effectiveness of current building and fire safety regulations and related compliance and enforcement issues, with a focus on multi occupancy high rise residential buildings. This will include addressing whether the government’s large-scale cladding system testing programme identified any potential systemic failures.

The Review’s 2 key priorities are to develop a more robust regulatory system for the future and provide further assurance to residents that the buildings they live in are safe and remain safe. While the Review will cover the regulatory system for all buildings, it will have a specific focus on multi occupancy high rise residential buildings.

Dame Judith Hackitt, a qualified engineer with strong regulatory background, is leading the Review and will draw on the experience of local government, industry, the fire sector, international experts and MPs. She will also engage with residents of multi occupancy residential buildings.

The Review will report jointly to Communities Secretary Sajid Javid and Home Secretary Amber Rudd. An interim report will be submitted in autumn 2017 and a final report submitted in spring 2018. The Review will co-operate fully with the Public Inquiry, and Dame Judith Hackitt will review her recommendations in the light of the findings of the Inquiry.”

The terms of reference state that the review will:

- map the current regulatory system (i.e. the regulations, guidance and processes) as it applies to new and existing buildings through planning, design, construction, maintenance, refurbishment and change management;
- consider the competencies, duties and balance of responsibilities of key individuals within the system in ensuring that fire safety standards are adhered to;
- assess the theoretical coherence of the current regulatory system and how it operates in practice
- compare this with other international regulatory systems for buildings and regulatory systems in other sectors with similar safety risks;
- make recommendations that ensure the regulatory system is fit for purpose with a particular focus on multi-occupancy high-rise residential buildings.

Click [here](#) to read the full terms of reference.

## Sector Issues

Is the Council aware of the publication?

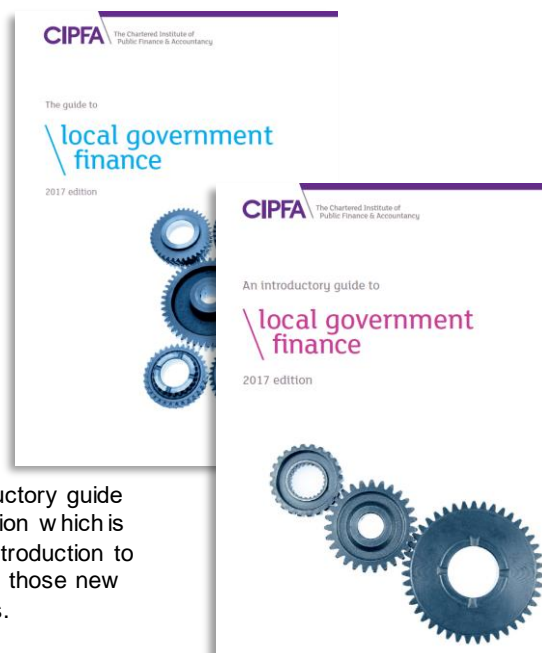


# CIPFA publications

CIPFA have published 'The guide to local government finance' 2017 edition. The guide seeks to provide information on current arrangements for local government finance and sets out the principles of sound financial management.

The guide covers a range of local government services. It examines the funding systems that support those services including council tax, business rates and the local government finance settlement. The guide covers both revenue and capital financing and has separate chapters on key areas and their specific intricacies including:

- capital finance
- budgeting and financial reporting
- treasury management
- auditing
- governance
- education
- housing
- police
- social care.



CIPFA have also published 'An introductory guide to local government finance' 2017 edition which is aimed at those requiring more of an introduction to local government finance for example, those new to the sector or non finance specialists.

CIPFA have updated their guidance on the key considerations in setting up and managing a pooled budget in the publication 'Pooled Budgets and the Better Care Fund: A Practical Guide for Local Authorities and Health Bodies' (2017 Edition)

Although pooled budgets have operated widely across health and social care for a long time, they were brought into prominence by the Better Care Fund, introduced in 2015–16.

The aim of CIPFA's guidance is to define the basic principles of financial management, governance and accountability that partners in budget pooling arrangements or, indeed, other forms of partnership working, should follow, and to consider the relevant accounting issues.

The guide provides practical tools such as a checklist of matters to consider, an example of how to decide which agency should lead the arrangement, a model scheme of delegation to boards. The guide considers the background to budget pooling, including the purpose of pooling, the basics of partnership arrangements, and some other options available to health and social care organisations pursuing similar objectives. It goes on to consider specific issues arising from pooling: managing a pooled budget, corporate governance, financial management, audit and assurance, and VAT. These matters then feed into an appendix on accounting issues.

## CIPFA Publication

### Challenge question:

Are these publications of use to you?



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# Links

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## Grant Thornton website links

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

<http://www.grantthornton.co.uk/en/insights/through-a-local-lens-solace-summit-2017/>

<http://www.grantthornton.co.uk/en/insights/combined-authorities-signs-of-success/>

<http://www.grantthornton.co.uk/en/insights/a-guide-to-setting-up-a-social-enterprise/>

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

<http://www.grantthornton.co.uk/en/insights/commercial-healthcheck-in-local-authorities/>

<http://www.cfoinsights.co.uk/>

## CIPFA website links

<http://www.cipfa.org/policy-and-guidance/publications/codes-of-practice>

<http://www.cipfa.org/policy-and-guidance/publications/a/an-introductory-guide-to-local-government-finance-2017-edition-online>

<http://www.cipfa.org/policy-and-guidance/publications/t/the-guide-to-local-government-finance-2017-edition-online>

<http://www.cipfa.org/policy-and-guidance/publications/p/pooled-budgets-and-the-better-care-fund-a-practical-guide-for-local-authorities-and-health-bodies-2017-edition>

## DCLG website links

<https://www.gov.uk/government/consultations/proposed-changes-to-the-prudential-framework-of-capital-finance>

<https://www.gov.uk/government/statistics/local-authority-revenue-expenditure-and-financing-england-2016-to-2017-final-outturn>

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.



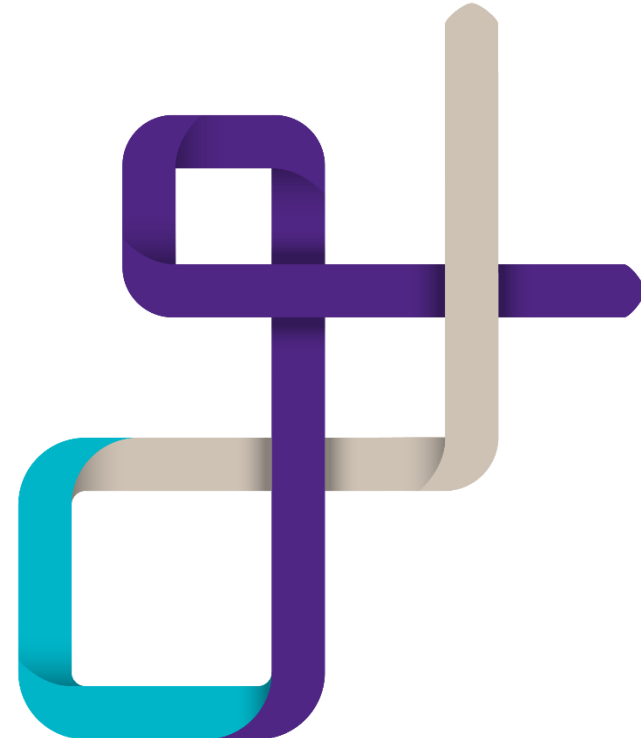
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# External Audit Plan

*Year ending 31 March 2018*



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# Introduction & headlines

## Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Somerset County Council ('the Council') for those charged with governance.

## Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Somerset County Council. We draw your attention to both of these documents on the [PSAA website](#).

## Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- financial statements (including the Annual Governance Statement) that have been prepared by management with the oversight of those charged with governance (the Audit committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

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## Significant risks

Those risks requiring specific audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- The revenue cycle includes fraudulent transaction
- Management override of controls
- Valuation of pension fund net liability
- Valuation of property, plant and equipment and investment property

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

---

## Materiality

We have determined planning materiality to be £15.1m (PY £14.6m), which equates to 1.8% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £755k (PY £728k).

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## Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks:

- Strategic financial planning
- Ofsted inspection of Children's services

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## Audit logistics

Our interim visit will take place in January and our final visit will take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report.

Our fee for the audit will be no less than £99,873 (PY: £99,873) for the Council.

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## Independence

We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements

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# Deep business understanding

## Changes to service delivery

### Commercialisation

The scale of investment activity, primarily in commercial property, has increased as local authorities seek to maximise income generation. These investments are often discharged through a company, partnership or other investment vehicle. Local authorities need to ensure that their commercial activities are presented appropriately, in compliance with the CIPFA Code of practice and statutory framework, such as the Capital Finance Regulations. Where borrowing to finance these activities, local authorities need to comply with CIPFA's Prudential Code. A new version was published in December 2017.

### Devolution

The Cities and Local Government Devolution Act 2016 provides the legal framework for the implementation of devolution deals with combined authorities and other areas. Working together with other public sector service providers will allow the Council to deliver better results which will help businesses to improve their productivity. The Council is part of the Heart of the South West's devolution partnership. Following meetings between the partners and the Minister for Devolution a joint committee has been formalised and dates for meetings in 2018 have been established.

## Changes to financial reporting requirements

### Accounts and Audit Regulations 2015 (the Regulations)

The Department of Communities and Local Government (DCLG) is currently undertaking a review of the Regulations, which may be subject to change. The date for any proposed changes has yet to be confirmed, so it is not yet clear or whether they will apply to the 2017/18 financial statements. Under the 2015 Regulations local authorities are required to publish their accounts along with the auditor's opinion by 31 July 2018 which the Council has achieved in the previous two years.

### Changes to the CIPFA 2017/18 Accounting Code

CIPFA have introduced other minor changes to the 2017/18 Code which confirm the going concern basis for local authorities, and updates for Leases, Service Concession arrangements and financial instruments.

### 100% Business Rate retention pilots

Central Government has indicated its intention to implement 100% business rate retention following the phasing out of the Revenue Support Grant and have invited local councils to apply to be pilot areas. The Council applied to be one of the pilot areas but was not successful. The Council is now looking at pooling arrangements with other Councils with due consideration being given to the reporting requirements and the implications for the budget.

## Key challenges

### Financial pressures

The continued pressure of Local Government finances is reflected in the Council's Medium Term Financial Plan (MTFP) which continues to take a cautious approach to estimating resources available. The 2017/18 MTFP shows a balanced budget for 2017/18 and a cumulative shortfall of £19.5m by 2020/21. The greatest pressure is in 2018/19 where a shortfall of £12.8m has been identified. The 2017/18 budget identified savings targets of £19.5m whilst also recognising service pressures. The latest forecast at month 6 shows a £9.1m overspend and £6.2m of savings as being unachievable.

### Ofsted Inspection

In their previous Ofsted inspection of its Children's services the Council was rated as inadequate and were required to work with another Council to improve service delivery. A further inspection has taken place in November and December 2017 with the findings due to be reported to the Council by the end of January 2018. The Council is required to improve to exit directions and demonstrate the ability to manage services adequately. Failure to improve will result in further restrictions being applied and the possibility of the service being removed from the Council's control.

## Our response

- We will consider your arrangements for managing and reporting your financial resources and your response to Ofsted as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to uncertainty about the going concern assumption and will review any related disclosures in the financial statements.
- We will keep you informed of changes to the Regulations and any associated changes to financial reporting or public inspection requirements for 2017/18 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2017/18 CIPFA Code, and the impact of impairment assessments.

# Significant risks identified

Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration because they have a higher risk of material misstatement. Such risks often relate to significant non-routine transactions and judgmental matters. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<b>The revenue cycle includes fraudulent transactions</b>	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• The culture and ethical frameworks of local authorities, including Somerset County Council, mean that all forms of fraud are seen as unacceptable</li> </ul> <p>Therefore we do not consider this to be a significant risk for Somerset County Council.</p>
<b>Management over-ride of controls</b>	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>Management over-ride of controls is a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• gain an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness</li> <li>• obtain a full listing of journal entries, identify and test unusual journal entries for appropriateness</li> <li>• evaluate the rationale for any changes in accounting policies or significant unusual transactions.</li> <li>• Review assurances from the Audit Committee and management in relation to fraud, law and regulations</li> </ul>

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# Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p><b>Valuation of property, plant and equipment</b></p>	<p>The Council revalues its land and buildings on an rolling basis, with assets revalued at least every five years, to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>We will undertake:</p> <ul style="list-style-type: none"> <li>Review of management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li> <li>Consideration of the competence, expertise and objectivity of any management experts used.</li> <li>Discussions with the valuer about the basis on which the valuation is carried out and challenge of the key assumptions.</li> <li>Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding.</li> <li>Testing of revaluations made during the year to ensure they are input correctly into the Council's asset register</li> <li>Evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.</li> </ul>
<p><b>Valuation of pension fund net liability</b></p>	<p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>Identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement</li> <li>Evaluate the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out</li> <li>Undertake procedures to confirm the reasonableness of the actuarial assumptions made.</li> <li>Check the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary</li> </ul>

# Reasonably possible risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p><b>Employee remuneration</b></p>	<p>Payroll expenditure represents a significant percentage of the Council's operating expenses.</p> <p>As the payroll expenditure comes from a number of individual transactions and an interface with a sub-system there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention</p>	<p>We will</p> <ul style="list-style-type: none"> <li>• evaluate the Council's accounting policy for recognition of payroll expenditure for appropriateness;</li> <li>• gain an understanding of the Council's system for accounting for payroll expenditure and evaluate the design of the associated controls;</li> <li>• Obtain year-end payroll reconciliation and ensure that the amount reported in the accounts can be reconciled back to the ledger and through payroll reports. We will investigate any significant adjusting items.</li> <li>• Agree payroll related accruals (e.g. unpaid leave accrual) to supporting documentation and review and estimates for reasonableness.</li> </ul>
<p><b>Operating expenses</b></p>	<p>Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.</p> <p>We identified completeness of non-pay expenses as a risk requiring particular audit attention:</p>	<p>We will</p> <ul style="list-style-type: none"> <li>• evaluate the Council's accounting policy for recognition of non-pay expenditure for appropriateness;</li> <li>• gain an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls;</li> <li>• Obtain a listing from the cash book or equivalent of non-pay payments made after the year end, take a sample using a non statistical sample methodology and ensure they have been charged to the appropriate year</li> <li>• Review estimates, judgements and decisions made by management for unusual and large accruals</li> </ul>

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# Other matters

## Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued and consistent with our knowledge of the Council.
- We will read your Narrative Statement and check that it is consistent with the financial statements on which we give an opinion and that the disclosures included in it are in line with the requirements of the CIPFA Code of Practice.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.

We consider our other duties under the Act and the Code, as and when required, including:

- giving electors the opportunity to raise questions about your 2017/18 financial statements, consider and decide upon any objections received in relation to the 2017/18 financial statements;
  - issue of a report in the public interest; and
  - making a written recommendation to the Council, copied to the Secretary of State.
- We certify completion of our audit.

## Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

## Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.



# Materiality

## The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

## Materiality for planning purposes

We propose to calculate financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. We have determined planning materiality (the financial statements materiality determined at the planning stage of the audit) to be £15.1m (PY £14.6m), which equates to 1.8% of your prior year gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision.

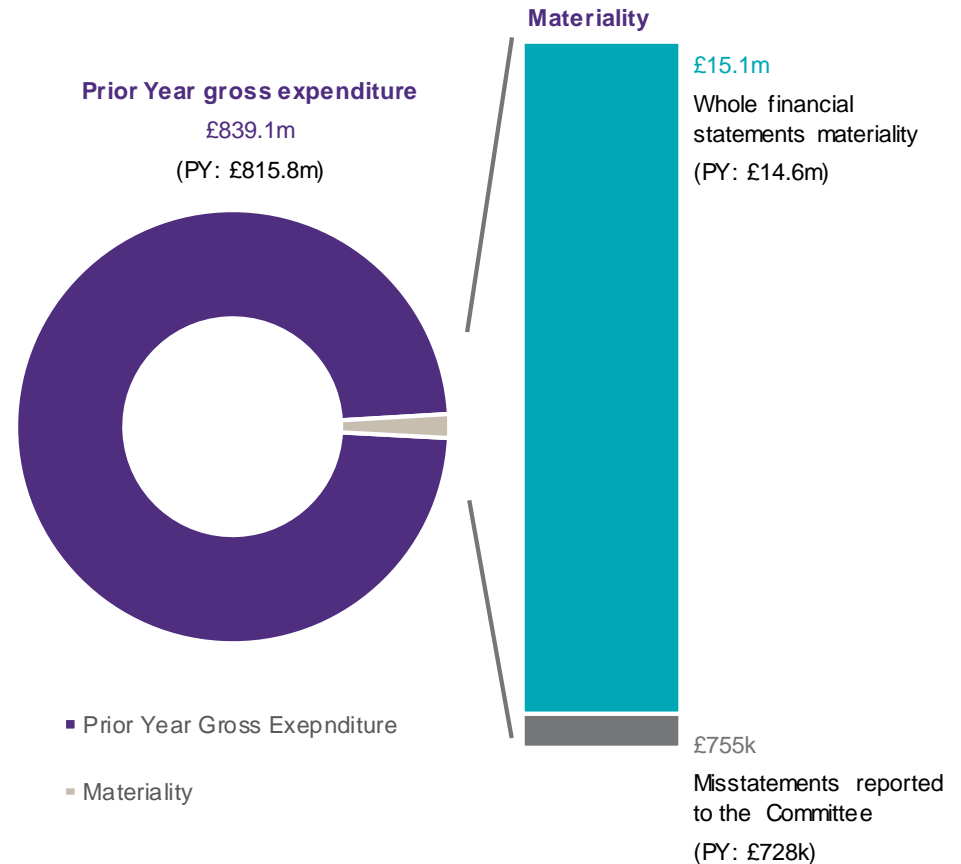
ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users. We have identified disclosures of senior officer remuneration and related party transactions and have determined applicable materiality £5,000

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality

## Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £755k (PY £728k).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.



# Value for Money arrangements

## Background to our VFM approach

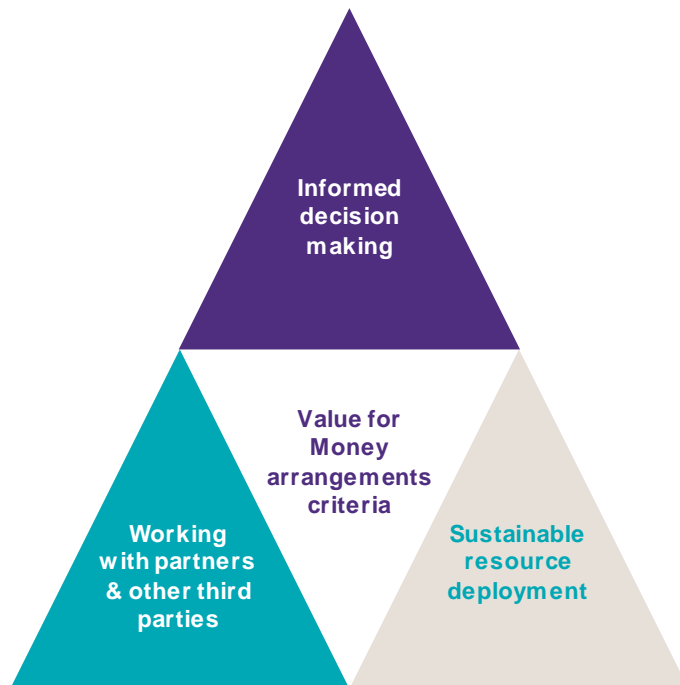
The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

*“In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.”*

This is supported by three sub-criteria, as set out below :

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## Significant VFM risks

Those risks requiring specific audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Council to deliver value for money.



