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Audit Committee
Thursday 20 September 2018
10.00 am Luttrell Room - County Hall, Taunton

To: The Members of the Audit Committee

Cllr C Aparicio Paul (Chair), Cllr G Verdon (Vice-Chair), Cllr M Caswell, Cllr S Coles, Cllr B Filmer, Cllr P Ham, Cllr L Leyshon, Cllr M Rigby and Cllr J Thorne

Issued By Scott Wooldridge, Strategic Manager - Governance and Risk - 12 September 2018

For further information about the meeting, please contact Neil Milne on 01823 359045 or 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

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AGENDA

Item Audit Committee - 10.00 am Thursday 20 September 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 26 July 2018** (Pages 9 - 14)

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 **External Audit Report** (Pages 15 - 52)

To consider the report

6 **Annual Findings Report Tracker** (Pages 53 - 64)

To consider the report

7 **Risk Management Report** (Pages 65 - 84)

To consider the report

8 **Internal Audit Update** (Pages 85 - 106)

To consider the report

9 **Partial Audit Update - Payroll and IR35** (Pages 107 - 130)

To consider the report

10 **Partial Audit Update - Use of Part Time Timetables** (Pages 131 - 148)

To consider the report

11 **Partial Audit Update - Debtor Management** (Pages 149 - 180)

To consider the report

12 **Committee Future Workplan** (Pages 181 - 184)

To consider this report

13 **Any other urgent items of business**

The Chairman 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 – Neil Milne on Tel (01823) 359500or 357628; Fax (01823) 355529 or Email: ndmilne@somerset.gov.uk
They can also be accessed via the council's website on
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 Neil Milne, the Committee's Administrator, by 5pm three clear working days 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.

9. The Role of the Audit Committee

The Committee:

(a) Approves (but not directs) internal audit’s strategy, plan and performance;
(b) Reviews summary internal audit reports and the main issues arising, and seeks assurance that action has been taken where necessary;
(c) Considers the reports of external audit and inspection agencies;
(d) Ensures that the Council’s assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it;
(e) Ensures that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process and effective financial governance is actively promoted;
(f) Reviews the financial statements, external auditor’s opinion and reports to Members, and monitors management action in response to the issues raised by external audit.
(g) Approves the annual accounts of the Council and the Annual Governance Statement, together with considering the Matters Arising from the Accounts Audit.

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Audit Committee

Minutes of a meeting of the Audit Committee held in the Luttrell Room, Taunton on Thursday 26 July 2018 at 9.30 a.m.

PRESENT

Cllr C Aparicio Paul (Chair)

Cllr P Clayton (substitute)	Cllr B Filmer
Cllr S Coles	Cllr P Ham
Cllr M Caswell	Cllr L Leyshon
Cllr H Davies (substitute)	Cllr J Thorne

Apologies for absence: Cllr G Verdon (Cllr Clayton as substitute), Cllr M Rigby (Cllr Davies as substitute)

Other Members present: Cllrs M Chilcott, N Bloomfield, J Lock, M Keating, T Munt, B Revans, F Purbrick, D Hall, John Hunt

Officers present: Pat Flaherty – Chief Executive, Peter Lewis – Interim Director of Finance and Statutory 151 Officer, Martin Gerrish – Strategic Manager Financial Governance, Scott Wooldridge – Strategic Manager Governance & Risk and Pam Pursley – Risk Manager. Also Peter Grogan, Information Governance Officer for Agenda Item 7; Carolyn Smith, Strategic Manager Mental Health & Safeguarding for Agenda Item 8; Simon Clifford, Director for Agenda Item 8.

Also present: Lisa Fryer from the Southwest Audit Partnership, and Peter Barber and David Johnson from Grant Thornton.

61 Declarations of interest – agenda item 2

61.0 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 C Aparicio Paul, Cllr M Caswell, Cllr P Clayton, Cllr H Davies, Cllr B Filmer, Cllr Ham, and Cllr Thorne.

61.1 Cllrs Leyshon and Caswell also declared personal interests as they both received pensions through the pension scheme.

62 Minutes of the last meetings – 21 June 2018 - agenda item 3

62.1 Cllr Leyshon pointed out that she was a member of the committee and it was Cllr Munt who was the substitute for Cllr Coles. The Committee then agreed that the minutes of the meeting held on 21 June 2018 were accurate, and the Chair signed them.

63 Public question time – agenda item 4

63.0 The Chair informed the meeting that as the questions received related to item 6 on the Statement of Accounts they would be heard under that item.

64 Statement of Accounts – Pension Fund - Agenda item 5

64.0 This report was introduced by the External Auditor, Peter Barber. Members were informed that this was a very positive report for the Council. For the formal process of closing the Pension Fund's 2017/18 accounts, the Audit Committee is required to approve the draft Statement of Accounts by 31 July.

64.1 The external auditor's report summarised the findings from the 2017/18 audit of the Pension Fund financial statements. The report indicated that the accounts have received an unqualified opinion.

64.2 The auditor explained that the draft accounts contained no material errors and there had been only minor amendments which were discussed with officers during the audit. This was the third year the Accounts had been completed within this timescale and the first year when this was a statutory requirement. There were no significant issues to bring to the Committee's attention.

64.3 There was some discussion regarding pensions benefits payable, impact on fund regarding redundancy and transfers of staff and the management response to the need for journals to be authorised.

64.4 The Committee unanimously agreed to:

- Approve the audited Accounts of the Pension Fund for 2017/18; and
- Approve the Letter of Representation on behalf of the Council.

65 Statement of Accounts – Somerset County Council - Agenda item 6

65.0 This report was introduced by the External Auditor, Mr Peter Barber. Attention was directed to the Audit Findings report of Grant Thornton and the External Auditor provided an overview of the findings from their audit of the Council's financial statements for the year ended 31 March 2018.

65.1 With regard to the Statement of Accounts and Annual Governance Statement, Mr Barber explained that no material errors had been identified and no adjustments to the financial statements that resulted in any changes to the year-end outturn position or balance sheet were needed. There were small recommendations made regarding improving the presentation of the statements that were dealt with during the audit. Mr Barber praised the finance team for the high quality of their work.

65.2 With regard to Value for Money arrangements, Mr Barber explained that the auditors were required to evaluate specific National Audit Officer criteria as to whether in all respects the Council has properly informed decision making, has sustainable resource deployment (financial resilience) works well with partners and other third parties. The External Auditor's conclusion and opinion are set out on pages 13-28 of his report. He concluded that in respect of his concerns on sustainable resource deployment that he would be issuing a qualified "adverse" Value For Money opinion. His view was that without urgent actions, the County Council could run out of money in the next two to three years. However, as the County Council could meet its liabilities for the next 12 months after the Balance Sheet date, it was still a “Going Concern”. Mr Barber made 7 recommendations in relation to his Value For Money.

65.3 The Chief Executive, Mr Pat Flaherty, then took the Audit Committee through the management response. The County Council accepted the recommendations made by the auditor, as was already fully aware of the financial challenges, which was part of the reason it had invited the LGA to undertake a Corporate Peer Challenge. It had already set up the Financial Imperative programme, led by the Chief Executive and Senior Leadership Team concentrating wholly on addressing the financial position. Mr Flaherty outlined the County Council’s initial action plan to address the External Auditor’s recommendations and a number of supporting actions.

65.4 The Committee then heard public questions from Andrew Lee, and Nigel Behan who asked a number of questions with regard to the level of general and specific reserves, how SCC was meeting its liabilities, the External Auditor’s concerns and why these were not raised previously, the likelihood and impact of auditor issuing any “statutory recommendations” and the outsourcing of the Learning Disability Service.

65.5 Amongst the responses from officers, it was noted that the information on the reserves was set out in the Statement of Accounts on page 174 of the Committee papers, and that there was regular review of the Learning Disability Service contract at the Scrutiny for Policies, Adults and Health Committee including an update at its September meeting.

65.6 Members asked questions and discussed a number of topics including the use of the risk register, financial decision making and a section 114 notice, details about specific reserves including the Learning Disabilities Equalisation Reserve, the use of the Capital Receipts Flexibility, how to reduce the current overspend, the possibility of borrowing to invest, clarity of financial accounts and reports, the on-going contract with Discovery and costs incurred. Members were assured the council was not in the position which would require the Director of Finance to issue a section 114 notice.

65.7 Following consideration of the reports, the Committee agreed by majority (Cllr Coles voting against), to approve:

- The audited Statement of Accounts for 2017/18 (Appendix A);
- The Letter of Representation for 2017/18 (section 5.1 and Appendix B);
- The updated Annual Governance Statement as included within the Statement of Accounts (section 6)

66 Update on General Data Protection Regulations– Agenda item 7

66.0 The Committee received information from Peter Grogan, the County Council’s Information Governance Officer, regarding the General Data

Protection Regulation (GDPR) implementation programme. This was in response to a request from Audit Committee in June. A vast amount of work was required and officers were working towards compliance. The authority needed to create and maintain an Information Asset Register listing the databases within the council that hold personal data. This was being built manually to help save system costs.

66.1 There were a couple of questions about the costs associated with this and whether this would save money as it would take more time.

66.2 The Committee noted the report.

67 Partial Audit update – Mental Health Emergency Assessments Care Plans – Agenda item 8

67.0 An internal audit had been conducted on the outcome focused care plans produced by the Mental Health Social Care Service and this had resulted in Partial assurance. Since then the Committee was informed that there had been an improved approach to record keeping and care planning which included using the AIS system for recording care plans.

67.1 A clear rationale had to be documented in cases where it was not possible for care and support plans to be completed and shared within 14 days of assessment. Reviews could now be monitored separately as a result of the use of the AIS system.

67.2 There was some discussion about retrieving data, staff training, checks and balances with the systems, when there would be a further update about this, and concern there was still a significant amount of paper documentation. Work was being done to try and get all organisations involved on one system – this was a national issue.

67.3 The Committee noted the report.

68 Partial Audit update – New Operating Model Front Door – Agenda item 9

68.0 An internal audit had been undertaken to assess the adequacy of the controls and procedures in place for the Adult Social Care new operating model front door processes at Somerset County Council. This had identified a number of areas where key risks were not well managed, and systems required the introduction or improvement of internal controls to ensure the achievement of objectives.

68.1 The Audit Committee were informed that the approach to calls about Adult Social Care had changed significantly, and the aim was to resolve as many calls as possible at the first point of contact by offering a range of solutions with an emphasis on outcomes. There was a training programme in place and staff were committed.

68.2 Of the 9 recommendations from the review, 5 had now been completed and the other four were on track to be completed by the end of September.

The committee noted the report.

69 **Forward Work Plan** – Agenda item 12

69.0 The Committee considered and discussed its Forward Work Plan of future agenda items and reports for the remaining scheduled Committee meetings in 2018.

69.1 Members were reminded that the next meeting was on 20 September at 10am.

The meeting closed at 12.40pm.

Cllr Clare Aparicio Paul
Chair – Audit Committee

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Audit Progress Report and Sector Update

Somerset County Council and Pension Fund
Year ending 31 March 2019

10 September 2018

Agenda item 5

Contents

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 local authority; 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)

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 www.grant-thornton.co.uk ..

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.

Progress at 10 September 2018

2017/18 Audit

We have completed our audit of the Council and Pension Fund's 2017/18 financial statements. Our audit opinion, including our value for money was issued on the 30 July 2018.

We issued:

- An unqualified opinion on the Council and Pension Fund's financial statements; and
- A qualified (adverse) value for money conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources.

We have issued all our deliverables for 2017/18, with the exception of receipt and review of the Pension Fund Annual Report, and will concluded our work on the 2017/18 financial year on completion of this work. Our Annual Audit Letter, summarising the outcomes of our audit is included as a separate agenda item.

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2018/19 Audit

We have begun our planning processes for the 2018/19 financial year audit.

Our detailed work and audit visits will begin later in the year and we will discuss the timing of these visits with management. In the meantime we:

- continue to hold regular discussions with management to inform our risk assessment for the 2018/19 financial statements and value for money audits. We have already met with the Interim Director of Finance and his deputies to understand how the council is responding to our VFM recommendations from last year. Although it is too early to assess the progress since our July reporting, we note the increased momentum aimed at addressing the budget challenges the council faces. We note that changes have been made to the Revenue Budget Monitoring report which provides greater detail on, amongst other areas, overspends and savings and actions being taken to address these.
- We have now agreed monthly catch up meetings with the Interim director of Finance and his deputies to discuss and understand progress against our 2017-18 recommendations
- review minutes and papers from key meetings; and
- continue to review relevant sector updates to ensure that we capture any emerging issues and consider these as part of audit plans.

Other areas

Meetings

We continue to meet with Finance Officers, including the S151 officer on a monthly basis as part of our liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. 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
Pension Fund Annual Report Consistency Statement We will report any findings from this work as part of our audit progress report in November	November 2018	Not yet due

2018/19 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2018/19.	April 2018	Complete
Accounts Audit Plan 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 2018-19 financial statements.	January 2019	Not yet due
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March 2019	Not yet due
Audit Findings Report The Audit Findings Report will be reported to the July Audit Committee.	July 2019	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2019	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2019	Not yet due
Annual Certification Letter This letter reports any matters arising from our certification work carried out under the PSAA contract.	December 2019	Not yet due

Sector Update

Local government finances are at a tipping point. Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

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 NHS 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 local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website

CIPFA consultation – Financial Resilience Index

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The Chartered Institute of Public Finance and Accountancy (CIPFA) has consulted on its plans to provide an authoritative measure of local authority financial resilience via a new index. The index, based on publically available information, will provide an assessment of the relative financial health of each English council.

CIPFA has designed the index to provide reassurance to councils who are financially stable and prompt challenge where it may be needed. To understand the sector's views, CIPFA invited all interested parties to respond to questions it has put forward in the consultation by the 24 August.

The decision to develop an index is driven by CIPFA's desire to support the local government sector as it faces a continued financial challenge. The index will not be a predictive model but a diagnostic tool – designed to identify those councils displaying consistent and comparable features that will highlight good practice, but crucially, also point to areas which are associated with financial failure. The information for each council will show their relative position to other councils of the same type. Use of the index will support councils in identifying areas of weakness and enable them to take action to reduce the risk of financial failure. The index will also provide a transparent and independent analysis based on a sound evidence base.

The proposed approach draws on CIPFA's evidence of the factors associated with financial stress, including:

- running down reserves
- failure to plan and deliver savings in service provision
- shortening medium-term financial planning horizons.
- gaps in saving plans
- departments having unplanned overspends and/or undelivered savings.

Conversations with senior practitioners and sector experts have elicited a number of additional potential factors, including:

- the dependency on external central financing
- the proportion of non-discretionary spending – e.g. social care and capital financing - as a proportion of total expenditure
- an adverse (inadequate) judgement by Ofsted on Children's services
- changes in accounting policies (including a change by the council of their minimum revenue provision)
- poor returns on investments
- low level of confidence in financial management.

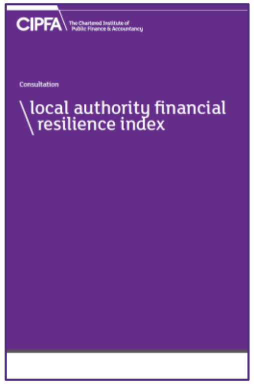
The consultation document proposes scoring six key indicators:

1. The level of total reserves excluding schools and public health as a proportion of net revenue expenditure.
2. The percentage change in reserves, excluding schools and public health, over the past three years.
3. The ratio of government grants to net revenue expenditure.
4. Proportion of net revenue expenditure accounted for by children's social care, adult social care and debt interest payments.
5. Ofsted overall rating for children's social care.
6. Auditor's VFM judgement.

CIPFA Consultation

Challenge question:

Has your Director of Finance briefed members on the Council's response to the Financial Resilience Index consultation?



MHCLG – Business rate pilots

The Secretary of State has invited more councils to apply for powers to retain the growth in their business rates under the new pilots. The pilots will see councils rewarded for supporting local firms and local jobs and ensure they benefit directly from the proceeds of economic growth.

From April 2019, selected pilot areas will be able to retain 75% of the growth in income raised through business rates, incentivising councils to encourage growth in business and on the high street in their areas. This will allow money to stay in communities and be spent on local priorities - including more funding to support frontline services.

This follows the success of previous waves of business rates retention pilots, launched in a wide range of areas across country in 2017 and 2018.

The current 50% business rates retention scheme is yielding strong results and in 2018 to 2019 it is estimated that local authorities will keep around £2.4 billion in business rates growth.

Findings from the new round of pilots will help the government understand how local authorities can smoothly transition into the proposed system in 2020.

Proposals will need to show how local authorities would 'pool' their business rates and work collaboratively to promote financial sustainability, growth or a combination of these.

Alongside the pilots, the government will continue to work with local authorities, the Local Government Association, and others on reform options that give local authorities more control over the money they raise and are sustainable in the long term.

The invitation is addressed to all authorities in England, excluding those with ongoing business rates retention pilots in devolution areas and London. Due to affordability constraints, it may be necessary to assess applications against selection criteria, which will include:

- Proposed pooling arrangements operate across a functional economic area
- Proposal demonstrates how pooled income from growth will be used across the pilot area to either boost further growth, promote financial sustainability or a combination of these
- Proposal sets out robust governance arrangements for strategic decision-making around management of risk and reward and outlines how these support the participating authorities' proposed pooling arrangements

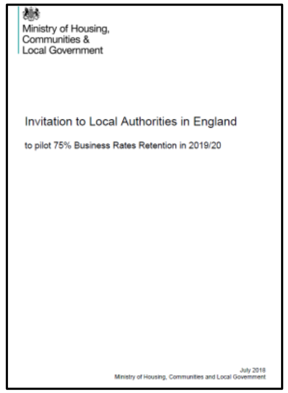
Any proposals will need to show that all participating authorities have agreed to become part of the suggested pool and share additional growth as outlined in the bid. The Section 151 officer of each authority will need to sign off the proposal before submission.

Proposal for new pilots must be received the MHCLG by midnight on Tuesday 25th September 2018.

Business Rates pilots 2019/20

Challenge question:

Has your authority considered applying to be a Business Rates pilot?