### Strategic Financial Planning

The ongoing challenge of meeting the savings outlined by Central Government continue to put pressures on Local Government finances. The delivery of the Financial strategy is currently reliant on transformational change, significant savings in service delivery and increased income activity. The continued pressure from Adult and Children's services has resulted in overspends annually and further enforces the need to identify alternative methods of achieving the Council's financial position for the future

We will review the project management and assurance frameworks established by the Council to understand how it is identifying, managing and monitoring these financial risks. We will review the robustness of the Council's financial plan and the extent to which the Council is seeking to identify further opportunities and alternative solutions to mitigate the risk of future cuts in resources and government funding. Our review will look at the delivery of the 2017/18 budget, including savings targets, as well as considering the robustness of the MTFP

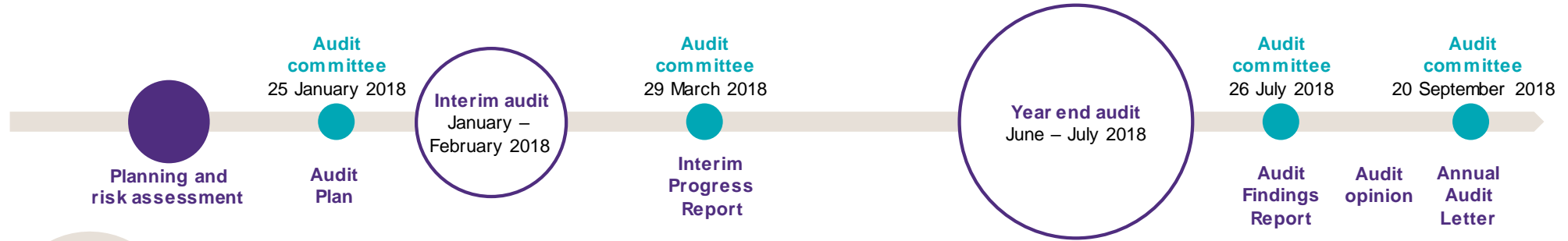


### Ofsted inspection of Children's Services

The Council's most recent inspection occurred in November 2017 prior to which the Council has been rated as inadequate and a direction notice issued. The Council is required to improve to exit directions and demonstrate the ability to manage services adequately. Failure to improve will result in further restrictions being applied and the possibility of the service being removed from the Council's control. Ofsted will report to the Council in January 2018.

We will review progress made by the council in responding the findings from the latest Ofsted inspection including the outcomes from the latest inspection due in January 2018..

# Audit logistics, team & audit fees



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## Peter Barber, Engagement Lead

Peter leads or relationship with you and takes overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value to the Council.



## David Johnson, Audit Manager

David plans, manages and leads the delivery of the audit, is your key point of contact for your finance team and is your first point of contact for discussing any issues



## Aditi Chandramouli, Audit Incharge

Aditi's role is to assist in planning, managing and delivering the audit field work, ensuring the audit is delivered effectively, efficiently and supervises and co-ordinates the on-site audit team.

## Audit fees

The planned audit fees are no less than £99,873 (PY: £99,873) for the financial statements audit. Our fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

In setting your fee, we have assumed that the scope of the audit, and the Council and its activities, do not significantly change.

## Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

# Early close

## Meeting the early close timeframe

Bringing forward the statutory date for publication of audited local government accounts to 31 July this year, across the whole sector, is a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts is curtailed, while, as auditors we have a shorter period to complete our work and face an even more significant peak in our workload than previously.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline. The Council have presented the draft statements for audit by June for the last 2 years, enabling us to sign off against this earlier deadline. Both the Council and us, as your auditors, are, therefore, well placed to meet the requirements under the regulations.

## Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 11). Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

## Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

# Independence & non-audit services

## Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2016 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

## Non-audit services

The following non-audit services were identified

Service	Fees £	Threats	Safeguards
<b>Audit related</b>			
Certification of Teacher's Pension return 2017/18 for Somerset County Council	£4,200	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £4,200 in comparison to the total fee for the audit of £99,873 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
Certification of School Centred Initial Teacher Training for Somerset County Council	£3,750	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £3,750 in comparison to the total fee for the audit of £99,873 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.

[The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

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# Appendices

# Appendix A: Revised ISAs

Detailed below is a summary of the key changes impacting the auditor's report for audits of financial statement for periods commencing on or after 17 June 2016.

<b>Section of the auditor's report</b>	<b>Description of the requirements</b>
<b>Conclusions relating to going concern</b>	We will be required to conclude and report whether: <ul style="list-style-type: none"><li>• The directors use of the going concern basis of accounting is appropriate</li><li>• The directors have disclosed identified material uncertainties that may cast significant doubt about the Council's ability to continue as a going concern.</li></ul>
<b>Material uncertainty related to going concern</b>	We will need to include a brief description of the events or conditions identified that may cast significant doubt on the Council's ability to continue as a going concern when a material uncertainty has been identified and adequately disclosed in the financial statements. Going concern material uncertainties are no longer reported in an Emphasis of Matter section in our audit report.
<b>Other information</b>	We will be required to include a section on other information which includes: <ul style="list-style-type: none"><li>• Responsibilities of management and auditors regarding other information</li><li>• A statement that the opinion on the financial statements does not cover the other information unless required by law or regulation</li><li>• Reporting inconsistencies or misstatements where identified</li></ul>
<b>Additional responsibilities for directors and the auditor</b>	We will be required to include the respective responsibilities for directors and us, as auditors, regarding going concern.
<b>Format of the report</b>	The opinion section appears first followed by the basis of opinion section.



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# Somerset County Council

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Agenda item 7

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

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# Summary

## Our audit activity is split between:

- **Operational Audit**
- **School Themes**
- **Governance Audit**
- **Key Control Audit**
- **IT Audit**
- **Grants**
- **School and Early Years Reviews**
- **Follow-up Reviews**
- **Other Reviews**



## Role of Internal Audit

The Internal Audit service for Somerset County 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 on 30<sup>th</sup> March 2017.

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
- School and Early Years Reviews
- Follow-up Audits
- Other Special or Unplanned Reviews

## 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 programme

The schedule provided at Appendix B contains a list of all audits as agreed in the Annual Audit Plan 2017/18. 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 at Appendix A of this document.

To assist the Committee in its important monitoring and scrutiny role, in those cases where weaknesses have been identified in service/function reviews that are considered to represent significant service risks, a summary of the key audit findings that have resulted in them receiving a ‘Partial Assurance Opinion’ is given as part of this report.

In circumstances where findings have been identified which are considered to represent significant corporate risks to the Council, due to their importance, these issues are separately summarised.

## Summary of Audit Work 2017/18

### Significant Corporate Risks

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



### Significant Corporate Risks

We provide a definition of the 4 Risk Levels applied within audit reports. For those audits which have reached report stage through the year, we have assessed the following risks as 'High' or 'Very High'.

In this update there are no final reports included with significant corporate risks.

### SWAP Performance - Summary of Partial Opinions

- **These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee.**



### Summary of Partial Opinions

One audit finalised in the period were awarded partial assurance. The significant finding from this audit has been summarised below.

#### **Payment Card Industry Data Security Standard Compliance (PCI-DSS)– ‘Partial’**

The PCI-DSS is a Worldwide standard that was set up to ensure that businesses process card payments securely and reduce payment card fraud. One of the major requirements of the PCI-DSS is for the Merchant (SCC) to complete an annual Self Assessment Questionnaire (SAQ) and Attestation of Compliance Form (AOC). These were completed by SCC in April 2016, but still have areas outstanding for 2017. Attestations have been given for some areas and there was evidence that SCC is working towards a complete attestation, though at the time of the audit there was no confirmed timescale for the completion of this work.

## Summary of Audit Work 2017/18

Update 2016/17 and 2017/18

Completed Assignments in the Period



Internal Audit Work Programme Progress to Date

Refer to Appendix B for detail of the individual audits.

After nine months delivery of the plan progress can be summarised as follows:

- 24 final reports
- 3 draft report/discussion document/fieldwork complete
- 15 in progress

In addition, 18 school visits and 11 early years visits have taken place so far this year.

There remain 21 audits yet to start, a significant number of which have initial meetings scheduled for January. Some of the start dates of these audits have been delayed during the year and where this is the case it is shown against the audit at Appendix B.

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



## SWAP Performance

SWAP performance is subject to regular monitoring review by both the Board and at Member Meetings. The respective performance results for Somerset County Council and other SWAP partners, using data to the end of October 2017 is as follows:

Performance Target	SCC Performance	Partners Performance
<b><u>Audit Plan – Percentage Progress</u></b> Final, Draft and Discussion Reports	45%	31%
<b><u>Draft Reports</u></b> Issued within 5 working days	73%	71%
<b><u>Final Reports</u></b> Issued within 10 working days of discussion of draft report	76%	69%
<b><u>Quality of Audit Work</u></b> Customer Satisfaction Questionnaire	86%	91%



**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 Plan

As reported previously a number of additional audit reviews have been added to the plan this year, particularly during Q3. The plan needs to be flexible to be able to respond to such requests to ensure that areas of high priority and risk can be accommodated. This meant that some planned audit work scheduled for Q3 was delayed. It has also been necessary to defer some audits to accommodate this additional work, some of these audits directly related to the Healthy Organisation work and these will be treated as priority audits in next year's plan. To prevent having to compromise the plan by deferring further work, some work has been commissioned in addition to the plan and SWAP will be paid separately for this.



## Conclusion

Additional audit work carried out in Q3 has meant that completion of planned work has been delayed. In addition, requests have been made for some audits to be delayed to Q4 and together this has created a heavy workload for the final quarter. Delivery will be a challenge and audit additional resources have been secured to help address this but this will mean that work will be ongoing into the first quarter of the new year.

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

- Substantial
- Reasonable
- Partial
- None



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>None</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.

**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.

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	5 = Major ← 1 = Minor					Comments
								Recommendation					
								5	4	3	2	1	
Childrens Services	Follow Up	Retention of Foster Carers Follow-Up	Q1	Final	n/a	07/04/2017	0	0	0	0	0	0	Further work required - not removed from JCAD.
Childrens Services	Follow Up	Multi Agency Safeguarding Board Follow-Up	Q1	Final	n/a	10/04/2017	0	0	0	0	0	0	Satisfactory progress - removed from JCAD.
ICT	ICT	Readiness for the New General Data Protection Regulations (GDPR)	Q1	Final	Partial	01/05/2017	9	0	4	5	0	0	
ICT	Follow Up	Homefinders - Follow Up	Q1	Final	n/a	12/07/2017	0	0	0	0	0	0	Follow-up work complete and ongoing risk being tolerated.
Information management	Governance, Fraud & Corruption	Data Subject Access Requests (DSAR)	Q1	Final	Partial	02/05/2017	9	0	2	7	0	0	
Finance and Performance	Operational	Dillington House Financial Controls Review	Q1	Final	Advisory	05/05/2017	10	0	3	7	0	0	Addition to Plan – opinion based review to be performed next year.
Adult Services	Follow Up	Personal Budgets Follow-Up	Q1	Final	n/a	01/04/2017	0	0	0	0	0	0	Satisfactory progress - removed from JCAD.
ICT	ICT	RIPA Use of Internet as a means of Surveillance	Q1	Final	Partial	01/05/2017	5	0	1	4	0	0	

## Internal Audit Plan Progress 2017/18

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	5 = Major ← 1 = Minor					Comments
								Recommendation					
								5	4	3	2	1	
Health and safety	Follow Up	Health & Safety - Premises Management SCC Establishments Follow-Up	Q1	Final	n/a	02/06/2017	0	0	0	0	0	0	Further audit work required - not removed from JCAD. Scheduled for Q3.
Adult Services	Follow Up	Deprivation of Liberty Follow-Up	Q1	Final	n/a	10/07/2017							Follow-up work complete and ongoing risk being tolerated.
Schools	School Theme	Financial Governance, Budget Planning and Monitoring	Q1	Final	Reasonable	12/06/2017	14	0	1	13	0	0	Based on summer term school visits.
Property Services	Operational	Contract Letting and Management	Q1	Final	Advisory	26/07/2017							
HR	Operational	People Strategy	Q2	Final	Advisory	10/08/2017							Advice on new people strategy
Schools	Advice	Schools Financial Value Standard Moderation	Q2	Final	n/a	07/09/2017							
Human Resources	Governance, Fraud & Corruption	Staff Benefit Scheme – HMRC compliance	Q2	Final	Reasonable	08/08/2017	3	0	0	3	0	0	Addition to Plan
Human Resources	Operational	Staff Benefit Scheme	Q2	Final	Advisory	22/08/2017							
ECI	Operational	Use of Agency staff	Q2	Final	Advisory	08/09/2017							
Childrens Services	Early Years	Early Years Themed & Follow Up Report	Q2	Final	Reasonable	31/07/2017							

## Internal Audit Plan Progress 2017/18

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	5 = Major ← 1 = Minor					Comments
								Recommendation					
								5	4	3	2	1	
Procurement	Governance, Fraud & Corruption	Social Value Policy	Q1	Final	Reasonable	26/06/2017							
Schools	School	School Theme - Schools Financial Value Standard (SFVS)	Q3	Final	Reasonable	09/10/2017	15	0	1	14	0	0	Based on autumn term school visits.
ICT	ICT	Payment Card Industry Data Security Standard compliance	Q2	Final	Partial	11/07/2017	12	0	1	11	0	0	
Children and Families	Operational	Financial Controls - Childrens Centre	Q2	Final	Advisory	28/08/2017							
Finance and Performance	Governance, Fraud & Corruption	Local Preparations for Managing National Fraud Risks	Q2	Final	Advisory	03/08/2017	4	0	0	4	0	0	
Public Health	Operational	Vulnerable Person Resettlement Programme	Q3	Final	Advisory	08/11/2017	7	0	3	4	0	0	Commissioned audit in addition to plan.
Finance & Performance	Follow Up	Cash Handling - Implementation of Policy Follow-Up	Q3	Draft		11/12/2017							
Children Services	Operational	Childrens Direct Payments	Q2	Discussion Document		01/08/2017							
Business Development	Governance, Fraud & Corruption	Procurement - The Monitoring and Control of Savings Made	Q2	Fieldwork completed		11/09/2017							

## Internal Audit Plan Progress 2017/18

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	5 = Major ← 1 = Minor					Comments
								Recommendation					
								5	4	3	2	1	
Childrens Services	Key Control	Troubled Families certification of claims	Q1	In progress		28/07/2017						Claim periods spread over the year	
Corporate	Operational	Healthy Organisation Strategic Review - Follow-Up	Q1	In progress		01/04/2017						Work to monitor this action plan will be ongoing throughout 17/18.	
Transport and infrastructure	Advice	Concessionary Fares	Q1	In progress		01/04/2017						Ongoing advice through the year.	
Adult Services	Operational	Risk of Care Provider Failure	Q2	In progress		14/08/2017						Deferred from Q1 due to restructure within Adult Services.	
Finance & Performance	Governance, Fraud & Corruption	MTFP - The Commissioning Lead Approach	Q2	In progress		16/08/2017							
Education	Operational	The Education of Children Looked After	Q2	In progress		31/07/2017							
ICT	ICT	Business Applications - Business Critical System Capita One	Q2	In progress		11/07/2017							
Adult Services	Operational	Mental Health	Q3	In progress		13/11/2017							
Education	Operational	Use of Part-Time Timetables in Schools	Q3	In progress		13/10/2017							
Finance & Performance	Key Control	Payroll (including IR35)	Q3	In progress		02/10/2017							

## Internal Audit Plan Progress 2017/18

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	5 = Major ← 1 = Minor					Comments
								Recommendation					
								5	4	3	2	1	
Adult Services	Operational	The Efficiency and Effectiveness of the New Operating Model	Q4	In Progress		08/01/2018							
Finance & Performance	Key Control	Debt Management	Q3	In Progress		9/11/2017							Initial meeting 8/11/2017
ICT	ICT	SAP - Financial System IT Controls	Q3	In Progress		12/12/2017							
Education	Follow Up	Health & Safety - Premises Management Schools and non schools Follow-Up	Q3	In Progress									
Finance & Performance	Key Control	Creditors	Q4	In Progress									Initial meeting 13/11/2017
ICT	ICT	Network Resilience and Authentication	Q3	Not Started									
Adults Services	Follow Up	Adults Income Collection - Personal Finance Contributions Follow-Up	Q4	Not started									Deferred from Q2 to allow sufficient time for agreed actions to be implemented. Initial meeting 18/01/2018
Adult Services	Follow Up	Safeguarding Follow-Up	Q3	Not started									Deferred from Q1 to allow sufficient time for agreed actions to be implemented.
Childrens Services	Operational	Independent Placements for CLA and Education - Financial Controls	Q3	Not started									Initial meeting 9/01/2018

## Internal Audit Plan Progress 2017/18

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	5 = Major ← 1 = Minor					Comments
								Recommendation					
								5	4	3	2	1	
Business Development	Governance, Fraud & Corruption	Project Management - Of Projects Outside of Core Council Programme including Benefit Realisation	Q3	Not started								Start delayed - awaiting confirmation of projects to include.	
Adults Services	Follow Up	Adults Placements	Q4	Not started								Deferred from Q2 to allow sufficient time for agreed actions to be implemented. Initial Meeting 18/01/2018	
Adult Services	Follow Up	Direct Payments – ISP interface Follow-Up	Q4	Not started								Deferred from Q2 to allow sufficient time for agreed actions to be implemented. Initial Meeting 01/02/2018.	
Corporate	Governance, Fraud & Corruption	Corporate Management of Health and Safety	Q3	Not started								Schedule start after follow-ups complete.	
Business Development	Governance, Fraud & Corruption	Value for Money Strategy and Reporting	Q3	Not started									
Corporate	Governance, Fraud & Corruption	Corporate Contracts - Performance Management	Q3	Not started								Initial Meeting 15/01/2018	
School Theme	Follow-up	The Planned use of school balances follow-up	Q4	Not started								Deferred from Q1 to allow sufficient time for agreed actions to be implemented.  Initial Meeting 09/01/2018	



## Internal Audit Plan Progress 2017/18

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	5 = Major ← 1 = Minor					Comments
								Recommendation					
								5	4	3	2	1	
ECI	Governance, Fraud & Corruption	Strategic Asset Management	Q4	Not started									Initial meeting 17/01/2018
Business Development	Follow Up	Hardware Asset Management - Follow Up	Q4	Not started									
ICT	Follow Up	Incident/Problem/Change Management - Follow Up	Q4	Not started									
ICT	ICT	Active Directory/User Admin	Q4	Not started									
ICT	ICT	Position Statement on Outstanding Follow-Up Audits including Software and Healthy Organisation	Q4	Not started									
ICT	ICT	Threat Management	Q4	Not started									
ECI	Follow Up	Section 106 Agreements Follow-Up	Q4	Not started									Deferred from Q1 to allow sufficient time for agreed actions to be implemented.  Initial Meeting scheduled for 08/01
ECI	Key Control	Concessionary Fares - Key Control Review	Q4	Not started									Initial meeting 17/01/2018
Education	Operational	The Transport of Children	Q4	Not started									

## Internal Audit Plan Progress 2017/18

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	5 = Major ← 1 = Minor					Comments
								Recommendation					
								5	4	3	2	1	
School	School Theme	School Theme – E-Safety	Q4	Not started									Initial meeting 10/01/2018
Finance & Performance	Governance, Fraud & Corruption	Performance Management - Service Planning	Q4	Deferred									Deferred to Q1 2018/19 due to additional time spent on audits added to the plan in the year.
HR	Governance, Fraud & Corruption	Workforce Planning	Q4	Deferred									Deferred to Q1 2018/19 and replaced with Staff Benefit Scheme advisory review.
Corporate	Governance, Fraud & Corruption	Procurement - Category Management	Q4	Deferred									Deferred to Q1 2018/19 and replaced with advisory reviews.
Business Development	Governance, Fraud & Corruption	Project Management - Benefits Realisation of Projects Outside of Core Council Programme	Q3	Removed									Replaced with Contract Letting and Management advisory review. Benefits Realisation will be included in Q3 Project Management Audit.
ICT	Follow Up	AIS - Data Quality Follow-Up	Q2	Removed									Follow-up work complete and ongoing risk being tolerated. Days added to Adults income collection.
Education	Operational	Structural Failure of School Buildings	Q4	Removed									Removed from the plan to release time for additional advisory work.