Ministry of Housing, Communities & Local Government

Invitation to Local Authorities in England

to pilot 75% Business Rates Retention in 2019/20

July 2018

Ministry of Housing, Communities and Local Government

Institute of Fiscal Studies: Impact of ‘Fair Funding Review’

The IFS has published a paper that focuses on the issues arising in assessing the spending needs of different councils. The government’s ‘Fair Funding Review’ is aimed at designing a new system for allocating funding between councils. It will update and improve methods for estimating councils’ differing abilities to raise revenues and their differing spending needs. The government is looking for the new system to be simple and transparent, but at the same time robust and evidence based.

Accounting for councils’ spending needs

The IFS note that the Review is seeking a less subjective and more transparent approach which is focused on the relationship between spending and needs indicators. However, like any funding system, there will be limitations, for example, any attempt to assess needs will be affected by the MHCLG’s funding policies adopted in the year of data used to estimate the spending needs formula. A key consideration will be the inherently subjective nature of ‘spending needs’ and ‘needs indicators’, and how this will be dealt with under any new funding approach. Whilst no assessment of spending needs can be truly objective, the IFS state it can and should be evidence based.

The IFS also note that transparency will be critical, particularly in relation to the impact that different choices will have for different councils, such as the year of data used and the needs indicators selected. These differentiating factors and their consequences will need to be understood and debated.

Accounting for councils’ revenues

The biggest source of locally-raised revenue for councils is and will continue to be council tax. However, there is significant variation between councils in the amount of council tax raised per person. The IFS identify that a key decision for the Fair Funding Review is the extent wo which tax bases or actual revenues should be used for determining funding levels going forward.

Councils also raise significant sums of money from levying fees and charges, although this varies dramatically across the country. The IFS note that it is difficult to take account of these differences in a new funding system as there is no well-defined measure of revenue raising capacity from sales, fees and charges, unlike council tax where the tax base can be used.

The overall system: redistribution, incentives and transparency

The IFS also identify that an important policy decision for the new system is the extent to which it prioritises redistribution between councils, compared to financial incentives for councils to improve their own socio-economic lot. A system that fully and immediately equalises for differences in assessed spending needs and revenue-raising capacity will help ensure different councils can provide similar standards of public services, However, it would provide little financial incentive for councils to tackle the drivers of spending needs and boost local economics and tax bases.

Further detail on the impact of the fair funding review can be found in the full report https://www.ifs.org.uk/uploads/publications/comms/R148.pdf.

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National Audit Office – The health and social care interface

The NAO has published its latest 'think piece on the barriers that prevent health and social care services working together effectively, examples of joint working in a 'whole system' sense and the move towards services centred on the needs of the individual. The report aims to inform the ongoing debate about the future of health and social care in England. It anticipates the upcoming green paper on the future funding of adult social care, and the planned 2019 Spending Review, which will set out the funding needs of both local government and the NHS.

The report discusses 16 challenges to improved joint working. It also highlights some of the work being carried out nationally and locally to overcome these challenges and the progress that has been made. The NAO draw out the risks presented by inherent differences between the health and social care systems and how national and local bodies are managing these.

Financial challenges – include financial pressures, future funding uncertainties, focus on short-term funding issues in the acute sector, the accountability of individual organisations to balance the books, and differing eligibility criteria for access to health and social care services.

Culture and structure – include organisational boundaries impacting on service management and regulation, poor understanding between the NHS and local government of their respective decision-making frameworks, complex governance arrangements hindering decision-making, problems with local leadership holding back improvements or de-stabilising joint working, a lack of co-terminus geographic areas over which health and local government services are planned and delivered, problems with sharing data across health and social care, and difficulties developing. person-centred care.

Strategic issues – include differences in national influence and status contributing to social care not being as well represented as the NHS, strategic misalignment of organisations across local systems inhibiting joint local planning, and central government's unrealistic expectations of the pace at which the required change in working practices can progress..

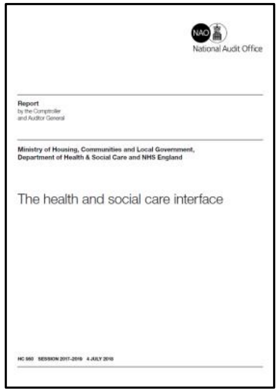
This 'think piece' draws on the NAO's past work and draws on recent research and reviews by other organisations, most notably the Care Quality Commission's review of health and social care systems in 20 local authority areas, which it carried out between August 2017 and May 2018. The NAO note that there is a lot of good work being done nationally and locally to overcome the barriers to joint working, but often this is not happening at the scale and pace needed.

The report is available to download from the NAO's website at:
https://www.nao.org.uk/report/the-health-and-social-care-interface/

The health and social care interface

Challenge question:

Has the Council considered the 16 challenges to joint working and what can be done to mitigate these?



The Vibrant Economy Index
a new way to measure success

Our Vibrant Economy Index uses data to provide a robust, independent framework to help everyone understand the challenges and opportunities in their local areas. We want to start a debate about what type of economy we want to build in the UK and spark collaboration between citizens, businesses and place-shapers to make their places thrive.

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Places are complex and have an intrinsic impact on the people and businesses within them. Economic growth doesn't influence all of the elements that are important to people's lives – so we shouldn't use GDP to measure success. We set out to create another measure for understanding what makes a place successful.

In total, we look at 324 English local authority areas, taking into account not only economic prosperity but health and happiness, inclusion and equality, environmental resilience, community and dynamism and opportunity. Highlights of the index include:

- Traditional measures of success – gross value added (GVA), average workplace earning and employment do not correlate in any significant way with the other baskets. This is particularly apparent in cities, which despite significant economic strengths are often characterised by substantial deprivation and low aspiration, high numbers of long-term unemployment and high numbers of benefit claimants
- The importance of the relationships between different places and the subsequent role of infrastructure in connecting places and facilitating choice. The reality is that patterns of travel for work, study and leisure don't reflect administrative boundaries. Patterns emerge where prosperous and dynamic areas are surrounded by more inclusive and healthy and happy places, as people choose where they live and travel to work in prosperous areas.
- The challenges facing leaders across the public, private and third sector in how to support those places that perform less well. No one organisation can address this on their own. Collaboration is key.

Visit our website (www.grantthornton.co.uk) to explore the interactive map, read case studies and opinion pieces, and download our report **Vibrant Economy Index: Building a better economy.**

Vibrant Economy app

To support local collaboration, we have also developed a Vibrant Economy app. It's been designed to help broaden understanding of the elements of a vibrant economy and encourage the sharing of new ideas for – and existing stories of – local vibrancy.

We've developed the app to help people and organisations:

- see how their place performs against the index and the views of others through an interactive quiz
- post ideas and share examples of local activities that make places more vibrant
- access insights from Grant Thornton on a vibrant economy.

We're inviting councils to share it with their employees and the wider community to download. We can provide supporting collateral for internal communications on launch and anonymised reporting of your employees' views to contribute to your thinking and response.

To download the app visit your app store and search 'Vibrant Economy'

- *Fill in your details to sign up, and wait for the verification email (check your spam folder if you don't see it)*
- *Explore the app and take the quiz*
- *Go to the Vibrant Ideas section to share your picture and story or idea*

Supply Chain Insights tool helps support supply chain assurance in public services

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Grant Thornton UK LLP has launched a new insights and benchmarking platform to support supply chain assurance and competitor intelligence in public services.

The Supply Chain Insights service is designed for use by financial directors and procurement professionals in the public sector, and market leaders in private sector suppliers to the public sector. It provides users with a detailed picture of contract value and spend with their supply chain members across the public sector. The analysis also provides a robust and granular view on the viability, sustainability, market position and coverage of their key suppliers and competitors.

The platform is built on aggregated data from 96 million invoices and covers £0.5 trillion of spending. The data is supplemented with financial standing data and indicators to give a fully rounded view. The service is supported by a dedicated team of analysts and is available to access directly as an on-line platform.

Phillip Woolley, Partner, Grant Thornton UK LLP, said:

"The fall-out from the recent failure of Carillion has highlighted the urgent need for robust and ongoing supply chain monitoring and assurance. Supply Chain Insights provides a clear picture of your suppliers' activities across the sector, allowing you to understand risks, capacity and track-record. We think it's an indispensable resource in today's supplier market."

The tool enables you to immediately:

- access over 96 million transactions that are continually added to
- segment invoices by:
  - — organisation and category
  - — service provider
  - — date at a monthly level
- benchmark your spend against your peers
- identify:
  - — organisations buying similar services
  - — differences in pricing
  - — the leading supplier
- see how important each buyer is to a supplier
- benchmark public sector organisations' spend on a consistent basis
- see how much public sector organisations spend with different suppliers

Supply Chain Insights forms part of the Grant Thornton Public Sector Insight Studio portfolio of analytics platforms.

Click on Supply Chain Insights for more information.

Supply Chain Insights

Grant Thornton

Challenge question:

Has your Authority considered how our Supply Chain Insight tool can help support your supply chain assurance?

Links

Grant Thornton website links

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

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

National Audit Office link

https://www.nao.org.uk/report/the-health-and-social-care-interface/

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Ministry of Housing, Communities and Local Government links

https://www.gov.uk/government/news/social-housing-green-paper-a-new-deal-for-social-housing

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/728722/BRR_Pilots_19-20_Prospectus.pdf

Institute for Fiscal Studies

https://www.ifs.org.uk/uploads/publications/comms/R148.pdf

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APPENDIX A

Proposed financial resilience criteria

General Comments

Finance officers at Somerset County Council have examined both the scheme and the criteria and have a number of concerns about both how such information will be used and about the content.

Clearly, in the light of Northamptonshire's continued financial position, and with statements coming from other authorities of the need to review what is the statutory level of services that they are required to provide, financial resilience is very much in the public domain. There is significant press interest as to which authority might "fail" next, and this is not helpful speculation. Somerset has suffered a great deal of interest in the trade and general press as a result, particularly after the external auditor's Value For Money report in July.

Therefore, any published index will be taken by in that light, particularly one that has been compiled by CIPFA, and is going to be used to continue this unwelcome distraction.

In terms of value to Somerset, we would have to comment that this simple RAG index would at best be of limited use. As with any competent local authority, senior leaders and finance officers at the County Council are obviously acutely aware of the financial situation that we face and are taking the necessary steps to achieve financial sustainability. Therefore, there will be limited insight that we will gain from this index.

Whilst it may be of general interest to see where Somerset sits in relation to its peers, this will not improve our financial position or mitigate the challenges that we face. Having a relative ranking of all authorities may also give a false impression, suggesting that those authorities who appear to be comparatively well off do not have any particular concerns. Given that all local authorities are facing significant financial pressures, even those who appear to be relatively more resilient may well have financial difficulties, particularly if they lie outside the services included below.

We also have some concerns about how the indices will be scored. The methodology as set out in the consultation appears to be vulnerable to a small number of "outliers", which could distort the results of all. It might be better, from a purely statistical perspective, that CIPFA considers scoring around, say, Inter-Quartile ranges.

There is also an issue around the currency of this information that is being used, compared to the latest in-year figures that will be taken to our Cabinet and Scrutiny meetings, which could cause confusion. The recent VFM report that Somerset received from our external auditor is a case in point. Whilst Somerset recognised and accepted the points that were being raised in terms of financial sustainability, it is impossible for the auditor, looking backwards, to be in the best position to acknowledge the latest work that is being undertaken to address the financial pressures. Reliance on RO returns and PSAA audit summary results, whilst published data, is similarly going to be entirely retrospective in nature.

CIFPA may wish to consider including something current, e.g. from budget monitoring reports of in-year positions, although we acknowledge that this is likely to require some resource in order to collect. However, it would be the best current position that each local authority was reporting to its members.

Response to individual indicators proposed

Indicator 1 - The level of total reserves excluding schools and public health as a proportion of net revenue expenditure.

CIPFA need to consider what they mean by "total reserves". For example, does this include the General Reserves position, or is the intention to include earmarked reserves. Neither are entirely satisfactory. In extremis, an authority may decide to re-purpose some of its earmarked reserves in order to meet the immediate financial pressures, so if this is simply to be based on the General Reserves position, it may not show the full picture of what the authority could draw on if it needs to meet short-term expenditure.

However, if "total reserves" includes all earmarked reserves, then it could conversely overstate the funds available if some of these may not be the authority's discretion to switch. For example, at Somerset, the earmarked reserve of the Somerset Rivers Authority (SRA) is on behalf of the SRA shadow authority, separately precepted, and could not be used to support General Reserves.

In addition, whilst there is obviously a need for a prudent level of reserves to be held in proportion to the local authority's net revenue expenditure, this indicator would be more relevant if it also referenced the proposed usage of these reserves in future years within Medium Term Financial Plans. An authority that was not planning to use their reserves, and was able to manage a balanced budget, could be in a more resilient position than a second authority that had larger reserves but was being forced (through overspends or incomplete savings plans) to use a significant proportion of the balance each year.

Indicator 2 - The percentage change in reserves, excluding schools and public health, over the past three years.

Whilst this indicator would have some relevance as a potential danger sign, it could simply be that authorities are using earmarked reserves for the purposes that they were intended, apparently worsening the resilience. A good Somerset example is the use of significant ringfenced government grants that were received in March 2015 following the severe flooding in the County the previous winter. These artificially increased the earmarked reserves held as at 31st March 2015 and were then spent over the next 3 years. This would then have shown as a overstated reduction in earmarked reserves on this indicator.

Indicator 3 - The ratio of government grants to net revenue expenditure.

Given that RSG will be ending, we would have to question the value of this indicator.

Indicator 4 - Proportion of net revenue expenditure accounted for by children's social care, adult social care and debt interest payments.

Whilst this indicator does have some merit, if the budget is supported by the use of reserves in one authority but not in another, then the comparison is not strictly valid. In the case of the first authority, the distorting effect of the use of reserves would actually understate the issue. This could be rectified by comparing this expenditure against the net budget adjusted for the proposed use or replenishment of reserves.

Indicator 5 - Ofsted overall rating for children's social care.

There is some overlap between this indicator and indicator 4, in that evidence shows that authorities that are rated as "inadequate" or "requires improvement" rating are likely to require additional resources over the short or medium term to make the necessary improvements. Somerset does not believe that this warrants the 15% weighting as it is effectively included above.

Indicator 6 - Auditor's VFM judgement.

It is highly probable that the external auditor will draw evidence for his or her report based on indicators 1 to 5 above. As a result, this is almost certainly double counting and we would question whether or not this indicator is actually adding to the understanding. The recent experience at Somerset would absolutely confirm that the judgement is so based. For the three year period that Somerset was rated "inadequate" for OFSTED, it was automatically deemed by our external auditor (Grant Thornton) that we would receive an "except for" opinion, regardless of any other financial or performance measures that the Council could demonstrate.

We have also noticed a level of inconsistency of approach from different audit firms in their judgements across a number of local authorities who would all seem to be facing similar difficulties, whereby some firms will make an "adverse" or "except for" opinion and other will not. Despite the NAO guidelines, this is clearly too subjective to be included.

Context

Somerset is concerned that, if this index is to happen at all, then this limited range of indicators needs to be put into a wider context, and not seen as a standalone measure of resilience. We accept that this might require more time to develop, but in our opinion, it could be more relevant if there were more indices considered (such as current budget position as stated above) and that any delay in development would be more than compensated by a more rounded picture.

Peter Lewis
Director of Finance
Somerset County Council

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Annual Audit Letter

Year ending 31 March 2018

Somerset County Council and Pension Fund

August 2018

Contents

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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Somerset County Council (the Council) and Somerset Pension Fund for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Reports on 26 July 2018.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council financial statements and the Pension Fund statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

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Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £15.1 million, which is 1.8% of the Council's gross revenue expenditure. We determined materiality for the audit of the pension fund accounts administered by the Council to be £19.7 million, which is 1% of the pension fund's net assets.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 30 July 2018. We gave an unqualified opinion on the pension fund accounts of Somerset Pension Fund on 30 July 2018.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO. We issued an assurance statement on 29 July 2018.
Value for Money arrangements	We were not satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources because of weaknesses in financial management including budget monitoring, reporting and management of overspends and sufficiently robust challenge by members and officers. We therefore issued an adverse value for money conclusion in our audit report to the Council on 30 July 2018.

Executive Summary

Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers. Our work on the Council's arrangements for securing sustainable resource deployment (part of the Value for Money arrangements) included a number of recommendations to improve arrangements. At the reporting stage, we decided not to exercise these powers, but indicated we would consider the need to issue a 'statutory recommendation' under section 24 (Schedule 7) of the Local Audit and Accountability Act, should arrangements at the Council in this area not improve and/or further significant overspends emerge during the course of 2018/19.
Certificate	We are currently unable to certify that we have completed the audit of the accounts of Somerset County Council for 2017/18 as we have not yet given an audit opinion on the pension fund annual report.

Working with the Council

- An efficient audit – we delivered an efficient audit with you, delivering the accounts by the 31 July deadline, releasing your finance team for other work.
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports.
- Providing training – we provide your teams with training on financial accounts and annual reporting on a regular basis.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
August 2018

Audit of the Accounts

Our audit approach

Council Materiality
In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's accounts to be £15.1 million, which is 1.8% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration and related party transactions of £5,000 due to the sensitive nature of these balances.

We set a lower threshold of £755,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

Pension Fund Materiality
For the audit of the Somerset Pension Fund accounts, we determined materiality to be £19.7 million, which is 1% of the Fund's net assets. We used this benchmark, as in our view, users of the Pension Fund accounts are most interested in the value of assets available to fund pension benefits.

We set a lower level of specific materiality for certain areas such as management expenses. We set a threshold of £500,000 above which we reported errors to the Audit Committee in our Pension Fund Audit Findings Report.

The scope of our audit
Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts, the narrative report and the annual governance statement to check they are consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

We identified key risks for the Council and Pension Fund and set out on the following pages the work we performed in response to these risks and the results of this work.

Audit of the Accounts

Council Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Management override of controls 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. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance. We identified management override of controls as a risk requiring special audit consideration	As part of our audit work we have: • Gained an understanding of the accounting estimates, judgements and decisions made by management and consider their reasonableness • Obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness • Carried out a review of accounting estimates, judgements and decisions made by management • review of unusual significant transactions • review of significant related party transactions outside the normal course of business	Our audit work has not identified any issues in respect of management override of controls with the exception of the Council's policy not including a requirement for a second authoriser for journals.
Improper revenue recognition Under ISA (UK) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	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 for non-fees and charges income streams, because: • There is little incentive to manipulate revenue recognition • Opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including Somerset County Council, mean that all forms of fraud are seen as unacceptable	Our audit work has not identified any issues in respect of revenue recognition.