## Internal Audit Plan Progress 2017/18

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	5 = Major ← 1 = Minor					Comments
								Recommendation					
								5	4	3	2	1	
<b>Schools</b>													
Schools	School	School Theme – Financial Governance Beech Grove	Q1	Final	Reasonable	05/07/2017	10	0	0	10	0	0	
Schools	School	School Theme – Financial Governance Critchill	Q1	Final	Reasonable	05/07/2017	11	0	1	10	0	0	
Schools	School	School Theme – Financial Governance Heathfield	Q1	Final	Reasonable	05/06/2017	8	0	0	8	0	0	
Schools	School	School Theme – Financial Governance St Marys	Q1	Final	Reasonable	05/06/2017	5	0	0	5	0	0	
Schools	School	School Theme – Financial Governance Stoberry	Q1	Final	Reasonable	05/06/2017	6	0	0	6	0	0	
Schools	School	School Theme – Financial Governance Swanmead	Q1	Final	Reasonable	05/06/2017	10	0	1	9	0	0	
Schools	School	School Theme – Financial Governance Wadham	Q1	Final	Partial	05/06/2017	15	0	3	12	0	0	
Schools	School	School Theme – Financial Governance Winsham	Q1	Final	Partial	05/07/2017	11	0	2	9	0	0	
Schools	Follow-up	Churchstanton - SFVS Follow-Up	Q1	Final	n/a	04/07/2017	n/a	0	0	0	0	0	

## Internal Audit Plan Progress 2017/18

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	5 = Major ← 1 = Minor					Comments
								Recommendation					
								5	4	3	2	1	
Schools	Follow-up	Penrose School - School Balances Follow-Up	Q1	Final	n/a	26/06/2017	n/a	0	0	0	0	0	
Schools	School	School Theme – SFVS Ashcott	Q3	Final	Reasonable	09/10/2017	12	0	0	12	0	0	
Schools	School	School Theme – SFVS Avalon	Q3	Final	Reasonable	09/10/2017	11	0	0	11	0	0	
Schools	School	School Theme – SFVS Cheddar First	Q3	Final	Reasonable	09/10/2017	12	0	0	9	3	0	
Schools	School	School Theme – SFVS Vallis First	Q3	Final	Reasonable	09/10/2017	13	0	1	9	3	0	
Schools	School	School Theme – SFVS West Huntspill	Q3	Final	Reasonable	09/10/2017	15	0	0	12	3	0	
Schools	School	School Theme – SFVS Castle Cary	Q3	Final	Reasonable	12/10/2017	13	0	0	13	0	0	
Schools	School	School Theme – SFVS St Benedict's	Q3	Final	Reasonable	09/10/2017	16	0	0	16	0	0	
Schools	School	School Theme – SFVS Norton Sub-Hamdon	Q3	Final	Reasonable	09/10/2017	15	0	0	11	4	0	
<b>Early Years</b>													
Childrens Services	Early Years	Billy's Young Stars Nursery (Butlins Minehead)	Q1	Final	Reasonable	22/06/2017	4	0	0	4	0	0	
Childrens Services	Early Years	Churchfield Nursery (Highbridge)	Q1	Final	Partial	16/06/2017	6	0	2	4	0	0	

## Internal Audit Plan Progress 2017/18

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	5 = Major ← 1 = Minor					Comments
								Recommendation					
								5	4	3	2	1	
Childrens Services	Early Years	Little Otters Pre-School (Combwich)	Q1	Final	Reasonable	20/06/2017	5	0	0	5	0	0	
Childrens Services	Early Years	Sunny Ile Pre-School (Ilminster)	Q1	Final	Reasonable	06/06/2017	3	0	0	3	0	0	
Childrens Services	Early Years	Wellesley Park Pre-School (Wellington)	Q1	Final	Reasonable	13/06/2017	4	0	0	4	0	0	
Childrens Services	Early Years	Heron Pre-School (Ilchester)	Q1	Final	Reasonable	15/06/2017	3	0	0	3	0	0	
Childrens Services	Early Years	Charlotte Hamlin (Merriott)	Q3	Final	Reasonable	23/11/2017	4	0	1	3	0	0	
Childrens Services	Early Years	Community Kids (Bruton)	Q3	Final	Reasonable	27/11/2017	4	0	1	3	0	0	
Childrens Services	Early Years	Steiner Academy (Frome)	Q3	Draft	Partial	1/12/2017	4	0	1	3	0	0	
Childrens Services	Early Years	Holyrood Playgroup (Chard)	Q3	Draft	Partial	5/12/2017	5	0	1	4	0	0	
Childrens Services	Early Years	Next Steps Childcare (Shepton Mallet)	Q3	Draft	No Assurance	04/12/2017	3	0	2	1	0	0	

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Somerset County Council  
Audit Committee – 25 January 2018

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## **Quarterly Risk management update**

Service Director: Kevin Nacey, Director of Finance and Performance

Lead Officer: Scott Wooldridge, Governance Manager

Author: Scott Wooldridge and Pam Pursley, Principal Officer-Risk Management

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Cabinet Member: Cllr D Hall, Cabinet Member for Resources and Member  
Champion for Risk

Division / Local Member: All

### **1. Summary/link to the County Plan**

- 1.1** The role of the Audit Committee is to ensure there is an effective process for managing risks across the County Council. This report seeks to provide assurance on risk management processes and management actions being undertaken in accordance with the Council's policies and procedures.
- 1.2** The aim of risk management is to identify business risks and effectively manage them in line with the County Council's Risk Management framework.
- 1.3** Effective risk management can have a major impact on the achievement of the objectives, policies and strategies of the authority and relates to all the priorities within the County Plan.

### **2. Issues for consideration**

- 2.1** The Committee is asked to note the latest position with managing strategic risks as set out in this report and Appendix A and in particular the critical risk outlined in paragraphs 3.3-3.20.

### **3. Background**

- 3.1** SRMG meets monthly with nominated officer representation from across the organisation. SRMG identify, monitor, review and report strategic risks to Senior Leadership Team (SLT).
- 3.2** The role of the Audit Committee is to ensure there is an effective process for managing risks across the County Council and it receives a Risk Management update on a quarterly basis. If necessary, Audit Committee is able to question Cabinet Members and Senior Managers about their risk management actions and controls in order to ensure risks remain within tolerance.

### **3.3 Critical Strategic Risk facing the Council**

SLT has recently reviewed the following critical strategic risk facing the Council and the management actions being taken:

**ORG0043 Maintain a sustainable budget** – since the last update the risk score has been reviewed and increased to the maximum score of 25 (very high) as at the end of December 2017. Last financial year, 2016/17, there was a year-end overspend of £7.049m, with the main area of overspend being in Children’s and Adults services. The demands upon these services have not reduced throughout this financial year and are not likely to over the course of the year. The transformational work under way to improve demand management and simultaneously improve outcomes for vulnerable children and adults is well under way. The additional funding from government alongside the management action in adults is keeping this budget under control. There has been no additional funding for children services and management action is struggling to change patterns of expenditure.

SCC is therefore in a position where we are trying to mitigate pressures across the whole Council as well as in those core care services to off-set the overspend while transformation takes place in line with our MTFP themes as trailed in budget papers throughout last financial year.

- 3.4** As outlined in previous reports, the Government has significantly reduced the levels of funding in Local Government. The Council faces on-going challenges both within the current financial year and in developing a balanced budget for its Medium Term Financial Plan 2018/19 to deliver its 2020 Vision.
- 3.5** The financial climate for local authorities is particularly uncertain both in relation to the totality of resources available for the sector and the distribution of those resources. The Council continues to lobby for fairer funding for Somerset but Members need to be aware that many other councils face similar financial challenges.
- 3.6** The 2017/18 financial year cannot be considered in isolation as it is becoming increasingly important to hold reserves capable of smoothing transition and enabling the Council to manage service change in an effective manner.
- 3.7** As reported previously, not being able to balance the budget has more serious consequences for councils than the public may realise because it is a legal requirement under the Local Government Finance Act 1988.
- 3.8** The Revenue Budget monitoring report for month 6 was considered at Cabinet on 15 November and this set out a projected net overspend of £9.098m (further details of this can be found in the Cabinet report) when compared to the Revenue Budget. This represents 2.92% of base budget. The majority of the overspend lies in the Children’s Services budgets and most other areas of the Council are within reasonable tolerance although some corporate and support budgets are under pressure. The position is exacerbated by 32% of agreed MTFP savings for 2017/18 no longer being



deliverable.

**3.9** Cabinet and the Senior Leadership Team have taken some immediate actions to address the overspend projections. Given last year's position, there are already 5 high priority projects under way (all but one of which are affecting children's services budgets) to identify ways of reducing spending and managing demand. These are having some success in reducing overspend and delivering MTFP savings but are projects that in some cases span last year, this year and next before coming to fruition.

**3.10** If the overspend were to be at the same level by year end, this would significantly reduce the Council's General Balances placing them well below the recommended range.

We have to face up to the increasing demand and devise better ways of managing the increases while continuing to provide statutory services.

The availability and use of reserves is critical in being able to manage spikes in demand and costs incurred. Our corporate risk register recognises this and we will put mitigating actions in place to reduce the level of overspends wherever possible.

**3.11** In terms of the MTFP 2018/19, in July 2017, the Cabinet agreed to continue the approach of identifying savings using the previous MTFP themes. This is an outcome led, commissioning approach to redefining services to meet residents' needs and maximise available resources in favour of the Council's priorities. It is fundamental that the Council takes a longer-term approach but funding uncertainty is making that more difficult.

**3.12** The main requirement is to ensure that the Council has a balanced budget for 2018/19 in time for approval at February's Full Council Meeting. Future years can be further refined as the MTFP cycle continues.

**3.13** The MTFP gap increases and decreases constantly as various factors affect our budgetary position. On the positive side, the increased levels of funding received via the Improved Better Care Fund along with a stabilisation of costs in Adult Social Care and Learning Disabilities have helped to reduce forecasted pressures in these services.

In terms of our funding, estimates have been received from District Councils for Taxbase numbers and collection fund surplus and these are sufficiently buoyant to include as an additional income of £0.550m regarding taxbase and £1m in terms of the collection fund.

However, on the negative side, as part of the annual roll-over process of the MTFP, we have reviewed the existing and future delivery of savings agreed for the 2017/20 MTFP, and it is clear that some of those savings are no longer considered to be deliverable. In line with setting a robust budget we

have taken these into account and had to re-adjust savings values required to balance the budget. In addition, the probable pay award pressure at 2% will add to SCC costs by approximately £2.2m and this has been included in our estimates at present. These factors have resulted in the overall gap in 2018/19 being £13m.

- 3.14** In terms of the Revenue Budget, the Cabinet and the Senior Leadership Team have taken a strategic approach to the development of savings proposals required to close the gap of £13m. The focus for delivering savings will be primarily through a comprehensive review of all existing and planned contracts reducing our third party spend.

Some of the savings in our contractual expenditure will be made via better procurement, working with our supply chain to reduce rates and unit costs but we must also try to reduce demand and the volume of activity put through those contracts. In some instances we will have the opportunity to revisit contracts about to expire and this provides the chance to rethink how we approach the market for the provision required and really examine what outcomes are most needed.

- 3.15** The second area of focus will involve trying to identify a number of smaller projects that will manage demand or find efficiencies within services. This will entail looking at our staffing and particularly management levels throughout the organisation to see if we can use technology better to try and see where any further efficiencies can be made. Inevitably, with the pressures we face, having lost a further £10m in government grant with no permanent solution likely until 2020/21, we need to look to fund services through a combination of these savings and by increasing council tax to ensure we meet our statutory functions.

- 3.16** In terms of the proposed Capital Investment Programme, the shortage of capital funds is a known issue for all county councils and representations have been made to DCLG through the consultations on the Fairer Funding Review last summer that government has to recognise the pressures on councils to meet the growing need.

The national push to increase the number of houses built is being addressed in Somerset but the consequence is a need to match this with highways and schools infrastructure. Of course, there is a lag between the investment required by councils and the additional council tax that ensues from the new housing. The increase in the taxbase may be as much as £2m if the scale of development is approved under the HIF bid.

The developer contributions have never been enough to cover this up-front investment and it seems the viability in some developments is putting a downward pressure on their willingness or ability to agree to s106 contributions. This only serves to create a bigger pressure on SCC and other councils to meet the infrastructure costs themselves.

- 3.17** The level of funding SCC will receive as a minimum from Government for 2018/19 in the form of grants will be £29.7m.
- 3.18** However, the likely scale of the capital investment needed will exceed our available resources but we have to await the outcome of announcements by government before we can gauge the real gap. The provisional Capital Investment Programme may therefore be amended when presented to the February Cabinet and Full Council meetings.
- 3.19** The MTFP 2018/19 will be considered at the three Scrutiny Committees during late January ahead of Cabinet on 12 February then making recommendations to Full Council's February meeting. Until the proposed budget for 2018/19 and the necessary savings targets are approved at Full Council then the risk score for ORG0043 will remain 25.

Cabinet and the Senior Leadership Team introduced the 10-Point Plan in September 2016, to help reduce the in-year deficit. This is now being brought into use again, to help mitigate against projected deficits in 2017-18 and 2018 - 19.

- 3.20** SCC faced similar financial challenges during 2016/17 and put in place a rigorous management plan to address overspend pressures. Audit Committee can be assured that the Senior Leadership Team and Cabinet will continue to manage the financial position, robustly challenge any overspends, implement management actions and develop options in order to bring the overall budget back into balance. The Section 151 Officer will continue to provide financial support, present options and give advice to SLT and the Cabinet to help maintain a sustainable budget for 2017/18 and to generate proposals to achieve a balanced budget for 2018/19.

**3.21 Strategic Risks – summary position**

The summary position for the Council's corporate and strategic risks (attached at Appendix A) sets out the risk scores assessed by relevant SLT Directors.

- 3.22** Strategic risks are those which affect the council's strategic goals and objectives e.g. the council's statutory duties for safeguarding adults and children. The Senior Leadership Team and individual SLT Directors regularly review the strategic risks in Appendix A.

- 3.23** Officers have compared the latest position with the last update to the Audit Committee in September 2017 and the following is highlighted :

Dimension and Objective	RAG status	
	Dec 17	Sep 17
Very High risks (red)	4	4
High risks (amber)	4	4

Medium risks (yellow)	6	6
Low risks (green)	1	1

Overall our risk position remains generally the same as reported previously.

The four 'Very High' risks with a minimum score of 16 are:

- (ORG0043) Maintain sustainable budget – score of 25 (increased)
- (ORG0009) Safeguarding Children – score of 20 (no change)
- (ORG0036) Partnership working – score of 20 (no change)
- (ORG0032) Information Governance – score of 16 (no change)

**3.24** In addition to details in 3.3-3.21 about ORG0043, the following provides further information regarding the other very high risks:

- ORG0009 (Safeguarding Children) remains at a score of 20 (very high). Progress for the first year of the Children and Young People's Plan has been reported to the Children's Trust Executive and the Cabinet. The Children's Trust Executive is pleased with the progress against the 7 Improvement Programmes, but recognises there is still much work to be done. Action plans for 2017/18 have been drawn up with a focus on a stepped improvement over this second year to ensure year 3 achieves the outcomes of the CYPP in 2019. Ofsted quarterly monitoring visits have concluded adequate progress is being made and DfE intervention has confirmed a "significant improvement" in Somerset's Children's Services, including more manageable case-loads, a more stable workforce and better partnership working as reported by the Minister in December 2016. Despite this, until the Ofsted re-inspection report is published in late January, services are judged inadequate and there is a corporate risk for Safeguarding Children that has a very high risk rating. Change is evident but universal improvement remains is a challenge.
- ORG0032 (Information Governance) remains at its previous score of 16 (very high) due to the requirements of the European Union General Data Protection Regulation which comes into force in May 2018.
- ORG0036 (partnerships) remains at a score of 20 following the Brexit referendum and changes in national government providing uncertainty for policy directions and levels of future funding for significant strategic partnership programmes like integrated working with the NHS and CCG, the LEP and Devolution proposals.

**3.25** Assurance on the overall risk management process is provided through the Annual Governance Statement and no significant issues have been identified for risk management from 2016/17. Nevertheless, there has been an increase in the level and scale of business risk that the Council faces to deliver its priorities and services. This has been evidenced not just by JCAD and specific reports but also an increase in Internal Audit reports with Level

4/5 recommendations for action by services. Audit Committee continues to take an active role in reviewing services' progress with actions relating to Level 4/5 recommendations.

**3.26** The Council also recognises, however, that risk management is as much about exploiting opportunities as it is about managing threats. Risks need to be managed rather than avoided, and consideration of risk should not stifle innovation. In some cases the Council may wish to accept a relatively high level of risk because the benefits of the action outweigh the risk or disadvantages on the basis that the risk will be well managed.

### **3.27 Level 4/5 internal audit recommendations**

At the 26 March 2015 meeting, Audit Committee members decided that all audits where SWAP can only offer "partial" assurance must come back to a future Audit Committee as part of the "follow up" process, and that agreed actions rated as 4 (Medium / High) or 5 (High) need to be formally recorded and tracked through to completion. Audit Committee receive six monthly updates setting a summary of progress.

A summary of the latest position with Level 4 / 5 partial assurance audits will be reported to the next Audit Committee meeting in March as part of the proposed Internal Audit Plan. It should be highlighted that the Audit Committee has held a number of additional meetings during 2017 to review progress with action plans on specific partial audits.

### **3.28 Council wide mitigations and communicating the risk management culture**

One of the key elements of the Risk Management Policy and Strategy is the review of risks and application of mitigations on a proportionate basis according to their risk score. This is intended to focus available resources on the areas of highest risk and reflect an increased tolerance of medium and high risks due to the scale of change and financial challenges to the Council.

## **4. Consultations undertaken**

**4.1** Strategic Risk Management Group (SRMG) continues to review risk management and the Strategic Risk Register regularly and escalate any issues as necessary to the Senior Leadership Team.

## **5. Implications**

**5.1** The risk management reporting arrangements ensure that both senior managers and elected members have regular review of key organisational risks on a regular basis. Coupled with the Performance Dashboard reporting this improves management information and where any urgent management

action / resources need to be directed.

- 5.2** Risk Management is integral to the Corporate Governance Framework and supports the Annual Governance Statement. How successful we are in dealing with the risks we face can also have a major impact on the achievement of our corporate priorities and the delivery of services.
- 5.3** There is a risk of external challenge around the effectiveness of the decisions made if the Council's risk management process is not seen to be adhered to in these times of change.