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Audit of the Accounts

Council Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of property, plant and equipment The Council revalues its land and buildings on a rolling basis to ensure that the carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements. We identified the valuation of land and buildings and impairments as a risk requiring special audit consideration	As part of our audit work we have: • Reviewed management's processes and assumptions for the calculation of the estimates • Reviewed the competence, expertise and objectivity of any management expert used • Reviewed the instructions issued to valuation experts and the scope of their work • Held discussions with the Council's valuers about the basis on which the valuation was carried out, challenging the key assumptions • Reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding • Tested revaluations made during the year to ensure they were input correctly into the Council's asset register • Evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to the current value	Our audit work has not identified any issues in respect of valuation of property plant and equipment
Valuation of pension fund net liability The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements. We identified the valuation of the pension fund net liability as a risk requiring special audit consideration	As part of our audit work we have: • Identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. • Reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. • Gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made. • Reviewed of the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary.	Our audit work has not identified any issues in respect of the valuation of the pension fund net liability.

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Audit of the Accounts

Pension Fund Significant Audit Risks

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work on the pension fund.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Management override of controls 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. We identified management override of controls as a risk requiring special audit consideration.	As part of our audit work we have: We have undertaken the following work in relation to this risk • Gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness • Obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness • Evaluated the rationale for any changes in accounting policies or significant unusual transactions	Our audit work has not identified any issues in respect of management override of controls with the exception of the Pension Fund policy for journals not requiring a second authoriser.
Improper revenue recognition Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including Somerset Pension Fund, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for Somerset Pension Fund.	Our audit work has not identified any issues in respect of revenue recognition.

Audit of the Accounts

Pension Fund Significant Audit Risks

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work on the pension fund.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
The valuation of Level 3 investments is incorrect Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. We identified the valuation of level 3 investments as a risk requiring special audit consideration.	As part of our audit work we completed; • gained an understanding of the Fund's process for valuing level 3 investments and evaluate the design of the associated controls • Reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments • Considered the competence, expertise and objectivity of any management experts used • Reviewed the qualifications of the expert to value Level 3 investments at year end and gained an understanding of how the valuation of these investments has been reached • For a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreed these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2018 with reference to known movements in the intervening period	Our audit work has not identified any issues in respect of level 3 investments

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Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 30 July 2018, in advance of the earlier national deadline.

Preparation of the accounts

The Council presented us with draft accounts in accordance with the national deadline of 31 May 2018 and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audits to the Council's Audit Committee on 26 July 2018.

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Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO. We issued an assurance statement on 29 August 2018 which identified that the Council are unable to identify the split of the pension costs between funded and unfunded as the Actuary has not been commissioned to undertake this work. Assurance is taken from agreement of the overall figure and the movement in the year and this issue will be reported to the NAO.

No other items have been identified that require reporting to the NAO.

Pension fund accounts

We gave an unqualified opinion on the pension fund accounts of Somerset Pension Fund on 30 July 2018, in advance of the earlier national deadline.

We also reported the key issues from our audit of the pension fund accounts to the Council's Audit Committee on 26 July 2018.

Certificate of closure of the audit

We are currently unable to certify that we have completed the audit of the accounts of Somerset County Council for 2017/18 as we have not yet given an audit opinion on the pension fund annual report.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the 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.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out on the following pages.

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Overall Value for Money conclusion

We were not satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources because of weaknesses in financial management including budget monitoring, reporting and management of overspends and sufficiently robust challenge by members and officers . We therefore issued an adverse value for money conclusion in our audit report to the Council on 30 July 2018.

The council's financial health has deteriorated over the last 12 months due to continued overspending, predominantly in the area of children and families. This has necessitated further use of already depleted reserves that now means the council has limited capacity to fund any further overspending. The inability of the council to deliver against its budget is now pervasive to the whole council and without urgent actions could result in it running out of money in the next two to three years. Further effort is now required to ensure budgets are delivered and the council repositions itself on a sustainable financial footing. To facilitate this, arrangements for budget setting, internal budget monitoring and internal financial reporting need improving to ensure consistency of reports that contain the appropriate level of detail to ensure challenge takes place and decisions are taken based on complete and accurate information.

Recommendations for improvement

We discussed findings arising from our Value for Money work with management and have agreed recommendation for improvement.

Detailed on our recommendations can be found in the Action Plan at Appendix B.

In reaching our conclusion we look only at those arrangements and processes in place for 2017/18. We recognise that the Council have taken a number of steps to begin to address these issues and that financial scrutiny is now at the centre of the Council's strategy. This has fed into Senior Leadership Team meetings and is top of the agenda from a member scrutiny point of view.

Value for Money conclusion

Key Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Financial sustainability 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 reinforces the need to identify alternative methods of achieving the Council's financial position for the future	We have reviewed the project management and assurance frameworks established by the Council to understand how it is identifying, managing and monitoring these financial risks. We have reviewed 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 has looked at the delivery of the 2017/18 budget, including savings targets, as well as considering the robustness of the MTFP	In 2016/17 we highlighted that the Council's combined level of general fund reserves and other earmarked reserves had fallen significantly over the recent years and that this was clearly not sustainable. Over the last 12 months the Council's financial position has increasingly come under the spotlight including the LGA 'Corporate Peer Challenge' feedback report and reports from Internal Audit. **Budget Setting:** At 31 March 2017 the audited accounts reported a General Fund balance of £20.2m and earmarked reserves of £8.1m. This fed into consideration of the 2017/18 budget which included a net contribution of £1.0m for 'contribution to/from reserves, capitalisation flexibility and capital fund' although the split between these sources of funding was not detailed. The 2017/18 net budget of £311.8m represented a small reduction from the 2016/17 budget and included, for the demand led areas, a reduction in children's services and an increase in adults and health services. The budget was predicated on the delivery of £18.1m of in year savings, subsequently increased to £19.5m when previous year savings slippage was added. The budget included an unallocated contingency of £10.1m that was used to finance possible pressures arising in the year. Our experience suggests that a large contingency, when considered alongside the historic overspends and reduction in funding may render some of the original service budgets unrealistic. **2017/18 financial monitoring:** Formal monitoring of delivery against budget is through planned, periodical reporting to cabinet and Senior Leadership Team (SLT). There was early identification of pressures on the 2017/18 budget with the month 2 report projecting an overspend of £8.7m. The report introduces the use of earmarked reserves and grants to reduce projected overspends. In our opinion the ability to gain a clear understanding of the financial position has been further compounded by the savings target of £19.5m being incorporated into the service lines with no position statement against this delivery in year in total or against the original thematic headings. Our review identified that although a large number of smaller savings schemes were delivered overall achievement of the savings target in year was adversely impacted by the failed delivery of the high value schemes. For three programmes with a total savings target of £13.5m only £5.6m was realised in year. As a result only £11.1m (57%) of the budgeted £19.5m savings were delivered in 2017/18. No year end outturn position has been reported against the original thematic basis and therefore it is not possible to identify which of the thematic savings approached has been a success. Early on in 2017/18 the pressure on the children and families budget emerged with an overspend of £14.5m forecast at month 2. We did not see any evidence as to what action was agreed or

Value for Money conclusion (continued)

Key Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Financial sustainability 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 have reviewed the project management and assurance frameworks established by the Council to understand how it is identifying, managing and monitoring these financial risks. We have reviewed 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 has looked at the delivery of the 2017/18 budget, including savings targets, as well as considering the robustness of the MTFP	taken to bring the service back in line. Although not present at SLT or cabinet our review of minutes of both indicates limited evidence of agreed actions to address the emerging overspends. In 2016/17 the Government introduced a new capital flexibilities facility. The Council used this flexibility to finance £4m of expenditure in 2017/18. The Council has, in our opinion, complied with the spirit of the requirements and as such has met the mandate of the directions. However, the Council's budget setting and monitoring arrangements have not been robust enough to ensure compliance. **2017/18 Outturn:** The 2017/18 outturn reported a £2.2m overspend. This was achieved after a number of revisions to the original budget and in year use of reserves. In order to assess the underlying position the outturn needs to be compared with the original budget and prior to use of unplanned reserves. At Somerset reserves appear to have been used in an unplanned way to reduce overspend as demonstrated by the £4.9m used in the Learning Disabilities equalisation reserves despite there being no opening balance. The overspend in the budget has been well publicises due to overspend in children's and families which was reported as £9.7m in the outturn report. Once the use of reserves is added back the overspend is closer to £12m. The requirement to move children's services from Inadequate to Requires Improvement under the Ofsted regime has led to the overspend in prior years. However it is not unreasonable to expect a council to address quality concerns whilst delivering against budget. Whether the problem in Children and families is an unrealistic initial budget or poor in year financial management, or a combination of both, is unclear, but unless this is controlled going forwards further overspends will arise leading to the need to utilise more of the depleted reserves or cut services elsewhere **Balance and reserves**: The net impact of the overspend in 2017/18 is to reduce the total level of reserves. We have reviewed General fund and Earmarked reserves together to form an opinion on the adequacy of these reserves. As at 31 March 2015 general fund and earmarked reserves totalled £80.4m and at 31 March 2018 were £23.7m, a reduction of 71%. Of the 27 County Councils in England Somerset has lower levels of earmarked reserves than any other county council and is therefore heavily reliant on its general fund to cover any unplanned savings.

Value for Money conclusion (continued)

Key Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Financial sustainability 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 have reviewed the project management and assurance frameworks established by the Council to understand how it is identifying, managing and monitoring these financial risks. We have reviewed 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 has looked at the delivery of the 2017/18 budget, including savings targets, as well as considering the robustness of the MTFP	**2018/19 Budget:** The Council has set a budget of £316.9m for 2018/19. There was no reference to any proposed use of capital flexibilities although mention of the Council's ability to access this is included within the efficiency plan for 2018/19. The overall budget is an increase from the 2017/18 position although the budget for children's and families and for adult services have both decreased. Total pressures of £10.7m have been included which further impacts on deliverability. There is potential that the impact of the pressures allied to continued overspend in certain service areas will place further pressure on the Council's reserves. The overall savings target for 2018/19 is set at £8.8m with a further £5.2m of prior year savings being brought forward. The month 2 position for 2018/19 indicated a projected overspend of £12.1m which is a net position. The overspend in Children's services is £20.2m at month 2. **Conclusion:** The Council's financial health has deteriorated over the last 12 month due to continued overspending. This has necessitated further use of already depleted reserves that now means the Council has limited capacity to fund any further overspend. The inability of the Council to deliver against its budget is pervasive to the whole council and without urgent actions could result in it running out of money in the next two to three years. Further effort is now required to ensure budgets are delivered and the council repositions itself on a sustainable financial footing. To facilitate this arrangements for budget setting, internal budget monitoring and internal financial reporting need improving to ensure consistency of reports that contain the appropriate level of detail to ensure challenge takes place and decisions are taken based on complete and accurate information. In light of the conclusion above, we were unable to state that Somerset County Council has proper arrangements in place to ensure sustainable resource deployment because we believe this has now become pervasive to the effective functioning of the whole council. As a result we issued an adverse 2017/18 value for money conclusion.

Value for Money conclusion (continued)

Key Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
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 have reviewed progress made by the council in responding the findings from the latest Ofsted inspection.	The council has been working with an improvement partner, Essex County Council, to identify good practice and areas that require improvement in order to improve services and receive an improved rating. Our review of follow up visits by Ofsted demonstrated that senior management were taking appropriate steps and knew what was required going forward to improve arrangements. There was regular reporting to cabinet on the actions required with the performance report to Cabinet in September 2017 indicating: *'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 worjforce and better partnership working as reported by the Minister in December 2016. Despite this, until a re-inspection 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'* As noted in this assessment, there was a recognition that the council needed to improve and that the improvements made would need to be confirmed as part an overall inspection by Ofsted. The Ofsted inspection in November 2017 concluded that children's services had improved and that the direction of travel from inadequate to require improvement was evidence of the processes that the council's senior management have put in place to bring about changes to the service. With the exception of adoption which was rated good, performance in all areas were rated as requires improvement. It is clear from the recommendations in the latest inspection report that there is still further work required and that the pace of change and improvement needs to be accelerated. Some of the recommendations, such as the foster homes availability may require further investment and expenditure at a time when the council's finances are under extreme pressure and children's services continue to overspend.

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and provision of non-audit services

Reports issued

Report	Date issued
Audit Plan	January 2018
Audit Findings Report	July 2018
Annual Audit Letter	August 2018

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Council audit	99,873	111,209*	99,873
Audit of Pension fund	23,859	23,859	23,859
Total fees	**123,732**	**135,068**	**123,732**

***Fee variation**
The proposed statutory Council audit fees for the year is £11,336 more than the scale fee set by Public Sector Audit Appointments Ltd (PSAA) of £99,873. The additional fee is in respect of our expanded work under Strategic Financial Planning based on our updated assessment of risk. This additional fee is subject to approval by Public Sector Audit Appointments Ltd via the fee variations process.

Fees for non-audit services

Service	Fees £
Audit related services	
- Teachers Pension £4.200	TBC
- SCITT £3,750	TBC

Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.

B: Action plan

We have identified 7 of recommendations for the Council as a result of issues identified during the course of our value for money audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Recommendation	Management Response
●	1. The council should review the format of its budget setting, monitoring and outturn reports to ensure they maximise the ability of both officers and members to understand and challenge delivery against budget. As part of this process, members should be consulted with to determine what they would like to see and, in particular, how risks to non-delivery will be flagged.	Please see the 'Initial Actions – subject to further review and action planning' section of the 'SCC Management Response To External Audit VFM Report' that is included on the agenda of the July 2018 Audit Committee.
●	2. The council should consider what is a realistic and achievable base budget for each service area, having regard to the previous year's performance. As part of this process, consideration should be given, to what level of contingency, if any, should be set aside for unexpected pressures versus direct service line allocation.	Please see the 'Initial Actions – subject to further review and action planning' section of the 'SCC Management Response To External Audit VFM Report' that is included on the agenda of the July 2018 Audit Committee.
●	3. The council should ensure that there is consistency of reporting between budget setting and monitoring with a clear approach to how savings are identified, quantified financially and monitored. If annual savings are to be identified on a thematic basis, they should also be monitored on a thematic basis. Where savings are built into service line budgets, a full reconciliation should be provided to show how these impact on thematic savings targets	Please see the 'Initial Actions – subject to further review and action planning' section of the 'SCC Management Response To External Audit VFM Report' that is included on the agenda of the July 2018 Audit Committee.
●	4. Committees and meetings responsible for monitoring financial delivery should explicitly minute the challenge and actions taken, where necessary, in response to in year overspends. These should be followed-up at the next meeting to ensure the proposed action is having the desired effect and to inform what further action, if any, is needed.	Please see the 'Initial Actions – subject to further review and action planning' section of the 'SCC Management Response To External Audit VFM Report' that is included on the agenda of the July 2018 Audit Committee.

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Controls
- ● High – Significant effect on control system
- ● Medium – Effect on control system
- ● Low – Best practice

B: Action plan (continued)

We have identified 7 of recommendations for the Council as a result of issues identified during the course of our value for money audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Recommendation	Management Response
● Medium	5. Reporting of financial performance to members should be transparent and understandable and include greater analysis of areas such as use of reserves or grants and application and achievement of transformational projects through the use of capital flexibilities.	Please see the 'Initial Actions – subject to further review and action planning' section of the 'SCC Management Response To External Audit VFM Report' that is included on the agenda of the July 2018 Audit Committee.
● Medium	6. Capital flexibilities should be reported and monitored in line with Central Government guidelines. All identified projects should be included in the budget process and approved prior to the financial year along with achievement against prior year projects. In-year reporting should update for any changes including newly identified projects or those projects that are delayed or unlikely to deliver	Please see the 'Initial Actions – subject to further review and action planning' section of the 'SCC Management Response To External Audit VFM Report' that is included on the agenda of the July 2018 Audit Committee.
● High	7. The S151 officer in his/her annual reporting under Section 25 of the LG Act 2003 on the adequacy of reserves should clearly articulate their view on the adequacy of both general fund and other reserves (including earmarked reserves) along with any proposed actions to strengthen these going forward. As part of this process, consideration should be given, to the appropriateness of holding negative earmarked reserves.	Please see the 'Initial Actions – subject to further review and action planning' section of the 'SCC Management Response To External Audit VFM Report' that is included on the agenda of the July 2018 Audit Committee.

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Controls
- ● High – Significant effect on control system
- ● Medium – Effect on control system
- ● Low – Best practice

B: Action plan (continued)

We have identified 1 recommendation for the Council as a result of issues identified during the course of our opinion audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Recommendation	Management Response
● Medium	8. The current journal policy does not require a second person to authorize journals before they are posted to the general ledger. There is a risk of self authorization that could lead to fraudulent journals being posted To reduce the risk of material error from journal adjustments made in the general ledger, we recommend that Somerset Pension Fund includes, in its journal policy, the requirement that all journals should be authorized by a second person	Somerset CC (SCC) finance officers do not share the view of the external auditors on the need to have journals authorised by a second person. From a fraud perspective, there are controls already in place in the AP and AR systems, including segregation of duties around key tasks. This is where the real risks lie. Journals do not actually involve expenditure or income, so the inherent risk to SCC is absolutely minimal. Regular internal audit work on our AP and AR systems have not demonstrated any risks that would need an additional authorisation to journals in the general ledger. This work provides on-going evidence of the strength of controls in those systems fundamental to the Council's internal control framework. Each user of SAP has an individual ID that is registered against each transaction that the user makes. Any unusual suspicious journals are going to be traceable to a single member of staff. There are restrictions around the number of SAP users who can actually carry our journals – it is not as if this is standard functionality available to all users, but is restricted to key finance staff only. (These are very rarely AR and AP users). Key journals have other controls – in particular accruals over £25k do actually need to be signed off by a Strategic Manager before being processed. SCC's budget monitoring acts as another control in order to pick up rogue journals. Budget management / service budget holders would be surprised to see any transactions on their codes that they did not recognise and would investigate. No examples have been offered by either Grant Thornton or SWAP of journals where this has occurred – either fraudulently or by error. SCC has provided a full journal list to Grant Thornton for SCC . SCC has to consider the costs of control, which are potentially high. These may include – (i) the possible need to reconfigure SAP and to pay to do so, requiring journals to be authorised; (ii) the costs of maintaining GL authorisation lists in addition to AP / AR authorisation lists; and (iii) the costs of having additional finance staff involved in the process, both in terms of adding staff and in terms of slowing down bona fide accounting transactions.