## **6. Background papers**

- 6.1** Council's Risk Management Policy and Strategy agreed by Cabinet in October 2016  
Previous update reports to Audit Committee  
Revenue Budget monitoring report as at end of month 6 2017 considered at Cabinet on 15 November 2017  
Medium Term Financial Plan 2018/19 update considered at Cabinet on 15 November 2017

**Note** For sight of individual background papers please contact the report author

# RAG Priority Matrix

	<b>Very likely</b> 5	<b>5 Low</b> at least annual	<b>10 Low</b> At least annual	<b>15 High</b> Monthly	<b>20 Very High</b> Monthly	<b>25 Very High</b> Monthly
<b>Likelihood (a)</b>	<b>Likely</b> 4	<b>4 Low</b> At least annual	<b>8 Low</b> At least annual	<b>12 High</b> Monthly	<b>Escalate To SRMG</b>	
	<b>Feasible</b> 3	<b>3 Low</b> At least annual	<b>6 Low</b> At least annual	<b>9 Medium</b> Quarterly	<b>12 High</b> Monthly	<b>15 High</b> Monthly
	<b>Slight</b> 2	<b>2 Low</b> No action required	<b>4 Low</b> At least annual	<b>6 Low</b> At least annual	<b>8 Medium</b> Quarterly	<b>10 High</b> Business Continuity Plan Annual
	<b>Very unlikely</b> 1	<b>1 Low</b> No action required	<b>2 Low</b> No action required	<b>3 Low</b> At least annual	<b>4 Medium</b> Quarterly	<b>5 High</b> Business Continuity Plan Annual
		<b>Insignificant</b> 1	<b>Minor</b> 2	<b>Significant</b> 3	<b>Major</b> 4	<b>Critical</b> 5
		<b>Impact (b)</b>				

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## Appendix A

## Risk Report - Somerset County Council

Risk Ref	Risk	Uncontrolled Risk	Action Required (In progress Only)	Control Owner Review Date Target Date	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
ORG0043  Risk Owner: Kevin Nacey  Next Risk Review Date: 12/02/2018	<p><b>Risk Description:</b> Strategic Risk 2016: Maintain a sustainable budget: Reserves will not be sufficient to manage any in-year overspends for the forthcoming financial year 2017/18</p> <p><b>Cause:</b> Unforeseen expenditure and overspends exceed the planned provision</p> <p><b>Consequence:</b> The budget contingency is exhausted and general reserves are approaching minimum recommended levels (£15 m). Where planned expenditure is anticipated to exceed available resources then a S114 and actions report must be produced by The Section 151 officer.</p>	<p>Likelihood :5 Impact :5</p> <p style="text-align: center;"><b>25</b></p> <p>Escalate to SRMG</p>	<ul style="list-style-type: none"> <li>◦ <b>Serious challenge to MTFP savings proposals for the 2017/18 year to ensure they are achievable</b> Reviewed 07/12/2017 by P Flaherty: Ongoing budgetary challenges both in year and for next. <i>In Progress</i> (75% complete)</li> <li>◦ <b>Heightened budget monitoring on those services showing budget overspend</b> Part of the 10 point plan, in progress <i>In Progress</i> (90% complete)</li> <li>◦ <b>Cabinet receive monthly budget monitoring updates</b> Part of the 10 point plan, in progress <i>In Progress</i> (40% complete)</li> <li>◦ <b>Review of the earmarked reserves to establish if any of those could be rescinded and returned to general reserves</b> Part of the 10 point plan, in progress <i>In Progress</i> (50% complete)</li> <li>◦ <b>Development &amp; approval of MTFP 2017/2018 - ensure necessary resources are in place to meet key priorities</b> Part of the 10 point plan, in progress <i>In Progress</i> (95% complete)</li> <li>◦ <b>Better establishment control in SAP</b> Part of the 10 point plan, in progress <i>In Progress</i> (80% complete)</li> <li>◦ <b>Control on Agency Spend</b> Part of the 10 point plan, in progress <i>In Progress</i> (10% complete)</li> </ul>	<p><b>Patrick Flaherty</b> <a href="#">15/01/2018</a> 30/03/2018</p> <p><b>Kevin Nacey</b> <a href="#">12/02/2018</a> 30/03/2018</p> <p><b>Kevin Nacey</b> <a href="#">12/02/2018</a> 30/03/2018</p> <p><b>Kevin Nacey</b> <a href="#">12/02/2018</a> 30/03/2018</p> <p><b>Kevin Nacey</b> <a href="#">12/02/2018</a> 30/03/2018</p> <p><b>Kevin Nacey</b> <a href="#">12/02/2018</a> 30/03/2018</p> <p><b>Kevin Nacey</b> <a href="#">12/02/2018</a> 30/03/2018</p>	<p>Likelihood :5 Impact :5</p> <p style="text-align: center;"><b>25</b></p> <p>Escalate to SRMG</p>	<p>Likelihood :4 Impact :5</p> <p style="text-align: center;"><b>20</b></p> <p>Escalate to SRMG</p>	<p>10/01/2018 Reviewed 09/01/2018: Risk score increased following the month 6 budget monitoring report which went to Cabinet on 15th November 2017.</p> <p>SCC to continue to manage increasing demand and devise better ways of managing increases whilst still delivering statutory services. The availability and use of reserves is critical to managing spikes in demand.</p> <p>The increased projected spend within Children's Services and non-delivery of MTFP savings during 2017/18 remain areas of concern.</p>

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				<ul style="list-style-type: none"> <li>o focussing on contract spend in all areas but specifically in Children's services</li> </ul> Part of the 10 point plan, in progress In Progress (10% complete)	Kevin Nacey 12/02/2018 30/03/2018			

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<p><b>ORG0009</b></p> <p><b>Risk Owner:</b> Julian Wooster</p> <p><b>Next Risk Review Date:</b> 08/01/2018</p>	<p><b>Risk Description:</b> Strategic Risk 2016: Safeguarding Children: We fail to deliver our statutory service delivery duties and legal obligations in relation to vulnerable children.</p> <p><b>Cause:</b> Systemic leadership and management challenges</p> <p><b>Consequence:</b> Possible abuse, injury or loss of life to a vulnerable child caused by service failure. Reduced public confidence; emergency measures; increased inspection; personal litigation claims; negative publicity for both the Council and partners; possible financial penalty or service is removed from Council control.</p>	<p>Likelihood :5 Impact :5</p> <p style="text-align: center;"><b>25</b></p> <p>Escalate to SRMG</p>	<p>o <b>CYPP 7 Improvement Programmes</b> Review: The Children's Trust Executive are pleased with the progress against the 7 Improvement Programmes, but recognise there is still much work to be done. Action plans for 2017/18 have been drawn up with a focus on a stepped improvement over this second year to ensure year 3 achieves the outcomes of the CYPP in 2019 <i>In Progress (35% complete)</i></p>	<p><b>Adrienne Parry</b> 31/01/2018 31/03/2018</p>	<p>Likelihood :4 Impact :5</p> <p style="text-align: center;"><b>20</b></p> <p>Escalate to SRMG</p>	<p>Likelihood :4 Impact :5</p> <p style="text-align: center;"><b>20</b></p> <p>Escalate to SRMG</p>	<p>29/11/2017 Review statement taken from the Corporate Performance Report - End September 2017.</p> <p>Safer Children and Better Care - (red but improving) •The Children's Trust Executive are pleased with the progress against the 7 Improvement Programmes, but recognise there is still much to do. Action Plans for 2017/18 are in place and Q2 performance against the CYPP was considered by the Policies, Children and Families Scrutiny Committee on 17th November 2017. Ofsted quarterly monitoring visits have concluded adequate progress is being made and DfE intervention has confirmed a " significant improvement " in Somerset's Children's Services, including more manageable case-loads, a more stable workforce and better partnership working as reported by the Minister in 2016. Despite this, until the re-inspection concludes, services are judged inadequate and there is a corporate risk for Safeguarding Children that has a very high risk rating. Change is evident but universal improvement remains a challenge.</p> <p>Ofsted Inspection commenced</p>

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								on 6th November 2017 for four weeks.
	<b>ORG0036</b>	<p><b>Risk Description:</b> Strategic Risk 2016: Partnership working: We fail to increase our partnership working with a variety of organisations and agencies to deliver cost effective services and increase the investment in our County</p> <p><b>Cause:</b> the Council does not look for, or instigate new opportunities for future growth and increased efficiency in service delivery</p> <p><b>Consequence:</b> Costs of service delivery increase, we become less successful in delivering services and fail to secure new investment.</p>	<p>Likelihood :4 Impact :5</p> <p style="background-color: red; color: white; text-align: center; padding: 2px;">20</p> <p>Escalate to SRMG</p>	<ul style="list-style-type: none"> <li>◦ <b>Develop preferred model for integrated working with the NHS</b> Reviewed 07/12/2017: No change to score – strategic commissioning redesign project has now started between SCC and the CCG <i>In Progress</i> (95% complete)</li> <li>◦ <b>Devolution Proposal for Somerset &amp; potential partners - Statement of Intent to Central Government 4 Sept 2015</b> Reviewed 07/12/2017: No change to achievement – commentary that “proposed joint committee currently being approved by all councils and target start date in early 2018. Discussions with civil servants due to start in early 2018”. <i>In Progress</i> (90% complete)</li> <li>◦ <b>Linked to /001: SCC is working closely with CCS, and three Somerset NHS Trusts to develop our STP.</b> Reviewed 07/12/2017: no change <i>In Progress</i> (50% complete)</li> </ul>	<p><b>Patrick Flaherty</b> 15/01/2018 30/03/2018</p> <p><b>Patrick Flaherty</b> 15/01/2018 30/03/2018</p> <p><b>Patrick Flaherty</b> 15/01/2018 30/03/2018</p>	<p>Likelihood :4 Impact :5</p> <p style="background-color: red; color: white; text-align: center; padding: 2px;">20</p> <p>Escalate to SRMG</p>	<p>Likelihood :3 Impact :5</p> <p style="background-color: orange; color: white; text-align: center; padding: 2px;">15</p> <p>Monthly</p>	<p>07/12/2017 Reviewed</p> <p>07/12/2017: Actions progressing no change to current score at this time</p>

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ORG0032  Risk Owner: Richard Williams  Next Risk Review Date: 02/08/2018	<p><b>Risk Description:</b> Strategic Risk 2017: Information Governance: An event occurs that results in a statutory breach of data protection legislation. This could be an ICT security vulnerability that compromises the PSN network, a significant disclosure of sensitive personal data or another procedural breach of the EU GDPR.</p> <p><b>Cause:</b> An intentional exploitation of a security vulnerability in the SCC network by hostile agents such as hackers or malware. Non-compliance with the articles and recitals in the EU GDPR in 2018. A significant unintentional data breach of sensitive personal or business data in email, post, fax by an employee, contractor, service provider or an SCC Councillor.</p> <p><b>Consequence:</b> The Council is exposed to fraud, loss of reputation, legal action by clients or employees and / or the possibility of fines from the Information Commissioner's Office (currently estimated at £100k - £200k but potentially much higher in 2018). Members of the Public are exposed to harm or distress due to the significant unauthorised disclosure of personal data.</p>	<p>Likelihood :5 Impact :4</p> <p style="text-align: center;"><b>20</b></p> <p>Escalate to SRMG</p>	<ul style="list-style-type: none"> <li>◦ <b>Publication of EUGDPR Privacy Notice</b> The EU-GDPR requires the publication of a comprehensive Privacy Notice detailing the services provided, the personal data processed, the sharing agreements, the retention periods and access arrangements for data subjects <i>In Progress</i> (35% complete)</li>   <li>◦ <b>Induction and Refresher training for Information Security and Data Protection</b> The EU-GDPR requires that all employees are fully aware of their responsibilities for processing personal data. SCC will endeavour to ensure all new employees are trained in Information Security and Data Protection within 3 months of commencing employment. <i>In Progress</i> (10% complete)</li>   <li>◦ <b>Publication and distribution of EU-GDPR policies to all employees</b> The EU-GDPR requires that all employees are made aware of SCC policy for processing personal data. SCC will endeavour to ensure all employees have received mandatory Information Security and Data Protection, by Metacompliance, prior to the adoption of the EUGDPR in may 2018. <i>In Progress</i> (30% complete)</li>   <li>◦ <b>Information Sharing Agreements and Contracts</b> Somerset County Council will review and implement all current Information Sharing Agreements and contracts in compliance with the EU-GDPR <i>In Progress</i> (30% complete)</li> </ul>	<p><b>Peter Grogan</b> <a href="#">13/01/2018</a> 01/05/2018</p> <p><b>Peter Grogan</b> <a href="#">13/01/2018</a> 01/05/2018</p> <p><b>Peter Grogan</b> <a href="#">12/01/2018</a> 01/05/2018</p>	<p>Likelihood :4 Impact :4</p> <p style="text-align: center;"><b>16</b></p> <p>Escalate to SRMG</p>	<p>Likelihood :3 Impact :4</p> <p style="text-align: center;"><b>12</b></p> <p>Quarterly</p>	03/08/2017 Given compliance requirements and need to protect confidential and sensitive data it is imperative that this risk is actively managed and that all members of staff are aware of their obligations.

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				<ul style="list-style-type: none"> <li>◦ <b>Information Asset register</b> Creation of a comprehensive Information Asset Register to enable SCC to identify where personal data is held, who is responsible for it and any risks associated with processing <i>In Progress</i> (60% complete)</li> <li>◦ <b>Effective management of Data Subjects rights</b> SCC must ensure that all data subjects rights are respected with regard to lawful and fair processing and specifically access to records and DSAR processing <i>In Progress</i> (35% complete)</li> </ul>	<p><b>Peter Grogan</b> 13/01/2018 01/05/2018</p> <p><b>Peter Grogan</b> 13/01/2018 01/05/2018</p>			
	ORG0011	<p><b>Risk Description:</b> Strategic Risk 2016: Health &amp; Safety: Death or injury to a member(s) of the public or a member(s) of staff, volunteers, visiting contractors or service users</p> <p><b>Cause:</b> Failure to manage our activities, assets, premises and contracts in compliance with our statutory duties and organisational policies in respect of Health &amp; Safety, either directly, or indirectly through our strategic partners</p> <p><b>Consequence:</b> 1. Death or serious harm ("dangerous occurrence" (defined by legislation)) to a service user, pupil, member of the public or a member of staff; 2. Criminal prosecution and enforcement action under H&amp;S / Fire / Corporate Manslaughter legislation. 3. Civil Claims and/or personal litigation claims for negligence</p>	<p>Likelihood :5 Impact :5</p> <p style="background-color: red; color: white; text-align: center; padding: 2px;">25</p> <p>Escalate to SRMG</p>	<ul style="list-style-type: none"> <li>◦ <b>Introduce arrangements on the Learning Centre for key policies/ arrangements and training to be completed</b> Update 11/12/17 - All functionality tested and in place. Central Health and Safety Unit have requested that the next module (Fire Safety) not be certificated until January 2018. <i>In Progress</i> (70% complete)</li> <li>◦ <b>Deliver against action plan agreed following SWAP audit of Premises Management</b> 10/04/2017: At present ATRIUM is unable to provide any evidence of Premise Managers Activity/Monitoring Function. However through expanding the use of RAMIS this is now in place and will be monitored through the rest of 2017 reports raised at HSPSG Meetings in April, July and October to confirm processes are functioning. By GLH <i>In Progress</i> (75% complete)</li> </ul>	<p><b>Clive Mallon</b> 11/01/2018 01/04/2018</p> <p><b>Claire Lovett</b> 31/12/2017</p>	<p>Likelihood :3 Impact :5</p> <p style="background-color: orange; color: white; text-align: center; padding: 2px;">15</p> <p>Monthly</p>	<p>Likelihood :3 Impact :5</p> <p style="background-color: orange; color: white; text-align: center; padding: 2px;">15</p> <p>Monthly</p>	<p>03/08/2017 Renewed focus by the organisation is necessary in the light of recent events (Grenfell). Actions are in place to provide assurance on fire safety in both our corporate and schools estate.</p>

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		<p>4. Adverse publicity and damage to reputation for the Council</p> <p>5. Increased audit inspection</p> <p>6. Increased costs and financial penalties</p>		<ul style="list-style-type: none"> <li>◦ <b>Ensure visibility of appropriate health and safety-related contract management activity in relation to key contracts</b> 10/04/2017: This has now been published and the HSPSG will be informed at the April 2017 Meeting. By GLH <i>In Progress (20% complete)</i></li>   <li>◦ <b>Publish and implement Corporate H&amp;S Training Policy</b> 10/04/2017: This has now been published and the HSPSG will be informed at the April 2017 Meeting. By GLH 5 July 2017: Policy published all informed. Essential Training to be completed within 3 years. By GLH 18 September 2017: This policy has now been published and enrolment on e learning essential course has now started. Automatically sent out to each employee as necessary by TLC. Monitor success in January 2018 <i>In Progress (90% complete)</i></li>   <li>◦ <b>Create common processes so staff can be interchanged across County</b> 25/10/2017 - nothing has changed to the status below as the FM review is ongoing 20/12/2017 - Review due to complete in May 2018, no change to status. <i>In Progress (25% complete)</i></li> </ul>	<p><b>Carly Wedderburn</b> 28/12/2017 31/08/2017</p> <p><b>Graham Holmes</b> 08/03/2018 31/01/2018</p> <p><b>Heidi Boyle</b> 28/02/2018 30/03/2018</p>			

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	<b>ORG0040</b>	<p><b>Risk Description:</b> Strategic Risk 2015: Benefit Realisation: Failure to deliver service transformation (financial and non-financial benefits), and necessary cost savings, performance improvements, and legislative changes requiring significant service re-design through our Core Council Programme.</p> <p><b>Cause:</b> Transformation not considered a corporate priority with funding and resources not prioritised to this area. A lack of joint commissioning priorities to identify innovative ideas for future transformational change and a lack of collaboration between SCC services and partners.</p> <p><b>Consequence:</b> Inability to balance the budget, reputational damage and fines through a failure to meet legislative change, stagnation or deterioration in performance impacting on the service we provide to our customers (including some of the most vulnerable people in the community).</p>	<p>Likelihood :5 Impact :5</p> <p style="text-align: center;"><b>25</b></p> <p>Escalate to SRMG</p>	<ul style="list-style-type: none"> <li>◦ <b>Review need for Business Case refresher training during service planning</b> 14/08/17 - Business Cases being used to track 5 high-spend corporate priority areas. <i>In Progress (75% complete)</i></li> <li>◦ <b>Collaboration between Services and provision of specialist knowledge to the Core Council Programme projects/programmes</b> 14/08/17 - SME forum has developed into the Corporate Support Services Network (CSSN) and links to commissioning and corporate planning have been strengthened. Looking at Support Service needs across all planning and commissioning activity. <i>In Progress (75% complete)</i></li> </ul>	<p><b>Daniel Forgham-Healey</b> 14/02/2018 14/08/2018</p> <p><b>Daniel Forgham-Healey</b> 14/08/2018 14/08/2018</p>	<p>Likelihood :3 Impact :5</p> <p style="text-align: center;"><b>15</b></p> <p>Monthly</p>	<p>Likelihood :3 Impact :5</p> <p style="text-align: center;"><b>15</b></p> <p>Monthly</p>	<p>14/08/2017 14-08-17 - The increased scope and scale of transformation activity threatens to spread resources too thin across too many corporate priorities.</p>