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Controls

- ● High – Significant effect on control system
- ● Medium – Effect on control system
- ● Low – Best practice

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Somerset County Council
Audit Committee
20 September 2018

Audit Findings Report - Recommendations Tracker

Service Director: Peter Lewis, Interim Director of Finance
Lead Officer: Martin Gerrish, Strategic Manager – Financial Governance
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Cabinet Member: Cllr Mandy Chilcott, Cabinet Member for Resources
Division and Local Member: All

1. Summary/link to the County Plan

1.1. At the July 2018 Audit Committee, as part of his Audit Findings Report, Grant Thornton, our external auditors made a number of recommendations for improvement areas such as budget monitoring and setting.

1.2. It is officers' intentions to bring an update report back to Audit Committee at least quarterly in order for members to be given the necessary assurance that suitable progress is being made to address these recommendations.

2. Issues for consideration

2.1. Members are asked to consider the tracker document and the progress to date (Appendix 1 to this report).

2.2. Members are asked to consider any further information on this process that would provide further assurance that these processes are being improved at future Audit Committee meetings.

3. Background

3.1. In response to the 7 new recommendations made by the external auditor in July, a written management response was provided, and a number of commitments have been made to improve the processes.

These responses have been loaded in JCAD, our risk management system, which will be the necessary tracking and reporting mechanism, in a format that will be familiar to members from the regular Risk Management reports.

The external auditor's report and recommendations were primarily in relation to his concerns about sustainable resource deployment, which is a National Audit Office set criterion under his Value For Money work. Any decisions that will be necessary to rectify the current financial situation and to address the auditor's concerns about financial sustainability will follow the usual Cabinet and Scrutiny route, with Decisions being taken according to the normal decision-making processes and following due consideration of impacts.

However, there is a key role for the Audit Committee (in its governance role) to ensure that the external auditor's recommendations are being responded to, and that the suitable processes are being implemented.

4. Consultations undertaken

4.1. Officers hold regular meetings with the external auditor, where progress against these recommendations will now form a key part of the discussions.

5. Implications

5.1. A positive response to the recommendations made should be reflected in the external auditor's subsequent reports to the Audit Committee and should provide the benefits as set out in his July report.

In their report to the Audit Committee in July 2018, Grant Thornton concluded that they were "unable to state that Somerset County Council has proper arrangements in place to ensure sustainable resource deployment …" . They then issued an adverse 2017/18 value for money conclusion and stated that they had "considered the need to exercise our wider auditor powers. At this stage, we have decided not to exercise these powers, but will consider the need to issue a 'statutory recommendation' under section 24 (Schedule 7) of the Local Audit and Accountability Act, should arrangements at the council not improve and/or further significant overspends emerge during the course of 2018/19." Therefore, taking swift and decisive action as set out in this report is an essential part of the response to the Grant Thornton findings.

6. Background papers

6.1. External auditor's Annual Findings Report to Audit Committee and Management Response document from the Audit Committee meeting of 26th July 2018.

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

Somerset County Council

12 September 2018

Risk Register Business Unit Display - GT VFM Tracker

	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
	GTVFM0001 **Risk Owner:** Peter J Lewis **Next Risk Review Date:** 28/09/2018	**Risk Description:** External Audit - VFM: The council should review the format of its budget setting, monitoring and outturn reports to ensure they maximise the ability of both officers and members to understand and challenge delivery against budget. As part of this process, members should be consulted with to determine what they would like to see and, in particular, how risks to non-delivery will be flagged. **Cause:** **Consequence:**		o **Review and improve further our Budget Monitoring reports and how they link back to our budget setting documentation.** Budget Monitoring reports to include favourable and adverse variances separately in Quarter 1 (September) and more explanations of the reasons behind such variances. Use of reserves and capital receipts flexibilities to be shown as separate values. While more changes are required, it is intended that the September Cabinet report on budget monitoring has moved towards the structure and clarity required. Risk Management report to Audit Committee (September and onwards) to include update on this Action Plan. *In Progress* (10% complete)	**Peter J Lewis** 28/09/2018 *28/09/2018*	Likelihood : Impact : 0	Likelihood : Impact :	31/08/2018 A further refinement of the Budget Monitoring reports will be made for the Quarter 2 report due in November. This will include increased tracking of delivery of the new in-year savings proposals approved by Cabinet in September. Members feedback on the new format will be sought.

	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
	GTVFM0002 **Risk Owner:** Peter J Lewis **Next Risk Review Date:** 10/10/2018	**Risk Description:** External Audit - VFM: The council should consider what is a realistic and achievable base budget for each service area, having regard to the previous year's performance. As part of this process, consideration should be given, to what level of contingency, if any, should be set aside for unexpected pressures versus direct service line allocation. **Cause:** **Consequence:**		• **Financial Imperative programme to turn around current in-year overspends with budget reductions** In-year savings proposals to be provided by Report scheduled for Cabinet on 17th October on "2019/20 Medium Term Financial Plan - Development and Approach" All MTFP figures for future years are to be reviewed and restated through a specific exercise. *In Progress* (10% complete) • **Refreshing 2019/20 Medium Term Financial Plan - Development and Approach,** Report scheduled for Cabinet on 17th October on "2019/20 Medium Term Financial Plan - Development and Approach" *In Progress* (10% complete)	**Peter J Lewis** 28/09/2018 *29/03/2019* **Peter J Lewis** 28/09/2018	Likelihood : Impact : 0	Likelihood : Impact :	10/09/2018 10/09/2018 All MTFP assumptions from February 2018 Cabinet onwards are being urgently reviewed by financial and service staff and the MTFP plan is being updated in order to determine pressures on the County Council and the latest estimates of what funding will be available to meet these needs. Specific work is being undertaken with regards to the base budget for Childrens Services, both by officers and in conjunction with the work being done by Peopletoo. Initial analysis of the MTFP gap will be presented to the October Cabinet, together with a new approach as to how this will be addressed. Such work will be iterative, and future reports will refine the budgets, leading up to the February 2019 Cabinet and Council meetings.

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
			Establish a revised Financial Strategy Report scheduled for Cabinet on 17th October on “2019/20 Medium Term Financial Plan - Development and Approach”. All MTFP figures for future years are to be reviewed and restated through a specific exercise. Establish this Autumn a revised Financial Strategy that is based upon a clear and better understanding of • Our future cost drivers (demographic growth, national cost benchmarking, output of the Peopletoo work to establish a meaningful base budget for Childrens Services) • Our future income opportunities (council tax and business rates, national initiatives such as business rate retention pilots, local opportunities through planning gain, other options including commercial and investment opportunities) • Rightsizing the Council’s budget and further adjusting our service delivery accordingly, potentially cutting non-essential and critical services – informed by the Financial Imperative Programme. *In Progress* (10% complete)	**Peter J Lewis** 31/10/2018 *31/10/2018*			

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
GTVFM0003 **Risk Owner:** Peter J Lewis **Next Risk Review Date:** 10/10/2018	**Risk Description:** External Audit - VFM: The council should ensure that there is consistency of reporting between budget setting and monitoring with a clear approach to how savings are identified, quantified financially and monitored. If annual savings are to be identified on a thematic basis, they should also be monitored on a thematic basis. Where savings are built into service line budgets, a full reconciliation should be provided to show how these impact on thematic savings targets **Cause:** **Consequence:**		○ **Review & improve budget monitoring reports & their links back to budget setting documentation** We will review and improve further our Budget Monitoring reports and how they link back to our budget setting documentation. It is noted that our current format has previously served us well but given our current financial context we will seek to make them more transparent for all members to see our progress and recommendations. This will include a statement on the use of the Capital Receipts Flexibilities directive and a fuller disclosure of the transformation projects that are being considered for funding through this mechanism. *In Progress* (10% complete)	**Peter J Lewis** 28/09/2018 *30/11/2018*	Likelihood : Impact : 0	Likelihood : Impact :	10/09/2018 Future Budget Monitoring will include an update of progress against all MTFP savings, in particular those agreed by Cabinet in September 2018. Although the new savings proposals have again been grouped into themes, detailed savings supporting this work have been proposed at service area level (SAP node) and will be monitored at this level.
GTVFM0004 **Risk Owner:** Peter J Lewis **Next Risk Review Date:** 10/10/2018	**Risk Description:** External Audit - VFM: Committees and meetings responsible for monitoring financial delivery should explicitly minute the challenge and actions taken, where necessary, in response to in year overspends. These should be followed-up at the next meeting to ensure the proposed action is having the desired effect and to inform what further action, if any, is needed. **Cause:** **Consequence:**		○ **Discuss with Democratic Services to ensure challenges & actions are expressly minuted.** We are in discussion with Democratic Services as to ensuring these challenges and actions are expressly minuted. There is also an audio recording of every public meeting that is available. *In Progress* (10% complete)	**Peter J Lewis** 28/09/2018	Likelihood : Impact : 0	Likelihood : Impact :	