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<p><b>ORG0042</b></p> <p><b>Risk Owner:</b> Chris Squire</p> <p><b>Next Risk Review Date:</b> 25/01/2018</p>	<p><b>Risk Description:</b> Strategic Risk 2015: HR: The risk of not having the employee capacity to deliver and support delivery of core front line services</p> <p><b>Cause:</b> Combination of austerity measures and market forces in being able to attract suitably qualified people to work for the Council on a permanent basis</p> <p><b>Consequence:</b> Reduced levels of service activity, more reliance on existing employees and possible issues with consistency on quality.</p>	<p>Likelihood :4 Impact :4</p> <p style="background-color: red; color: white; text-align: center; font-weight: bold;">16</p> <p>Escalate to SRMG</p>	<ul style="list-style-type: none"> <li>◦ <b>Locum's covering permanent posts. On-going recruitment campaign</b> Reviewed 26/10/2017: Reduced locum count across Children's Services <i>In Progress</i> (50% complete)</li> <li>◦ <b>'Entry level' schemes used (e.g. 'Step Up to Social Care') &amp; graduate social workers</b> Reviewed 26/10/2017: Graduate Social Workers scheme in progress &amp; on-track <i>In Progress</i> (60% complete)</li> <li>◦ <b>Closely monitored operationally &amp; at Programme Improvement Boards</b> Reviewed 26/10/2017: Dashboard in place at corporate &amp; service level. Establishment control in place. Complete <i>In Progress</i></li> <li>◦ <b>Implementation of Young People's Strategy – Increased employment of apprentices across the organisation</b> Review 26/10/2017: Increase in apprentices in post <i>In Progress</i> (10% complete)</li> </ul>	<p><b>Chris Squire</b> 25/01/2018</p> <p><b>Chris Squire</b> 25/01/2018</p> <p><b>Chris Squire</b></p> <p><b>Chris Squire</b> 22/01/2018</p>	<p>Likelihood :3 Impact :4</p> <p style="background-color: yellow; text-align: center; font-weight: bold;">12</p> <p>Quarterly</p>	<p>Likelihood :3 Impact :4</p> <p style="background-color: yellow; text-align: center; font-weight: bold;">12</p> <p>Quarterly</p>	<p>25/10/2017 Reviewed 26/10/2017: Actions on track and making progress. Description to be reviewed early 2018.</p>
<p><b>ORG0007</b></p> <p><b>Risk Owner:</b> Paula Hewitt</p> <p><b>Next Risk Review Date:</b> 14/02/2018</p>	<p><b>Risk Description:</b> Strategic Risk 2014: Business Continuity: Short or long-term service disruption may occur</p> <p><b>Cause:</b> [because of] Lack of formal arrangements in place or being finalised that enable managers to review risks in the planning for business continuity</p> <p><b>Consequence:</b> [resulting in] Major disruptive challenge to service provision and unplanned costs.</p>	<p>Likelihood :3 Impact :5</p> <p style="background-color: orange; text-align: center; font-weight: bold;">15</p> <p>Monthly</p>	<ul style="list-style-type: none"> <li>◦ <b>Business Continuity Steering Group</b> Hold regular meetings of the Business Continuity Steering Group. Membership includes SCC service representatives and colleagues from the District Councils. Purpose of the Steering Group is to embed and promote effective business continuity arrangements throughout the local authorities and contracted services. In 2017/18 meetings are scheduled for May, August, November and March. <i>In Progress</i> (75% complete)</li> </ul>	<p><b>Nicola Dawson</b> 21/02/2018 31/03/2018</p>	<p>Likelihood :3 Impact :4</p> <p style="background-color: yellow; text-align: center; font-weight: bold;">12</p> <p>Quarterly</p>	<p>Likelihood :3 Impact :4</p> <p style="background-color: yellow; text-align: center; font-weight: bold;">12</p> <p>Quarterly</p>	<p>14/11/2017 Risk score remains unchanged. BC steering group continues to meet. P Hewitt 14/11/17</p>

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				<ul style="list-style-type: none"> <li> <p>◦ <b>Annual test of business continuity plans</b>                      Hold a table-top exercise in spring 2018 to test the SCC Corporate Business Continuity Plan and the supporting service level plans. District councils are invited to participate. Build on the lessons identified in Ex Viral Crisis held in March 2017.  <i>In Progress (10% complete)</i></p> </li>   <li> <p>◦ <b>Annual update of SCC Corporate Business Continuity Plan</b>                      Revise the SCC Corporate Business Continuity Plan annually or following an activation of the corporate level arrangements. Plan was last updated and re-issued in January 2017 then again in October 2017 to reflect changes in corporate structure. Next routine update is scheduled for January 2018.  <i>In Progress (75% complete)</i></p> </li> </ul>	<p>Nicola Dawson  <a href="#">21/05/2018</a>                      31/03/2018</p> <p>Nicola Dawson  <a href="#">03/02/2018</a>                      31/01/2018</p>			

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				<p>o <b>Corporate Business Continuity Plan for SCC</b>                      It has been agreed that rather than develop a Business Continuity Plan for SCC that we would look to develop a countywide Business Continuity Plan in conjunction with the District Councils with whom we share premises. The timeline for this project will be re-baselined. A Local Authorities partnership meeting which is scheduled to be held at Sedgemoor: Bridgwater House on 4 Nov 1000- 1300hrs. The project plan and timeline will be developed at that meeting.                      A meeting took place with the District Councils on the 4th Nov 2015. there was little enthusiasm for a joint approach. Agreed to meet with them individually to see if we can find a way forward.                      Meetings arranged with District Council to individually discuss shared contingency arrangements.                      Meetings have taken place with TDBC, SDC and MDC. Meeting scheduled with SSDC. A meeting has now taken place with SSDC. A set of agreed principles based on mutual support will now be created and agreed.                      A draft Business Continuity Plan has been developed. This will now be shared for final comments with the other Councils.                      Responsibility for FM has transferred to Property Services so the Action Owner has changed to Claire Lovett, Head of Property  <i>In Progress (10% complete)</i></p>	<p>Claire Lovett                      14/01/2018</p>			

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ORG0002  Risk Owner: Paula Hewitt  Next Risk Review Date: 09/01/2018	<p><b>Risk Description:</b> Strategic Risk 2015: Commissioning: Failure to adequately commission services and/or failure in the market and supply chain</p> <p><b>Cause:</b> Demand led response and not outcome driven (trying to deliver the same service with less resources is no longer feasible), limits the ability to deploy resources previously identified for investment in preventative services</p> <p><b>Consequence:</b> Resulting in transfer and a reduction in planned long term savings and the council being unable to meet statutory obligations and/or to deliver the County Plan objectives, Incur additional financial costs, fail to achieve value for money, reputation damage, vulnerable individuals at greater risk, financial penalty</p>	<p>Likelihood :5 Impact :5</p> <p style="text-align: center;"><b>25</b></p> <p>Escalate to SRMG</p>	<ul style="list-style-type: none"> <li>◦ <b>Workforce Development in place to ensure commissioning staff have the right skills &amp; competencies for the role</b> 03/02/2016: New SM in post and developing plan to embed commissioning in SCC including workforce development plan. Commissioning Board to review plan in February. <i>In Progress</i> (60% complete)</li> <li>◦ <b>A&amp;H commissioning intentions for 2015 16 has been drafted and commissioning structure revised to align it to the TOM.</b> A&amp;H commissioning intentions for 2015 16 has been drafted and commissioning structure revised to align it to the TOM. We are currently working through workplans to ensure resources are aligned to the new Commissioning Intentions <i>In Progress</i> (10% complete)</li> <li>◦ <b>Discussions with commissioners to ensure information available is appropriate and readily accessible.</b> Review 5 Mar 2015: Regular updates with SCMG on a monthly basis regarding latest insight and intelligence <i>In Progress</i> (60% complete)</li> </ul>	<p><b>Vikki Hearn</b> 06/02/2018 30/03/2018</p> <p><b>Stephen Chandler</b> 21/12/2017 30/03/2018</p> <p><b>Malc Riches</b> 30/04/2017 30/09/2017</p>	<p>Likelihood :3 Impact :4</p> <p style="text-align: center;"><b>12</b></p> <p>Quarterly</p>	<p>Likelihood :3 Impact :4</p> <p style="text-align: center;"><b>12</b></p> <p>Quarterly</p>	09/10/2017 Risk score remains unchanged. Recent staff changes in commissioning development have impacted on delivery but recruitment underway. P Hewitt 09/10/17

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	<b>ORG0024</b>  <b>Risk Owner:</b> Richard Williams  <b>Next Risk Review Date:</b> 09/02/2018	<b>Risk Description:</b> Strategic Risk 2011: Operations: Quality of contract management is inconsistent and fails to meet our customers expectations  <b>Cause:</b>  <b>Consequence:</b> Loss of customer confidence and trust in the Council, impacting on the reputation of the council	Likelihood :4 Impact :4  <b>16</b>  Escalate to SRMG	<ul style="list-style-type: none"> <li>Putting in place effective contract management at a senior level throughout the Council Update 25/06: Greater commercial awareness cascaded through organisation. Establishing greater clarity between day - to -day Contract Management via operations and Commercial management delivered via procurement team. as part of SWAP Audit <i>In Progress (40% complete)</i></li> <li>Ensure adequate management information and reporting is in place to monitor quality through the Business Intelligence Function  <i>In Progress (80% complete)</i></li> </ul>	<b>Richard Williams</b> <b>02/08/2018</b> <i>02/08/2018</i>   <b>Malc Riches</b> <b>07/09/2017</b>	Likelihood :4 Impact :3  <b>12</b>  Quarterly	Likelihood :4 Impact :3  <b>12</b>  Quarterly	08/01/2018 Review: 3 Jan 2018 - D Fitzgerald: Current score remain as Amber Update – Contract Core Management Group meets regularly to help share learning, support and provide upskilling/training to Contract Managers. Embedding the Contract Managers Toolkit remains a priority as awareness and gaps in good contract management in services still remains a risk.
	<b>ORG0010</b>  <b>Risk Owner:</b> Stephen Chandler  <b>Next Risk Review Date:</b> 23/01/2018	<b>Risk Description:</b> Strategic Risk 2016: Safeguarding Adults: We fail to deliver our statutory safeguarding activity in relation to adults  <b>Cause:</b> there is a risk that death or injury to a vulnerable member of the public or a member of staff, where the county council has not completely fulfilled its responsibilities may occur  <b>Consequence:</b> leading to increased audit inspections, personal litigation claims, adverse publicity for the council and possible financial penalties	Likelihood :3 Impact :5  <b>15</b>  Monthly			Likelihood :3 Impact :4  <b>12</b>  Quarterly	Likelihood :3 Impact :4  <b>12</b>  Quarterly	23/10/2017 Following the ASC restructure, the operational adult safeguarding service now sits under the strategic management responsibility of Carolyn Smith, who also has oversight of the Mental Health Social Work Team. The Safeguarding Adults Board is now managed by Stephen Miles (overseen by Niki Shaw) and recently reported its Annual Report to Scrutiny Committee for assurance. It will be presented to the HWBB later this month.

	Risk Ref	Risk	Uncontrolled Risk	Action Required (In progress Only)	Control Owner Review Date Target Date	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
	<b>ORG0001</b>  <b>Risk Owner:</b> Paula Hewitt  <b>Next Risk Review Date:</b> 14/02/2018	<b>Risk Description:</b> Strategic Risk 2014: Civil Emergencies: A major civil emergency results in loss of life and major disruption to services  <b>Cause:</b> we do not adequately plan for civil emergencies including the testing of plans and prioritisation of our resources,  <b>Consequence:</b> impact on Somerset County Council's reputation and standing locally and Nationally	Likelihood :4 Impact :5  <b>20</b>  Escalate to SRMG	<ul style="list-style-type: none"> <li>◦ <b>Test the new Joint Emergency Response Arrangements: Exercise Electrum 2017</b> Hold an emergency exercise for all six Somerset local authorities to test the new sections of the Joint Corporate Emergency Response and Recovery Plan. The exercise is scheduled for October (deferred from June due to date clashes) and will be preceded by a programme of awareness briefing and training. During May, over 30 Business Support staff were trained in their emergency centre support roles. <i>In Progress (60% complete)</i></li> <li>◦ <b>Deliver phase one of the SLACCP Training and Exercise Policy</b> At the July 2017 SLACCP meeting, all six authorities signed off a SLACCP Training and Exercising Strategy. This will deliver a consistent and sustainable rolling programme of role and capability based training. It will make full use of IT eg e-learning, webinars etc as well as face to face training and exercises. First phase to be rolled out from autumn 2017. <i>In Progress (25% complete)</i></li> </ul>	<b>Nicola Dawson</b> <b>02/01/2018</b> 30/03/2018       <b>Nicola Dawson</b> <b>01/02/2018</b> 31/03/2018	Likelihood :2 Impact :5  <b>10</b>  Monthly	Likelihood :2 Impact :5  <b>10</b>  Monthly	14/11/2017 Risk score remains unchanged. Recently we have exercised through Exercise Electrum. P Hewitt 14/11/17

Risk Ref	Risk	Uncontrolled Risk	Action Required (In progress Only)	Control Owner Review Date Target Date	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
<p><b>ORG0031</b></p> <p><b>Risk Owner:</b> Trudi Grant (JB)</p> <p><b>Next Risk Review Date:</b> 12/06/2018</p>	<p><b>Risk Description:</b> Strategic Risk 2014: Public Health: Non-delivery of statutory functions and legal obligations in relation to protecting and improving the health and well-being of the local population</p> <p><b>Cause:</b> Increased demand and costs of health and social care services</p> <p><b>Consequence:</b> Possible deaths, inability to respond to serious disease outbreaks/epidemic, rises in avoidable deaths and morbidity. Lack of business continuity, reduced public confidence, litigation claims, bad publicity, reduced social and economic prosperity.</p>	<p>Likelihood :5 Impact :5</p> <p style="text-align: center;"><b>25</b></p> <p>Escalate to SRMG</p>	<ul style="list-style-type: none"> <li><b>All mitigating actions are in place the risk rating is in relation to health protection specifically</b> All mitigating actions are in place and assurance for the health protection system is gained through the Health Protection Forum. The risk rating is in relation to health protection specifically as most Public Health outbreaks / risks could result in numerous deaths.</li> </ul> <p>12/12/17 - The above statement remains valid - a review of statutory public health functions has been undertaken and actions addressed. No further mitigating action required at this stage. <i>In Progress (99% complete)</i></p>	<p><b>Trudi Grant (JB)</b> 12/06/2018</p>	<p>Likelihood :2 Impact :5</p> <p style="text-align: center;"><b>10</b></p> <p>Monthly</p>	<p>Likelihood :2 Impact :5</p> <p style="text-align: center;"><b>10</b></p> <p>Monthly</p>	<p>12/12/2017 12/12/17 - The above statement remains valid - a review of statutory public health functions has been undertaken and actions addressed. No further mitigating action required at this stage.</p>
<p><b>ORG0025</b></p> <p><b>Risk Owner:</b> Simon Clifford 2</p> <p><b>Next Risk Review Date:</b> 16/01/2018</p>	<p><b>Risk Description:</b> Governance: Our decision-making cumulatively increases inequality</p> <p><b>Cause:</b> As a result of decision-making which is ill-informed, unsubstantiated and the cumulative impact of these decisions being considered</p> <p><b>Consequence:</b> Organisation - We may find that the consequences leave SCC open to legal challenge or action. Increased demand for and future costs of service.</p> <p>Community – The community could be potentially negatively impacted if there is not a collective consideration of changes to service. Whilst there is the potential for this</p>	<p>Likelihood :3 Impact :5</p> <p style="text-align: center;"><b>15</b></p> <p>Monthly</p>	<ul style="list-style-type: none"> <li><b>Staff and Members have an opportunity to understand their requirements under the Equality Act 2010</b> Staff and Members have an opportunity to understand their requirements under the Equality Act 2010 - A mandatory set of training will be over the coming years. This will be supported by mandatory online training and additional bespoke elements. <i>In Progress (50% complete)</i></li> <li><b>Establish continuing dialogue with communities to establish whether the impact is as expected</b> Establish continuing dialogue with communities to establish whether the impact is as expected <i>In Progress (70% complete)</i></li> </ul>	<p><b>Tom Rutland</b> 05/02/2018 31/03/2018</p> <p><b>Tom Rutland</b> 05/02/2018 31/12/2018</p>	<p>Likelihood :3 Impact :3</p> <p style="text-align: center;"><b>9</b></p> <p>Quarterly</p>	<p>Likelihood :3 Impact :3</p> <p style="text-align: center;"><b>9</b></p> <p>Quarterly</p>	<p>16/10/2017 risk tolerated at time of writing with existing controls and mitigations in place. year on year risk is slightly reduced but still needs careful consideration.</p>

	Risk Ref	Risk	Uncontrolled Risk	Action Required (In progress Only)	Control Owner Review Date Target Date	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
		to affect all members of the community by their nature it could affect groups identified under the Equality Act 2010 more profoundly and disproportionately. Some of the wider impacts on the community could be: increase in poor mental health, substance misuse, NEETS, young people leaving the county, loss of community cohesion and an increase in community tension. should any of these occur it will accept the individual, their community and potential increase service need from local authorities.						
	<b>ORG0022</b>	<p><b>Risk Description:</b> Strategic Risk 2014: ICT: Unintentional events, including changes to our IT system, or intentional attempts that damage our systems, property, reputation or one of our other resources.</p> <p><b>Cause:</b> Lack of a Disaster Recovery Plan along with an out of date Corporate Business Continuity Plan</p> <p><b>Consequence:</b> Effect on our customers wellbeing if data can not be accessed, financial cost - reduced funding to meet objectives, reputation damage, ties up management time, cost of extra control, possible aversion to risk taking. Increased FOI culture. Communication disruption, reduced satisfaction with services e.g. unplanned downtime for ICT, Increase in claims for compensation, increased external / internal fraud, increased tendency to 'work the system'.</p>	<p>Likelihood :3 Impact :5</p> <p style="text-align: center;"><b>15</b></p> <p>Monthly</p>	<ul style="list-style-type: none"> <li>◦ <b>Updated Information Governance Policies New Enterprise Architecture team security training &amp; awareness sessions for IT &amp; SMEs</b>  <i>In Progress (40% complete)</i></li> <li>◦ <b>Testing of Disaster Recovery Plan</b> 12/09/2014: A disaster recovery rehearsal is currently being planned to test existing procedures and highlight issues to be addressed by a more robust solution. Wider options are being explored beyond the existing provider including possible collaboration with other organisations.</li> </ul> <p>16/03/15: There has been a considerable delay in South West One supplying the required technical information to enable a DR test to take place. This has now been supplied and a test is being planned for Q1 2015/16. SCC is also undertaking a review of the existing DR cover to ensure that adequate resilience is in place. <i>In Progress (10% complete)</i></p>	<p><b>Dave Littlewood</b> 04/12/2017</p> <p><b>Mike Kenworthy</b> 07/12/2017</p>	<p>Likelihood :3 Impact :2</p> <p style="text-align: center;"><b>6</b></p> <p>Six Months</p>	<p>Likelihood :2 Impact :2</p> <p style="text-align: center;"><b>4</b></p> <p>Six Months</p>	<p>03/08/2017 The resilience and security of our IT systems and data has been a focus in our implementation of cloud based and other changes to the IT infrastructure. We need to remain vigilant particularly to external threats including viruses. Given pace of change in IT this should be a 6 monthly review.</p>



	<b>Risk Ref</b>	<b>Risk</b>	<b>Uncontrolled Risk</b>	<b>Action Required (In progress Only)</b>	<b>Control Owner</b> <b>Review Date</b> <i>Target Date</i>	<b>Current Risk Score</b>	<b>Controlled Risk Assessment for Financial Year</b>	<b>Comments</b>

Report Selection Criteria

Status Flag=ACTIVE - ISNULL(Project Code) - Business Unit Code=ORG

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Somerset County Council  
Audit Committee 25th January 2018

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## **Forward Work Plan**

Service Director: Kevin Nacey, Director of Finance and Performance

Lead Officer: Martin Gerrish, Strategic Manager – Financial Governance

Author: Martin Gerrish, Strategic Manager – Financial Governance

Contact Details: tel (01823) 355303 or e-mail: mgerrish@somerset.gov.uk

Cabinet Member: Cllr D Hall, Cabinet Member for Resources

Division and Local Member: All

### **1. Summary/link to the County Plan**

- 1.1. Members have asked that we review forthcoming items coming to Audit Committee, and also that officers ensure that the Committee has Partial assurance audits brought to it in a timely manner. A draft Forward Work Plan will be brought to the Audit Committee at least quarterly.
- 1.2. Members have also requested that the number of current investigations be regularly updated to the Audit Committee.

### **2. Issues for consideration**

- 2.1. Members are asked to note the outline Agendas for the 29<sup>th</sup> March 2018 and 21<sup>st</sup> June 2018 public meetings, as set out in Appendix A to this report, and to comment on any further items that they would like to be scheduled.
- 2.2. Members are asked to consider other agenda items on this January agenda, and whether they would like to have a further update on any of these audits, risks or topics.

### **3. Background**

- 3.1. Audit Committee has set out the requirement for any internal audit from SWAP that only achieved Partial Assurance to come to a future public meeting and for the manager(s) responsible to update members as to their progress against the agreed action plan. During 2017, this has largely been achieved and at the time of this report only 2 Partial audits are outstanding, one of which will come to March's meeting and the other is only just completed and in the Internal Audit report on this agenda.
- 3.2. There is also a number of "staple" Audit Committee items that form part of either the annual Statement of Accounts cycle, or that are regularly brought to Audit Committee as part of its general risk and governance role.
- 3.3. It is always possible, and has been the case in the recent past, that additional Audit Committee meetings can be added to incorporate the workload.

### **4. Consultations undertaken**

- 4.1. None required

**5. Implications**

- 5.1.** Any items requested not yet covered by the draft Forward Work Plan at Appendix A will require scheduling by officers, in conjunction with the Chair.

**6. Background papers**

- 6.1.** Previous Audit Committee decisions on the process for dealing with Partial Audits.

**Note** For sight of individual background papers please contact the report author

## **APPENDIX A : Draft Audit Committee Work Programme**

<b><u>Future Agenda Items</u></b>	<b><u>Notes</u></b>
<b><u>29<sup>th</sup> March 2018</u></b>	
<b>Internal Audit Plan and Charter</b>	<b>The 2018/2019 proposed Internal Audit Plan and Charter will come to the March meeting for approval. A detailed list of audits will be included.</b>
<b>Internal Audit Update</b>	<b>The regular progress report from SWAP on the completion of the 2017/2018 Internal Audit Plan, highlighting any high risks that have arisen from their work.</b>
<b>External Audit Update</b>	<b>An update on the progress of Grant Thornton's audit work and progress.</b>
<b>ISA 240 Responses</b>	<b>For members to consider the responses by the Director of Finance and the Chair of Audit Committee in relation to SCC's governance and anti-fraud arrangements, and whether these responses accord with members own understanding.</b>
<b>Annual Report to County Council</b>	<b>To consider the annual report from the Chair of Audit Committee to the County Council.</b>
<b>Debtor Management</b>	<b>The regular performance report on our progress to collect monies owed to the County Council and the causes of outstanding debts.</b>
<b>Partial Audit – Better Care Fund</b>	<b>For members to receive an update from the relevant managers as to progress against the agreed action plan for this Partial audit.</b>
<b><u>21<sup>st</sup> June 2018</u></b>	
<b>Draft Annual Governance Statement (AGS)</b>	<b>For members to review the content of the draft AGS for 2017/2018. (The AGS is a mandatory statement that sits alongside the Statement of Accounts and provides assurance that SCC has effective internal controls in place).</b>
<b>Review of Internal Audit</b>	<b>For members to consider a review carried out by officers, with independent validation, into the effectiveness of the SWAP internal audit function in 2017/2018.</b>
<b>Internal Audit Update</b>	<b>The regular progress report from SWAP on the completion of the 2017/2018 Internal Audit Plan, highlighting any high risks that</b>

	have arisen from their work.
<b>External Audit Update</b>	<b>An update on the progress of Grant Thornton's audit work and progress.</b>
<b>Risk Management</b>	<b>The regular update on progress in mitigating the highest scoring risks that face the County Council.</b>
<b>Debtor Management</b>	<b>The regular performance report on our progress to collect monies owed to the County Council and the causes of outstanding debts.</b>
<b>Partial Audits and Risks</b>	<b>To review any completed internal audits that have only received a Partial Assurance. These can be added to any suitable agenda as time, circumstances and member requests dictate.</b>

Somerset County Council  
Audit Committee – 25 January 2018

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## **Anti Fraud and Corruption Review**

Service Director: Kevin Nacey, Director of Finance, Legal and Governance  
Lead Officer: Martin Gerrish, Strategic Manager – Financial Governance  
Author: Martin Gerrish, Strategic Manager – Financial Governance  
Contact Details: tel (01823) 355303 or e-mail: mgerrish@somerset.gov.uk  
Cabinet Member: Cllr David Hall– Cabinet Member for Resources and Economic Development  
Division and Local Member: All

### **1. Summary/link to the County Plan**

- 1.1. This report is the annual review of all the measures that the County Council has undertaken in the last year aimed at the prevention, detection and reporting of fraud and corruption. This is in accordance with our Financial Procedures and acknowledged best practice.
- 1.2. Anti-fraud and corruption strategy forms an important part of our corporate governance and internal control framework. With assistance from specialist staff from the South West Audit Partnership, we have compared the County Council's systemic defences against typical target areas for fraud, and against national trends and guidance.
- 1.3. The officers' conclusion of this review is that the County Council has a sound framework in place, although still more could be done to raise awareness. However, we continue to see a small number of fraud allegations, some leading to more formal investigations and reports to Action Fraud, and the need for continued vigilance remains.
- 1.4. There has been a review of our Anti-Fraud and Corruption Policy, Anti-Bribery Policy and Anti-Money Laundering Policy, and these are still deemed to be fit for purpose.

### **2. Issues for consideration**

- 2.1. The Audit Committee is asked to note the current national trends and to consider the specific anti-fraud and corruption measures undertaken locally (paragraphs 3.4 and 3.5 below, and presentation).
- 2.2. The Audit Committee is asked to re-confirm the Anti-Fraud and Corruption Policy as set out in Appendix 1, and the subsidiary Anti-Bribery and Anti-Money Laundering policies.
- 2.3. The Audit Committee is invited to comment on the local fraud cases in confidential Appendix 2 (although this would require going into private session).

### 3. Background

#### 3.1 National commentaries

Many organisations provide guidance / information about combatting public sector fraud.

The Chartered Institute of Public Finance and Accountancy (CIPFA) has taken on a larger role to guide counter fraud work in the public sector, with a dedicated Counter Fraud Centre since 2014. It has published a “**Code of practice on managing the risk of fraud and corruption**”. This Code is designed to “support organisations seeking to ensure they have the right governance and operational arrangements in place to counter fraud and corruption.” It has also supported the latest Fighting Fraud and Corruption Locally (FFL) tri-annual strategy entitled “**The local government counter fraud and corruption strategy 2016-2019**”, and CIPFA has produced its own “**Fraud and Corruption Tracker 2017**” which summarises the national position on many types of fraud through surveying local authorities.

The Cabinet Office now has responsibility for the National Fraud Initiative (NFI), and has recently produced a detailed report on work undertaken under the NFI and potential losses and recovery achieved. Our local work under the most recent NFI data is set out below.

The European Institute for Combatting Corruption and Fraud (TEICCAF) “exists to protect the public purse and voluntary sector funds from corruption and fraud throughout Europe”. It has produced a review entitled “**Protecting The English Public Purse 2016**”, and we are awaiting the results of the 2017 survey, which is imminent.

A more recent addition to the guidance has been the Centre for Counter Fraud Studies based at the University of Portsmouth, which produced the “**Annual Fraud Indicator 2017**”, which attempts to re-quantify the likely loss through fraudulent activities by each category of fraud.

The majority of these publications are based on surveys and estimated costs of fraud by sector (private, public, individual, charity etc). Whilst the estimates are not always consistent, there is strong correlation as to the areas where fraud is perpetrated against, say, local authorities, and general consensus as to new and emerging risks (see below). For example, it is clear that many commentators consider that procurement and adult social care risks (e.g. letting new contracts) are emerging areas of increased risk for local authorities.

There is also guidance from most publications as to how to combat fraud locally. The majority advise following a thought process similar to the CIPFA mantra of **Acknowledge Responsibility – Identify Risks – Develop A Strategy – Provide Resources – Take Action**.

Many commentators cite a problem with organisations accepting that they are a fraud target, and a proportion of our anti-fraud and corruption work in recent years has been to emphasise to key groups that Somerset County Council is, and remains, a fraud and corruption target. Presentations and workshops have been given to key groups, such as a review of anti-money laundering with our exchequer staff who receive payments on behalf of the County Council, and a presentation to senior managers as to the risks of “abuse of position” type frauds and the need for continued vigilance.

#### 3.2 Estimating the cost of fraud



All of the above agree that fraud against the public sector remains “big business” and that combatting it remains a high priority for local authorities and public sector organisations.

It is obviously very difficult to quantify the total frauds perpetrated against local authorities, because not all frauds are detected, and even those that are detected and pursued may not be possible to calculate as an absolute value.

The last comprehensive survey was undertaken by the (now defunct) National Fraud Authority in 2013/2014. It is estimated that public sector fraud still costs the taxpayer at least an estimated £20.3 billion a year, and local government £2.2 billion a year (see diagram below).

The Cabinet Office’s work had concluded that this figure is probably a very conservative estimate, and quotes the combined losses from central and local government to be between £20 billion and £49 billion per annum. It comments that every time government spends money or provides benefits and services, it is vulnerable to fraud and error.

The Annual Fraud Indicator 2017 headline figure estimates that public sector fraud losses are estimated to be £40.4 billion, of which £7.8 billion it attributes to local government, excluding benefits. CIPFA’s Tracker estimates 75,000 frauds have been detected or prevented across local authorities in 2016/17 with a total value of £336.2m. Therefore, the implication is that only a fraction of all frauds perpetrated are actually detected.

Obviously, it should be noted that some organisations are markedly more susceptible to fraud risk than others depending on their functions, e.g. housing tenancy and housing benefit fraud will only impact on housing authorities. Further there is a marked difference in frauds detected across the regions, with detected incidents in London alone being 3 times the whole of the South West combined.

Breakdown of fraud losses by victim group



### 3.3 Fraud risks to Somerset County Council

The pie charts below show detected fraud by volume, and then detected fraud by value for all local authorities, from CIPFA's 2017 fraud survey of local authorities.

Broadly, these figures are consistent with previous year's surveys, and emerging trends and key points to note are discussed in more detail below. Again, these results are from all local authorities (County, District, Unitary, Metropolitans, London), and so not all fraud categories are direct fraud risks to the County Council.

Chart 1 : Detected fraud by volume

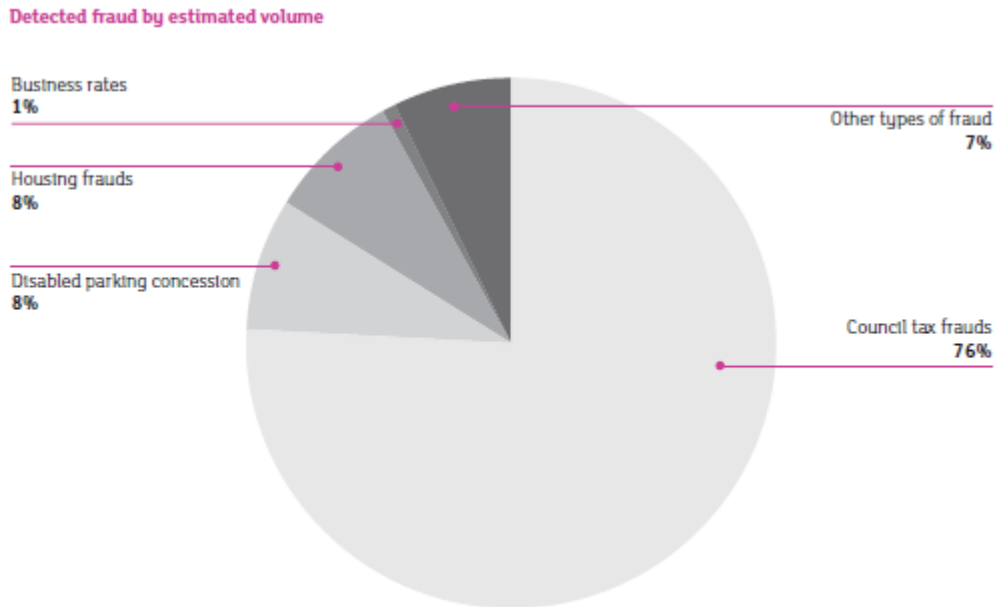
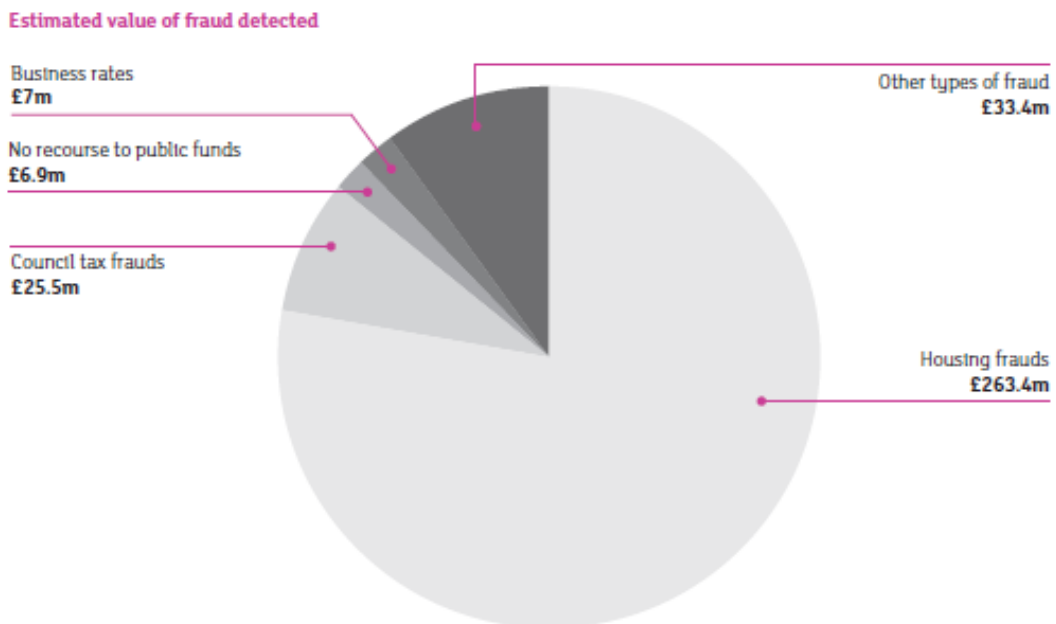


Chart 2 : Detected fraud by value



The CIPFA survey reports that there was an average of 4 prosecutions per survey respondent. It must be remembered, however, that the responders included District and

Unitary authorities with Council Tax and housing responsibilities, and as the charts show, these are by far the largest proportion of detected cases.

Many of the “traditional” fraud risks are not directly applicable to Somerset County Council, such as housing tenancy and benefit, Right To Buy and No Recourse to Public Funds frauds. However, there are a number of key findings that come from the CIPFA survey, that do have direct implications for the County Council in terms of specific fraud risks.

**Council Tax fraud.** Of the frauds detected in 2016/2017, almost 90% were Single Person Discount, with the remainder generally being council tax reduction (CTR) support, whereby the council tax payer falsifies household income to qualify for support. Whilst this is not directly targeted at the County Council, it obviously bears the greatest financial loss as a result. This is a typical example of a high volume, low risk fraud. Protecting the English Public Purse has estimated that nationally some 4-6% of all Single Person Discounts are either genuinely errors or fraudulent claims. Over 37,000 Single Person Discounts were stopped as a result of the National Fraud Initiative work alone in 2016.

We have previously reported a proposal that was received from the s151 officers in our Districts for the County Council to help fund a review of the Council Tax base, in particular with respect to claimants of Single Person Discount. The Director of Finance and Performance agreed to provide the necessary financial support to this proposal, as the County Council will be the main beneficiary. A total of approximately £315,000 has been provided in order to fund this work, and the projections provided suggest that the benefit to the County could be as high as £1.8m as a result. Obviously, these will include many errors and updates, and will not simply be anti-fraud activity.

**Business rates fraud.** Typically this is simply evasion of payments, or even falsification of information to secure exemptions or relief. Again, whilst not directly perpetrated against the County Council, the impact will, (certainly post 2020), impact directly. Whilst business rate fraud were only 1% of the total survey, they tend to be significantly higher values than Council Tax – around £10,600 per case as opposed to £400 per Council Tax case that was detected.

**Blue Badge fraud.** The amount of fraud is very difficult to calculate, as it relates to lost parking revenues. Even in the event of a successful prosecution, there is no direct financial recovery that can be made, and any fine paid by the individual goes to the court, although some costs can be recovered. The Cabinet Office states that over 23,000 Blue Badges were cancelled nationally in 2015/2016, as a result of the National Fraud Initiative, but actually the number of Blue Badge frauds nationally are reducing, and are very much based around London authorities.

**Pension fraud.** Typically, in a similar way to Blue Badge fraud, this is often “Failing to disclose information” under the 2006 Act, where the Fund is deliberately not notified of the death of a pensioner and the funds continue to be paid, and used by a family member. Over 3,500 pension payments were stopped in 2015/2016, mostly in response to the above. The National Fraud Initiative is a particularly good tool in recovering overpayments of pensions, mostly through error, as we know what we have paid out and when, and we will be told the date of death by the DWP and General Registrar’s Officer and can match the dates accordingly.

**Procurement fraud.** This category of fraud appears to be on the rise nationally. This can be at any stage of the procurement of goods and services to an authority, such as through

tendering, or even during the contract monitoring stage after a contract is let. CIPFA reports that cases have increased by 500% since 2014/2015, admittedly from a very small base. Even with a small number of cases, because of the nature of fraud, the potential costs in each case to authorities is substantial (£31,300 per case detected in 2016/2017).

Somerset County Council now has a very well defined procurement process for awarding contracts, using a dedicated portal, and as such has a level of protection against procurement frauds that provides strong assurance.

**Concessionary Travel fraud.** Again, the primary method of committing fraud on concessionary travel is to deliberately not notify us of the death of a pensioner and to continue to use, (and even re-apply) for a pass. Over 97,000 such passes were stopped nationally in 2015/2016. Somerset County Council has improved its work generally on concessionary fares in 2017 by the appointment of a dedicated concessionary fares officer.

Other smaller areas where fraud can be perpetrated against a County Council include payroll fraud, grant fraud, recruitment fraud, expenses fraud and insurance fraud, although there are significantly smaller incidences of these frauds.

**Adult social care fraud.** Adult social care fraud can happen in a number of ways, but the increase in personal budgets gives a greater opportunity for misuse. Investigations reported cover cases where direct payments were not being used to pay for the care of the vulnerable adult. One reported case in Essex where this was the case over a number of years, was where the fraudster (a relative) had kept the money for her personal use. The fraudster, who was also a social worker employed by the Council, was found guilty, dismissed and had to repay nearly £47,000.

Other adult care social frauds include care workers / suppliers claiming money for time that they had not worked with those needing care, and even identity fraud of the vulnerable adult to claim the funds,

Other frauds that could directly impact against SCC include:-

- **Insurance fraud** for false claims (SCC's Insurance Team has implemented the Claims and Underwriting Exchange (CUE). CUE is a central database of motor, home and personal injury/industrial illness incidents reported to insurance companies, which may or may not give rise to a claim).
- **Payroll fraud** for unworked hours and expenses. (CIPFA report that 40% of payroll cases involved insider fraud, but SCC can take a great deal of assurance from the repeatedly Substantial assurance from SWAP audits).
- **Mandate fraud** claiming to be from suppliers and asking us to change their bank account details (SCC has controls in place to check any such requests, and this is a rather unsubtle and combatable fraud attempt).

### 3.4 Corporate Criminal Offence: failure to prevent tax evasion

New legislation has been enacted since the last anti-fraud and corruption report to Audit Committee within the Criminal Finances Act 2017. Only two things need to happen for a relevant body to commit the Offence:

- A fraud is committed; and
- It is facilitated by someone associated with the relevant body

A relevant body's employees are associated with it as well as contractors supplying services to the relevant body.

Facilitation includes failure to prevent.

Three examples are quoted:

1. An employee agrees to pay a contractor in cash for construction-related work at a local authority school on the understanding that VAT will not be accounted for the payment will be made outside of the Construction Industry scheme
2. An outsourced payroll contractor agrees with an individual to turn a blind eye to the IR35 rules
3. An employee agrees to pay a third party for a casual labour task as the contracted provider, who should have been treated as an employee for PAYE and NIC purposes, has no business bank account

In these cases, the local authority is liable. It is a strict liability offence, meaning that knowledge of the actions is not needed for there to be a liability. Unless, a relevant body has put in place reasonable preventative procedures there will be an investigation by HMRC with potential prosecution and an unlimited financial penalty.

The County Council is continuing to review its procedures in this matter, and may well engage SWAP for audit opinion.

### **3.5. SWAP audit - Local Preparations for Managing National Fraud Risks**

Each year, as part of the Internal Audit Plan, we include a fraud-themed audit, looking at how well protected the County Council is from certain fraud risks. In 2017/2018, SWAP was tasked with looking at what we considered the top 8 national fraud risks that we could be exposed to (including our local knowledge), and to evaluate the systems and processes that are in place to protect us from fraudulent activity. The areas selected were as follows:-

- Council Tax and Business rates (\*)
- Blue badge
- Concessionary fares
- Payroll
- Insurance
- Procurement
- Early Years
- Accounts Payable (Creditors)

*(\*) Council Tax and Business rates are included in this review as, whilst collected by District and Borough Councils, losses through fraud would impact the Council due to reduced revenue.*

SWAP's work looked at the risks and frauds that are typically perpetrated in each of these areas, and the corresponding controls that are in place. For example, this is the table from the payroll section of the work.

Risk	Controls
Working while sick	Signed counter fraud declarations
Timesheet and overtime fraud	Separation of duties
Fraudulent expenses and travel claim	NFI
Misrepresentation of qualifications and skills	Approval of starters and leavers by authorised signatories
Ghost staff	Timesheet completion

The report concluded that:-

- There was lower risk and greater assurance in 4 areas – Council Tax and Business rates; payroll; insurance and Early Years.
- A number of management responses to audit actions have been recently put in place around concessionary fares, and these will be tested in Quarter 4 of 2017/2018, so whilst this is expected to be satisfactory it has yet to be re-audited to confirm that these are working well.
- The control framework is generally robust around Procurement, but due to the nature of the service and the potentially significant sums of money that are at risk, this is still a potential fraud concern.
- The large volume of transactions and sheer volume of expenditure going through Accounts Payable (creditors) means that this will always be a potential fraud concern, despite Reasonable audit assurance in previous audits.
- The Blue Badge service has not been audited since 2012, and the controls in place are relatively limited, although there is no evidence that fraud has been attempted. SWAP recommends a review of the operation of the blue badge scheme is included in the 2018/19 audit plan.

### **3.6. National Fraud Initiative (NFI)**

(A short presentation on the National Fraud Initiative will be given at the Audit Committee meeting to illustrate how it works).

Somerset County Council continues to participate in the Cabinet Office's National Fraud Initiative (NFI). This scheme is a cross-authority exchange of information between public bodies, with its own highly-secured website, which is run on a 2 year cycle. The latest information was uploaded in February 2017.

(A previous NFI exercise was directly responsible for the only successful prosecution that Somerset County Council has had for fraud to date, which was a pension case).

Participating authorities provide information from their primary systems to the NFI for analysis. This information includes, for example payroll, pensions, creditors, Blue Badge holders, insurance claims, concessionary travel passes and personal budgets.

The Cabinet Officer NFI teams then compare our data both internally and with information supplied by other organisations, and highlights potential errors or frauds. For example, it compares staff on our payroll and pensions, who also appear on other authorities payroll and pensions records for the same period, or people on our pensions

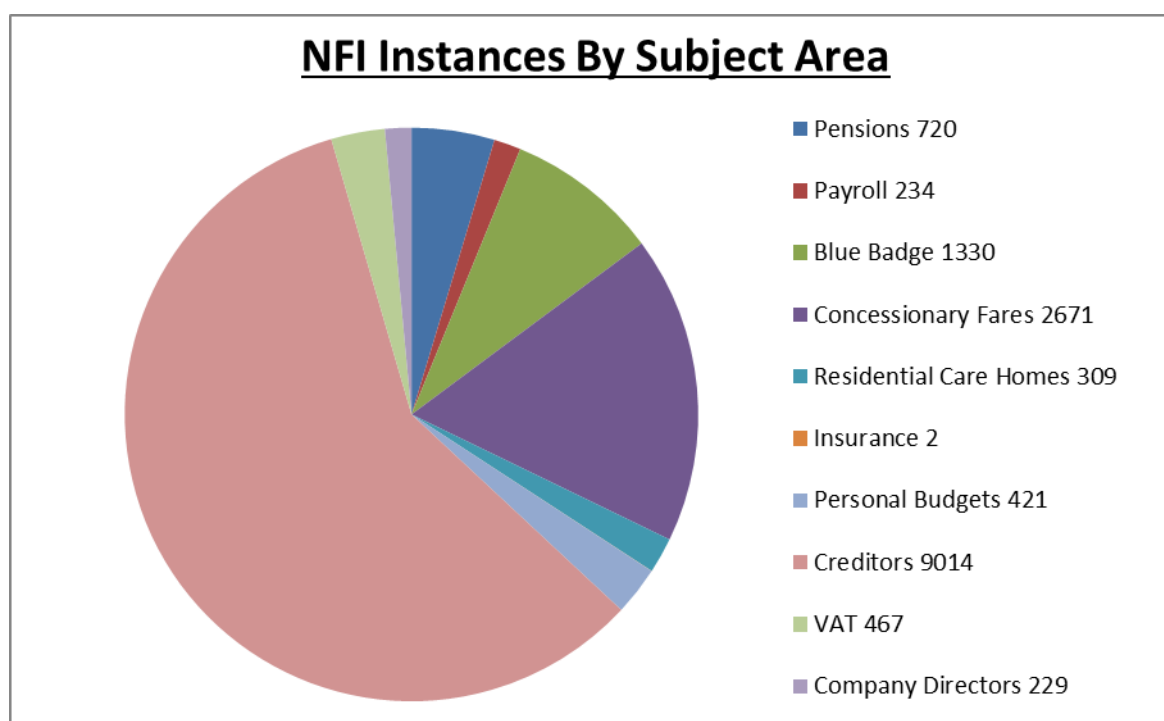
or concessionary fares lists for whom the Department of Works and Pensions have a deceased date. It also looks at where we have made the same or similar payments to the same supplier over time, or where the VAT on payments is unusual.

Once the NFI have done their comparative work, we receive “datasets” back onto our secure system. A dataset is effectively a list of all potential “matches” or concerns that the NFI’s work has thrown up in a certain area e.g. pensions.

Access to the website is highly restricted, but a few staff within each service area in the County Council then investigate the potential matches for any suspicious activity in their own specialism. Where the potential match is with another authority, there is a secured electronic communications within the other authority to check details and investigate in a collaborative manner.

In the latest two-year cycle, just completed, the NFI returned a total of 15,397 potential matches to consider. Of these, 5,532 were deemed as “Recommended” to investigate, where the analysis showed a greater possibility of fraudulent behaviour. Officers at SCC (plus Peninsula Pensions) have so far reviewed 6,367 – well above the Recommended level.

A split of the potential matches is as follows:-



It should be noted that as in previous NFI cycles, the overwhelming proportion of potential matches are revealed as entirely innocent, although some genuine errors are discovered. Typical examples include:-

- the same regular amount paid to a supplier which were separate payments for individual months;
- blue badge or concessionary travel pass holders who had moved house and therefore issuing local authority;
- staff on payroll who were registered supply teachers for more than one authority

- or were also retained firefighters; and
- the same person on more than one payroll where they were councillors at both District and County level;

A number of genuine errors the value of £31,831.86 have so far been identified. As some of these were in relation to pensions, for example, there would have been additional savings if the payment had been continued over future years. Overpayments have been recovered. The NFI work has also resulted in the discovery and investigation of some of the Somerset cases outlined in Appendix 2.

### 3.7. Transparency requirements

The Local Government Transparency Code sets out the minimum data that local authorities should be publishing on fraud, the frequency it should be published and how it should be published. The table below sets out the Code's requirements. This will be updated on the relevant part of our website by the end of January 2018. We also include the January Anti-Fraud audit report and links to SWAP, contact details and to other relevant sites and information.

Minimum to be published	Recommended
<p><b>Annual publication</b> Publish the following information:</p> <ul style="list-style-type: none"><li>• number of occasions they use powers under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers</li><li>• total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud</li><li>• total number (absolute and full time equivalent) of professionally accredited counter fraud specialists</li><li>• total amount spent by the authority on the investigation and prosecution of fraud</li><li>• total number of fraud cases investigated</li></ul>	<p><b>Local authorities should publish:</b></p> <ul style="list-style-type: none"><li>• total number of cases of irregularity investigated</li><li>• total number of occasions on which<ul style="list-style-type: none"><li>a) fraud and</li><li>b) irregularity was identified</li></ul></li><li>• total monetary value of<ul style="list-style-type: none"><li>a) the fraud and</li><li>b) the irregularity that was detected, and</li></ul></li><li>• total monetary value of<ul style="list-style-type: none"><li>a) the fraud and</li><li>b) the irregularity that was recovered</li></ul></li></ul>

### 3.8. Anti-Fraud and Corruption Policy

As part of our annual review of the County Council's anti-fraud and corruption measures, a review has been carried out of our Anti-Fraud and Corruption Policy (Appendix 1). Officers do not see any need for a substantial review of this document at present, other than confirming that it contains both our Policy and our Strategy.

Fraud remains a clearly stated example of gross misconduct within the relevant HR policies.

### 3.9. Anti-Bribery Policy



This is an Annex to the Anti-Fraud and Corruption Policy. This policy was significantly updated ahead of the January 2016 Audit Committee meeting, with help from SWAP.

The auditor's overall view was that there was a **Low Risk** in terms of our controls in relation to these offences, and that any response would only need to be proportionate to that level of risk. Although some of our controls are not "badged" as anti-bribery, there are many effective controls in preventing bribery, such as the examples in the table below.

<b>Area of Potential Risk</b>	<b>Examples of Mitigating Controls</b>
Award of contracts	Use of Pro Contract and Contract Standing Orders Controlled waiver process Decision paper required and consultation with key officers
Award of planning permission	Decisions through public Regulation Committee. Members' standards
Recruitment	HR guidelines and support Panel interviewing
Payment of insurance claims	External support, e.g. legal, brokers Review of insurance files from underwriter

### **3.10. Anti-Money Laundering Policy**

This policy was similarly extensively updated last time and is an Annex to the Anti-Fraud and Corruption Policy. Again, the risk of money laundering against SCC is deemed **Very Low Risk**, which is the same conclusion that a number of other local authorities have also reached.

The CIPFA Guidance for Local Authorities on Money Laundering makes it clear that Local Authorities are not obliged to comply with the Money Laundering Regulations 2007, but the guidance does recommend that public service organisations should embrace the underlying principles of the money laundering legislation and regulations.

The role of Money Laundering Reporting Officer (MLRO) is a specifically set out one to support the legislation in the event of any such case arising.

The Money Laundering Reporting Officer (MLRO) is part of the Strategic Manager – Financial Governance's role. In his absence, this role will be performed by the Strategic Manager – Finance Adults and Children. It will be for the MLRO to investigate any allegations and to liaise with the Police

## **4. Consultations undertaken**

- 4.1.** All policies were reviewed in conjunction with the s151 officer.
- 4.2.** All policies were updated previously with significant support from SWAP.

## **5. Implications**

- 5.1.** Measures contained within this report will be used to protect SCC from fraud in the forthcoming year.

## **6. Background papers**

- 6.1.** “Protecting The English Public Purse 2016” TEICCAF  
“Code of practice on managing the risk of fraud and corruption” CIPFA  
“Fraud and Corruption Tracker Summary Report 2017” CIPFA  
“National Fraud Initiative” Cabinet Office  
“The local government counter fraud and corruption strategy” Fighting Fraud and Corruption Locally  
Previous report to Audit Committee on this subject.

**Note** For sight of individual background papers please contact the report author.

# Somerset County Council Anti-Fraud and Corruption Policy and Strategy

## Introduction

Somerset County Council is determined to pursue a policy of **zero tolerance** in relation to fraud and corruption. The purpose of this document is to set out Somerset County Council's stance on fraud and corruption, provide guidance to staff and others on action to prevent or report on malpractice or the perception of malpractice and to emphasise the need to be aware and to continue the County Council's good record. Zero tolerance means zero tolerance. Zero tolerance includes not only acts of fraud and corruption that are perpetrated against the County Council itself, but wherever and whenever it has an interest or reputation to protect. The County Council will always seek to reduce any such risk of fraud. Zero tolerance includes frauds against the Council's partners, by Council staff against third parties, such as benefit and other personal fraud, and by contractors and those working with or on behalf of the Council.

The County Council controls millions of pounds of public money and takes very seriously its stewardship of this money. The County Council is proud of the excellent reputation it has established for integrity and honesty. Acts of dishonesty within the County Council are rare and the County Council has a very good track record on frauds perpetrated against it by individuals attempting to obtain assets to which they are not entitled.

The County Council is, however, determined to protect itself against fraud and corruption both from within and from external sources. The County Council already has in place a Constitution, which includes the Members' Codes of Conduct and Protocols setting out expected behaviours of both members and employees. It also includes Financial Regulations which provide clarity about accountabilities of individuals, Members, Senior Leadership Team etc. The HR content on the Council's Intranet site includes detailed Standards of Conduct expected of Officers. In addition, there are also a number of key documents which provide a governance framework in this area. The Anti-Fraud and Corruption Policy, therefore, brings together the key elements from these documents and provides a link to where further information may be found. As part of its aim to ensure Value For Money (VFM) and Efficiency, the County Council is committed to an effective Anti-Fraud and Corruption Strategy designed to:

- ensure prevention
- facilitate detection, and
- identify a clear pathway for investigation and remedial action.

### 1. What Constitutes Fraud and Corruption?

1.1 Fraud is defined in the Fraud Act 2006 which came into effect from 15 January 2007. There are three basic types of fraud:

- **False representation**  
Where a person makes a representation that is intentionally and dishonestly made, knowing that it is, or might be, untrue or misleading with intent to make a gain for him/herself or another, to cause loss to another or to expose another to risk of loss.
- **Failing to disclose information**  
Where a person fails to disclose information to another person when he/she is under a legal duty to disclose that information honestly, intending by that failure to make a gain or cause a loss.
- **Abuse of position**  
Where a person occupies a position in which he/she is expected to safeguard, or not to act against, the financial interests of another person and abuses that position dishonestly intending by that abuse to make a gain/cause a loss (the abuse may consist of an omission rather than an act).

A person can be found guilty even if there is no victim of the crime; all that needs to be proven is the intent to make a gain or cause a loss by the accused.

- 1.2 Corruption covers the offering, giving, soliciting or acceptance of an inducement or reward, which may influence the action of any person.

## **2. Application**

- 2.1 This Anti-Fraud and Corruption Policy will apply to all employees and Members of the Council. Where others are to deliver services on behalf of the County Council, it is essential during the procurement or service transfer process that they are made aware of the standards that are expected of them in relation to anti-fraud and corruption measures, and the support that the County Council will expect in delivering our Policy.

## **3. Overall Approach and Strategy**

- 3.1 Somerset County Council is committed to having a zero tolerance approach to fraud and corruption through the creation of an anti-fraud culture: This will involve:
  - Regular promotion of this policy to all officers and members
  - Commissioning of audits in areas judged high risk for fraud and corruption.
  - Maximum deterrence of fraud and corruption
  - Successful prevention of fraud and corruption
  - Encouraging the reporting of fraud and corruption
  - Prompt detection of fraud and corruption
  - Professional investigation of detected fraud and corruption
  - Effective sanctions, including appropriate legal action against anyone found guilty of committing fraud and corruption

- Effective methods for seeking recovery of money defrauded or imposition of other legal remedies
- Full reporting of all cases of fraud or corruption to the Audit Committee
- Full publication of all cases of fraud and corruption (subject to any legal constraints).

#### 4. Procedure

4.1 County Council employees and members **must** report any concerns they may have regarding fraud and corruption, whether it relates to dishonest behaviour by Council employees, Members, Contractors or by others. That action will be free from recrimination. Such concerns will be treated in confidence and will be properly investigated. In the first instance a member of staff should contact a senior manager within the line management structure. However, if the member of staff considers the matter too serious or sensitive or inappropriate to raise within the line management structure then one of the following may be contacted – in person, by telephone or e-mail (marked confidential):

- Director of Finance, Legal and Governance
- Strategic Manager – Financial Governance (Chief Internal Auditor)
- Audit Manager
- Chief Executive
- Monitoring Officer
- Chair of Audit Committee.

4.2 All matters will be treated in confidence and an expressed wish not to reveal the identity of a complainant will be respected wherever possible. (Concerns expressed anonymously are much less powerful but will be considered by the County Council). Alternatively, any person with a concern may use the Council's Confidential "Whistleblowing" Policy or as an external contact point our external auditors, Grant Thornton.

4.3 Elected members should normally report any concerns to the appropriate Senior Leadership Team member, the Chief Executive, the Finance and Performance Director, or the Monitoring Officer.

4.4 The Council's Disciplinary Code clearly identifies the following as Gross Misconduct:

- Theft or unauthorised possession from other employees, the Council or clients
- Fraud or attempt to defraud
- Falsification and irregular practice in respect of cash, records, returns or attendance recording systems.

A Senior Leadership Team member (or other senior nominated officer, where authorised) may dismiss an employee on the grounds of gross misconduct in

accordance with personnel policies, procedures and Human Resources Handbook and subject to consultation with the Human Resources Director.

- 4.5 An accusation of dishonest behaviour by a Member of the Council should be referred to the Monitoring Officer for an assessment of whether this is likely to constitute a breach of the Members' Code of Conduct.
- 4.6 If a case involves action against a third party, any action to be taken will be agreed between a Senior Leadership Team member, the Director of Finance, Legal and Governance, and where necessary the Monitoring Officer.
- 4.7 Where investigation reveals evidence of suspected criminal activity with regard to fraud and corruption the relevant Senior Leadership Team member in consultation with the Finance and Performance Director **must** refer the matter to the Police. Where an employee is involved, the employee's Senior Leadership Team member should consult with the Director of Finance, Legal and Governance and where appropriate, the Chief Executive, Monitoring Officer and Human Resources Director.
- 4.8 The Council will do all it can to recover monies or assets misappropriated by employees or others as a result of dishonest behaviour. (See Section 7 on "Recovery of Losses")

## **5. Prevention**

- 5.1 There are many ways of preventing fraud and corruption happening. The Council has adopted the following preventative measures including:
  - Having a sound Governance Framework in place compliance with which is monitored on an annual basis by senior management
  - Ensuring that the risks of fraud and corruption are controlled via corporate and operational risk registers
  - The Council's Recruitment and Selection procedure requires that references should always be taken up when recruiting posts externally. This is intended, amongst other reasons, to prevent people with a history of dishonest behaviour being employed by the Council in positions of trust
  - The officers' Standards of Conduct makes it clear that the conduct of its employees should be of the highest possible standard and that dishonest behaviour by employees will not be tolerated by the Council
  - The members' Code of Conduct requires members to abide by the 7 Principles of Public Life in carrying out their duties together with requirements to register and disclose disclosable pecuniary interests and personal (and where appropriate prejudicial interests) as well as details of gifts and hospitality received.
  - The Council's Code of Practice on Whistleblowing gives protection to anyone with genuine concerns which they wish to report who feels that they cannot follow normal channels such as via management or the council's complaints procedures

- Contracts Standing Orders and Financial Regulations prescribe the minimum standards for financial controls that must be in place within all processes throughout the Council
  - The County Council subscribes to the National Anti-Fraud Network.
  - Continual re-assessment of all our preventative measures against emerging nationally identified risks and annual review by the Governance Board and the Audit Committee.
- 5.2 It is the responsibility of each Senior Leadership Team member to ensure that employees are aware of the measures set out in 5.1 above and that their staff comply with them and that sound financial controls exist within their financial systems and procedures. The Senior Leadership Team must seek prior approval of the Finance and Performance Director before any proposed changes to existing financial or related systems are made, in accordance with Financial Regulations.
- 5.3 The Senior Leadership Team should also ensure that guidelines, rules or other written procedures exist and are complied with for specific activities at risk from fraud and corruption.
- 5.4 Each individual employee and Member is responsible for observing these rules and codes. This will go a long way to preventing and detecting improper practice.

## **6. Detection**

- 6.1 The array of preventative systems, particularly internal controls systems with the County Council, help to provide indicators of, and help to deter, any fraudulent activity. Where fraudulent activity is suspected, this may be investigated by Internal Audit. It is not Internal Audit's primary responsibility to detect fraud; the role of Internal Audit is to check the adequacy of the controls within systems. However, the assessment of the risk of fraud is routinely taken into account in planning all internal audits.
- 6.2 It is the responsibility of the Senior Leadership Team and their managers to prevent and detect fraud and corruption. However, it is often the alertness of staff, Members and the public to the possibility of fraud and corruption, that enables detection to occur and appropriate action to take place when there is evidence that fraud or corruption may have been committed or is in progress.
- 6.3 Allegations can be a key factor in the detection of fraud and as such the Council treats all suspicions and concerns and complaints seriously and is committed to investigate all such matters.
- 6.4 The Council's Code of Practice on "Whistle blowing" allows employees and Members to raise any concerns they may have in confidence and anonymously should they so wish.
- 6.5 Investigation into fraudulent activity will normally be carried out by the Internal Audit Service or the Financial Governance Manager, who will liaise as

appropriate with the Chief Executive, Director of Finance, Legal and Governance, Monitoring Officer, County Solicitor, Director of Human Resources, Senior Leadership Team, relevant members and the Police.

- 6.6 The County Council is also committed to taking part in the Audit Commission's National Fraud Initiative (NFI) which brings together data from NHS bodies, local authorities, government departments and other agencies to detect a wide range of frauds against the public sector. This data matching exercise which is run every two years helps, for example, to reduce levels of pension payments being made inappropriately by comparing the County Council's pension information against that held by the Department of Works and Pensions. Potential frauds uncovered through NFI must also be investigated in accordance with this Policy.

## **7. Recovery of Losses**

- 7.1 The Council will always seek to recover the losses incurred as a result of fraud and corruption.
- 7.2 The Council's Insurance Manager should be informed as soon as possible of any potential insurable loss. Details of the case should also be given together with an indication of what recovery action is being attempted.
- 7.3 If anyone under investigation offers money in settlement of any losses to the Council, it should be made clear that any monies offered will be accepted:
- without prejudice to any other action the Council may wish to take
  - that acceptance is only in respect of losses identified to date
  - and that the Council reserves the right to seek recovery of any further losses that may come to light in the future.
- 7.4 Claims under the Council's insurance arrangements in fraud and corruption cases should be regarded as a "last resort", and will only be instigated once all other avenues of recovery have been fully explored.
- 7.5 Consideration will be given to legal action against the perpetrator of fraud or those benefiting from fraud in order to recover the Council's losses.

## **8. Training**

- 8.1 The County Council recognises that the continuing success of its Anti-Fraud and Corruption Policy, and its general credibility will depend largely on the effectiveness of programmed training and the responsiveness of people throughout the organisation.
- 8.2 To facilitate the raising of awareness of this Policy, the County Council supports the concept of induction and re-induction training for all Members and, particularly, for employees involved in internal control systems to ensure that their responsibilities and duties in this respect are highlighted and reinforced.



## **9. Conclusion**

- 9.1 The County Council will maintain a continuous overview of these arrangements and, through the Director of Finance, Legal and Governance, will in particular ensure a regular review of Contract Standing Orders, Financial Regulations, Financial Management and Audit Arrangements.
- 9.2 This Policy Statement will also be subject to regular review at least every other year.

If you want to read more about how we prevent fraud and corruption please read the following documents;

- The Constitution (including Financial Regulations and Contract Standing Orders)
- Financial Procedures
- Members' Code of Conduct
- Standards of conduct for officers
- Complaints procedures
- Whistle-blowing procedure
- Anti money laundering Policy
- Anti Bribery Policy
- Risk Strategy
- Audit Committee reports

## **Somerset County Council Anti-Bribery Policy (Annex 1 to Anti-Fraud and Corruption Policy)**

### **Introduction**

Somerset County Council has a **zero tolerance** for any acts of bribery, improper inducement or similarly corruption, and will take all necessary steps (including through the courts) to protect the public purse from these activities.

Somerset County Council does not, and will not, pay bribes or offer improper inducements to anyone for any purpose, nor do we or will we, accept bribes or improper inducements. To use a third-party as a conduit to channel bribes to others is a criminal offence. We do not, and will not, engage indirectly in or otherwise encourage bribery.

We are committed to the prevention, deterrence and detection of bribery. We aim to maintain anti-bribery compliance as “business as usual”, rather than as a one-off exercise.

This policy provides the framework to enable the organisation’s employees and members to understand and implement arrangements enabling compliance. In conjunction with related policies and key documents it will also enable members and employees to identify and effectively report a potential breach.

SCC requires that all members and staff, including those permanently employed, temporary agency staff and contractors:

- act honestly and with integrity at all times and to safeguard the Council’s resources for which they are responsible and to safeguard the council’s good reputation
- comply with the spirit, as well as the letter, of the laws and regulations of all jurisdictions in which SCC operates, in respect of the lawful and responsible conduct of activities.

It is unacceptable to:

- give, promise to give, or offer a payment, gift or hospitality with an expectation or hope that a business advantage will be received, or to reward a business advantage already given
- give, promise to give, or offer a payment, gift or hospitality to a government official, agent or representative to “facilitate” or expedite a routine procedure
- accept payment from a third party that you know or suspect is offered with the expectation that it will obtain a business advantage for them
- accept a gift or hospitality from a third party if you know or suspect that it is offered or provided with an expectation that a business advantage will be provided by us in return
- retaliate against or threaten a person who has refused to commit a bribery offence or who has raised concerns under this policy
- engage in activity in breach of this policy

As well as the possibility of civil and criminal prosecution, staff and members that breach this policy will face disciplinary action, which could result in dismissal for gross misconduct.

### **What Constitutes Bribery?**

Bribery is a criminal offence. Bribery is an inducement or reward offered, promised or provided to gain personal, commercial, regulatory or contractual advantage.

The Bribery Act 2010 <http://www.legislation.gov.uk/ukpga/2010/23/contents> makes it an offence to offer, promise or give a bribe (section 1). It also makes it an offence to request, agree to receive, or accept a bribe (section 2).

By its nature as a local authority, Somerset County Council will not face a corporate offence under Section 7, of failure by a commercial organisation to prevent bribery that is intended to obtain or retain business, or an advantage in the conduct of business, for the organisation. However, it is not impossible that organisations that seek to induce a bribe from the County Council, or offer one to County Council may be subject to this Section of the Act. (An organisation will have a defence to this corporate offence if it can show that it had in place adequate procedures designed to prevent bribery by or of persons associated with the organisation).

An individual guilty of an offence under sections 1 or 2 is liable:

- on conviction in a magistrates court, to imprisonment for a maximum term of 12 months or to a fine not exceeding £5,000, or to both
- on conviction in a crown court, to imprisonment for a maximum term of ten years, or to an unlimited fine, or both

### **Public contracts and failure to prevent bribery**

Under the Public Contracts Regulations 2006 (which gives effect to EU law in the UK), SCC is automatically and perpetually debarred from competing for public contracts where it is convicted of a corruption offence.

Organisations that are convicted of failing to prevent bribery are not automatically barred from participating in tenders for public contracts. SCC has the discretion to exclude organisations convicted of this offence.

### **Facilitation payments**

Facilitation payments are not tolerated and are illegal. Facilitation payments are unofficial payments made to public officials in order to secure or expedite actions. This, for example, includes customs officers.

### **Application**

This Anti-Bribery Policy will apply to all employees and Members of the Council.

This policy applies to all of SCC's activities. For partners, joint ventures and suppliers, we will seek to promote the adoption of policies consistent with the principles set out in this policy. Where others are to deliver services on behalf of the County Council, it is essential during the procurement or service transfer process that they are made aware of the standards that are expected of them in relation to anti-bribery measures, and the support that the County Council will expect in delivering our Policy.

Within SCC, the responsibility to control the risk of bribery occurring resides with all members and officers. It does not rest solely within assurance functions, but in all service areas, business units and corporate functions.

## **Overall Approach**

Somerset County Council is committed to having a zero tolerance approach to bribery through the creation of an anti-bribery culture: This will involve:

- setting out a clear anti-bribery policy and reviewing at least annually (through the officer Governance Board and Audit Committee)
- making all employees aware of their responsibilities to adhere to this policy at all times
- providing training and guidance to key employees so that they can recognise and avoid the risk of bribery by themselves and others
- encouraging its employees to be vigilant and to report any suspicions of bribery, providing them with suitable channels of communication and ensuring sensitive information is treated as such
- rigorously investigating instances of alleged bribery and assisting police and other appropriate authorities in any resultant prosecution
- taking firm and vigorous action against any individual(s), (employees, Members, contractors, agents) involved in bribery
- provide information to all employees to report breaches and suspected breaches of this policy
- including appropriate clauses in contract documents to prevent bribery
- fostering a culture within the organisation, (from SLT and Members downwards) in which bribery is never acceptable

## **Reporting**

The prevention, detection and reporting of bribery and other forms of corruption are the responsibility of all those working for the organisation or under its direction. All staff and members are required to avoid activity that breaches this policy.

County Council employees and members should report any concerns they may have regarding fraud and corruption, whether it relates to dishonest behaviour by Council employees, Members, Contractors or by others. That action will be free from recrimination. Such concerns will be treated in confidence and will be properly investigated. In the first instance a member of staff should contact a senior manager within the line management structure. However, if the member of staff considers the matter too serious or sensitive or inappropriate to raise within the line management

structure then one of the following may be contacted – in person, by telephone or e-mail (marked confidential):

- Director of Finance, Legal and Governance
- Strategic Manager – Financial Governance (Chief Internal Auditor)
- Audit Manager
- Chief Executive
- Monitoring Officer
- Chair of Audit Committee.

All matters will be treated in confidence and an expressed wish not to reveal the identity of a complainant will be respected wherever possible. (Concerns expressed anonymously are much less powerful but will be considered by the County Council). Alternatively, any person with a concern may use the Council's Confidential "Whistleblowing" Policy, or as an external contact point our external auditors, currently Grant Thornton.

Staff/members who refuse to accept or offer a bribe, or those who raise concerns or report wrong-doing can understandably be worried about the repercussions. SCC aims to encourage openness and will support anyone who raises a genuine concern in good faith under this policy, even if they turn out to be mistaken.

SCC is committed to ensuring nobody suffers detrimental treatment through refusing to take part in bribery or corruption, or because of reporting a concern in good faith.

### **Risk Assessment**

SCC's procedures to prevent bribery by persons associated with it are proportionate to the bribery risks it faces and to the nature, scale and complexity of its activities. They are intended to be clear, practical, accessible, effectively implemented and enforced.

SCC will assess the nature and extent of its exposure to potential external and internal risks of bribery on its business by persons associated with it. "Key areas" for regular re-assessment are to include procurement and payment, recruitment, insurance claims, officer and member decision-making. Such reviews will be at least annually, and whenever a change in process is made for any of these areas.

If the review of anti-bribery controls reveals a potentially increased risk, this will be taken to the Strategic Risk Management Group for consideration and monitoring. The risk will be added to JCAD, together with appropriate mitigations, and will be owned by the Strategic Manager – Financial Governance unless a more suitable officer is nominated.

### **Communication**

SCC seeks to ensure that its bribery prevention policies and procedures are understood throughout the organisation through internal and external communication, including training that is proportionate to the key officers and key risks it faces.

All staff will be alerted to the anti-bribery policies by means of Core Brief and the inclusion of the policy on key intranet governance sites. All staff engaged in what are deemed “key areas” for anti-bribery will also receive additional guidance.

### **Gifts and hospitality**

This policy is not intended to change any of the requirements of our gifts and hospitality policy. <http://extranet.somerset.gov.uk/hr/employment-information/gifts-and-hospitality/>

The Council has decided that all offers of gifts/hospitality worth £25 or more, whether accepted or not, **must** be declared and recorded in order to ensure openness and transparency.

If you have any questions about these procedures, please contact **Martin Gerrish, Strategic Manager – Financial Governance, tel: 01823 355303.**

Other relevant policies can be found on the County Council’s website.

These include:

- Fraud and Corruption Policy
- Anti Money Laundering Policy
- Whistleblowing Policy
- Gifts and Hospitality Policy

## **Somerset County Council Anti-Money Laundering Policy (Annex 2 to Anti-Fraud and Corruption Policy)**

### **Introduction**

Somerset County Council has a **zero tolerance** for any acts of money laundering, and will take all necessary steps (including through the courts) to protect the public purse from these activities. CIPFA defines money laundering as “to disguise criminally sourced cash or property in order to give the appearance of legitimacy. This is done by mixing the criminal transactions with the legitimate transactions of businesses.”

Somerset County Council will do all it can to prevent the Council and its staff being exposed to money laundering, to identify the potential areas where it may occur, and to comply with all legal and regulatory requirements, especially with regard to the reporting of actual or suspected cases.

It is acknowledged that the risks to the County Council in relation to Money Laundering are considered very low; however the potential losses and reputational damage could be significant.

This policy provides the framework to enable the organisation’s employees and members to understand and implement arrangements enabling compliance. In conjunction with related policies and key documents it will also enable members and employees to identify and effectively report a potential breach.

As well as the possibility of civil and criminal prosecution, staff and members that breach this policy will face disciplinary action, which could result in dismissal for gross misconduct.

### **What Constitutes Money Laundering?**

Money laundering is the term used for a number of offences involving the proceeds of crime or terrorism funds. The following constitute the act of money laundering:

- Concealing, disguising, converting, transferring criminal property or removing it from the UK (section 327 of the 2002 Act); or
- Entering into or becoming concerned in an arrangement which you know or suspect facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person (section 328); or
- Acquiring, using or possessing criminal property (section 329);
- Becoming concerned in an arrangement facilitating concealment, removal from the jurisdiction, transfer to nominees or any other retention or control of terrorist property (section 18 of the Terrorist Act 2000).

These are the primary money laundering offences and thus prohibited acts under the legislation. There are also two secondary offences: failure to disclose any of the primary offences and tipping off. Tipping off is where someone informs a person or

people who are, or are suspected of being involved in money laundering, in such a way as to reduce the likelihood of their being investigated or prejudicing an investigation.

Potentially any member of staff could be caught by the money laundering provisions if they suspect money laundering and either become involved with it in some way and/or do nothing about it. This Policy sets out how any concerns should be raised.

Money laundering can take place in an almost infinite number of ways. It does however require three distinct phases to be in place for money to be laundered:

1. Placement - the stage at which criminally derived funds are introduced in the financial system.
2. Layering - the substantive stage of the process in which the property is 'washed' and its ownership and source is disguised.
3. Integration - the final stage at which the 'laundered' property is re-introduced into the legitimate economy

### **Application**

This Anti-Money Laundering Policy will apply to all employees and Members of the Council.

This policy applies to all of SCC's activities. For partners, joint ventures and suppliers, we will seek to promote the adoption of policies consistent with the principles set out in this policy. Where others are to deliver services on behalf of the County Council, it is essential during the procurement or service transfer process that they are made aware of the standards that are expected of them in relation to money laundering measures, and the support that the County Council will expect in delivering our Policy.

Within SCC, the immediate responsibility to control the risk of money laundering occurring resides with all officers who handle external payments and in particular payments in cash. It does not rest solely within assurance functions, but in all service areas, business units and corporate functions.

### **Overall Approach**

Somerset County Council is committed to having a zero tolerance approach to money laundering through the creation of an anti-money laundering and corruption culture: This will involve:

- setting out a clear anti-money laundering policy and reviewing at least annually (through the officer Governance Board and Audit Committee)
- making all employees who are involved in the collection of income aware of their responsibilities to adhere to this policy at all times
- through the Income Code of Practice limiting the amount of cash that the County Council will take from a single debtor or single occasion to £5,000



- encouraging its employees to be vigilant and to report any suspicions of money laundering, providing them with suitable channels of communication and ensuring sensitive information is treated as such
- rigorously investigating instances of alleged money laundering and assisting police and other appropriate authorities in any resultant prosecution through the Money Laundering Reporting Officer.
- taking firm and vigorous action against any individual(s), (employees, Members, contractors, agents) involved in money laundering
- provide information to all employees to report breaches and suspected breaches of this policy
- including appropriate clauses in contract documents to prevent money laundering
- fostering a culture within the organisation, (from SLT and Members downwards) in which money laundering is never acceptable

## Reporting

The prevention, detection and reporting of money laundering and other forms of corruption are the responsibility of all those working for the organisation or under its direction. All staff and members are required to avoid activity that breaches this policy.

County Council employees and members should report any concerns they may have regarding money laundering and corruption, whether it relates to dishonest behaviour by Council employees, Members, Contractors or by others. That action will be free from recrimination. Such concerns will be treated in confidence and will be properly investigated. In the first instance a member of staff should contact a senior manager within the line management structure. However, if the member of staff considers the matter too serious or sensitive or inappropriate to raise within the line management structure then one of the following may be contacted – in person, by telephone or e-mail (marked confidential):

- Director of Finance, Legal and Governance
- Strategic Manager – Financial Governance (Chief Internal Auditor)
- Audit Manager
- Chief Executive
- Monitoring Officer
- Chair of Audit Committee.

All matters will be treated in confidence and an expressed wish not to reveal the identity of a complainant will be respected wherever possible. (Concerns expressed anonymously are much less powerful but will be considered by the County Council). Alternatively, any person with a concern may use the Council's Confidential "Whistleblowing" Policy, or as an external contact point our external auditors, currently Grant Thornton.

The **Money Laundering Reporting Officer (MLRO)** is the Strategic Manager – Financial Governance. In his absence, this role will be performed by the Strategic

Manager – Adults, Children and Health. It will be for the MLRO to investigate any allegations and to liaise with the Police

Staff/members who refuse to accommodate attempts at money-laundering, or those who raise concerns or report wrong-doing can understandably be worried about the repercussions. SCC aims to encourage openness and will support anyone who raises a genuine concern in good faith under this policy, even if they turn out to be mistaken.

SCC is committed to ensuring nobody suffers detrimental treatment through refusing to take part in money laundering, or because of reporting a concern in good faith.

### **Risk Assessment**

SCC's procedures to prevent money laundering by persons associated with it are proportionate to the risks it faces and to the nature, scale and complexity of its activities. They are intended to be clear, practical, accessible, effectively implemented and enforced. It is accepted that the overall risk of SCC being targeted and also being a victim of money laundering are **very low** because of the controls in place in our financial systems and policies.

SCC will assess the nature and extent of its exposure to potential external and internal risks of money laundering on its business by persons associated with it on all annual basis.

If the review of anti-money laundering controls reveals a potentially increased risk, this will be taken to the Strategic Risk Management Group for consideration and monitoring. The risk will be added to JCAD, together with appropriate mitigations, and will be owned by the Strategic Manager – Financial Governance unless a more suitable officer is nominated.

### **Communication**

SCC seeks to ensure that its anti-money laundering policies and procedures are understood throughout the organisation through internal and external communication, including training that is proportionate to the key officers and key risks it faces.

All staff will be alerted to the anti-money laundering policies by means of Core Brief and the inclusion of the policy on key intranet governance sites. All staff engaged in what are deemed "key areas" for anti-money laundering will also receive additional guidance.

If you have any questions about these procedures, please contact **Martin Gerrish, Strategic Manager – Financial Governance, tel: 01823 355303.**

Other relevant policies can be found on the County Council's website.

These include:

Fraud and Corruption Policy  
Anti Bribery Policy  
Whistleblowing Policy  
Gifts and Hospitality Policy

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