	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
	GTVFM0005 **Risk Owner:** Peter J Lewis **Next Risk Review Date:** 28/09/2018	**Risk Description:** External Audit - VFM: Reporting of financial performance to members should be transparent and understandable and include greater analysis of areas such as use of reserves or grants and application and achievement of transformational projects through the use of capital flexibilities. **Cause:** **Consequence:**		o **Review and improve further our Budget Monitoring reports, making them more transparent and understandable** We will review and improve further our Budget Monitoring reports and how they link back to our budget setting documentation. It is noted that our current format has previously served us well but given our current financial context we will seek to make them more transparent for all members to see our progress and recommendations. This will include a statement on the use of the Capital Receipts Flexibilities directive and a fuller disclosure of the transformation projects that are being considered for funding through this mechanism. *In Progress* (10% complete)	**Peter J Lewis** 09/10/2018	Likelihood : Impact : 0	Likelihood : Impact :	31/08/2018 The report to the September Cabinet meeting moves in this direction, but the focus this time has been on the numbers. Over the next month there will be focus on the words to ensure greater transparency. Cllrs Liz Leyshon and Tessa Munt have volunteered to be part of a member feedback group
	GTVFM0006 **Risk Owner:** Peter J Lewis **Next Risk Review Date:** 10/10/2018	**Risk Description:** External Audit - VFM: Capital flexibilities should be reported and monitored in line with Central Government guidelines. All identified projects should be included in the budget process and approved prior to the financial year along with achievement against prior year projects. In-year reporting should update for any changes including newly identified projects or those projects that are delayed or unlikely to deliver **Cause:** **Consequence:**		o **Review and improve our reporting of the use of Capital Receipt Flexibilities** The use of Capital Receipts Flexibilities will be specifically included in the MTFP update at the October Cabinet meeting and thereafter as part of the preparation of a revised strategy to the Council in February 2019 *In Progress* (10% complete)	**Peter J Lewis** 10/10/2018	Likelihood : Impact : 0	Likelihood : Impact :	10/09/2018 Work has already taken place through the Financial Imperative work to review all uses of CRF proposed this year to ensure that they are complaint with the guidelines and that they are affordable within the predicted capital receipts, and will deliver the necessary transformational results.

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
GTVFM0007 **Risk Owner:** Peter J Lewis **Next Risk Review Date:** 10/10/2018	**Risk Description:** External Audit - VFM: The S151 officer in his/her annual reporting under Section 25 of the LG Act 2003 on the adequacy of reserves should clearly articulate their view on the adequacy of both general fund and other reserves (including earmarked reserves) along with any proposed actions to strengthen these going forward. As part of this process, consideration should be given, to the appropriateness of holding negative earmarked reserves. **Cause:** **Consequence:**		○ **Refreshing our 2019/20 Medium Term Financial Plan - Development and Approach** Refreshing our 2019/20 Medium Term Financial Plan - Development and Approach, and report back at the Cabinet on 19th September with budget setting taking place in February 2019. This will include a very clear statement on investment areas, efficiencies and budget reductions over the coming periods to ensure transparency and facilitate effective overview and scrutiny. Future year target savings are currently modelled at £8.6mil (2019/20), £5.8mil (2020/21), £1.1mil (2021/22). These figures already include £10mil of additional budget for Children's services to be added over this period. *In Progress* (10% complete)	**Peter J Lewis** 28/09/2018	Likelihood : Impact : 0	Likelihood : Impact :	10/09/2018 The Interim Director of Finance has already undertaken a review of all reserves, both General and Earmarked, as part of his overall analysis of the financial situation. Immediate findings are in the September Cabinet report The report to the September Cabinet meeting refers to reserves and the General Fund, including plans to restore the latter to a more acceptable level. The inter-relationship to the revenue budget is also explained as are the risks of the low level of reserves. Annual reporting will take place in February 2019.

Report Selection Criteria

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

Somerset County Council

10 September 2018

Risk Register Business Unit Display - GT VFM Tracker - GT VFM Support Tracker

	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
- GT VFM Support Tracker	**GTVFMS0001** **Risk Owner:** Peter J Lewis **Next Risk Review Date:** 10/10/2018	**Risk Description:** Failure to deliver supporting actions identified at July 2018 Audit Committee **Cause:** **Consequence:**		º **Lobby central government for a fairer financial deal for Somerset, both immediately and for the Fairer Funding Review.** We will continue to lobby central government for a fairer financial deal for Somerset, both immediately and for the Fairer Funding Review. There are a number of inequalities that we believe need to be corrected around funding assumptions, not least the additional costs of a rural authority. We will press for greater certainty over funding after 2019/2020, without which longer term planning is rendered very difficult. *In Progress* (10% complete)	**Peter J Lewis** 17/09/2018	Likelihood : Impact : 0	Likelihood : Impact :	10/09/2018 A number of supporting actions were agreed at the July 2018 Audit Committee that did not specifically link to one or more Grant Thornton recommendations. They will still be tracked through JCAD in the same manner, and reported back to Audit Committee as they are important mitigations in our financial resilience National Audit Office report on governance in transformational projects is scheduled to come to Audit Committee in November.

	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
				° **Implement mandatory training programme for all budget holding managers & officers accountable for expenditure** LGA have agreed to fund a trainer to deliver a tailor-made course to all budget managers in the Autumn of 2018. SLT has agreed that the course is mandatory for budget holders. Part of the course will be delivered through Agreement reached with LGA trainer for courses to be piloted in early October and then rolled out to SLT, Strategic Managers, Service Managers and any other budget managers later in October. Course materials and content will be available for SCC to use in running further courses afterwards as required. SCC now has access to course documentation and is making them suitable for locally delivery and future use. *In Progress* (20% complete)	**Peter J Lewis** 17/09/2018			
				° **Offer all-member training events on general and specific financial matters.** Finance to contact all members to get feedback on what financial topics would be appreciated in order for them to best be able to offer meaningful challenge *In Progress* (10% complete)	**Martin Gerrish** 17/09/2018			
				° **Seek financial solutions that are transformational in nature as opposed to simple service reductions** *In Progress* (10% complete)	**Peter J Lewis** 17/09/2018			

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	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
				º **Requested Grant Thornton support to highlight examples of best practice elsewhere in their experience that would support us** *In Progress* (10% complete)	**Martin Gerrish** 17/09/2018			

Report Selection Criteria
Status Flag=ACTIVE - Business Unit Code=GTVFMS - ISNULL(Project Code)

Somerset County Council
Audit Committee – 20 September 2018

Quarterly Risk Management Update

Service Director: Peter Lewis, Director of Finance,
Lead Officer: Pam Pursley, Risk Manager
Author: Pam Pursley, Risk Manager
Contact Details: Tel: (01823) 359062 email: ppursley@somerset.gov.uk
Cabinet Member: Cllr M Chilcott, Cabinet Member for Resources and Member Champion for Risk
Division / Local Member: All

1. Summary/link to the County Plan	
1.1	This is the quarterly risk management report to Audit Committee concerning the strategic risks to the Council.
1.2	The management of risk has a direct link with the County Vision and Business Plan and all the priorities contained within.
2. Issues for consideration	
2.1	Audit Committee members are asked to consider the latest position regarding managing the strategic risks to the council achieving its objectives. Attached is the Strategic Risk Report, Appendix A. Members are also directed to points 2.2 to 2.8 below for information.
2.2	**Critical Strategic Risk facing the Council:** **ORG0043 - "Maintain a sustainable budget"** remains as the critical risk to the Council. As at the 11th September 2018, when this report was submitted, the risk rating remains at the maximum of 25 (5x5 very high)**.** Additional 'actions' (mitigation) have been identified to mitigate this risk of overspend throughout 2018/19 from the Financial Imperative Work and are contained in the report to be considered by the Cabinet on 12 September (outcome to be reported at this meeting of the Audit Committee). The intended mitigation is the delivery of another £13m of proposals for change throughout the remaining months of 2018/19. The challenge should not be underestimated, and it has been necessary to set aside a contingency in case of undelivered savings or further revenue spend pressures. The situation remains critical and there is little room for manoeuvre.
2.3	Previous actions taken by the Cabinet and the Senior Leadership Team include the 10-Point Plan, which remains in operation to help reduce the in-year deficit; SLT meeting weekly to review financial projections and the delivery of MTFP savings agreed in February; the development of further in-year savings options. In addition, the Financial Imperative Team are focusing on key lines of enquiry for financial performance.

2.4	There is also a focus on seeking to better understand the drivers of spend in Children's Services along with producing improved financial monitoring arrangements. Successful control of the budget in this area will underpin a balanced budget overall.
2.5	The Section 151 Officer will continue to provide financial leadership and direction and will present further options and advice to SLT and the Cabinet to help achieve a sustainable budget for 2018/19 and to generate proposals to achieve a balanced budget for 2019/20.
2.6	Audit Committee need to be assured themselves that the Senior Leadership Team and Cabinet will continue to manage the financial position, robustly challenge any overspends, better understand the budgetary requirements in Children's Services, implement management actions and develop further options, as needed, to bring the overall budget back into balance.

2.7 The heatmap below shows the latest distribution of the 12 identified strategic risks. Direction of priority, since the last update to the Audit Committee in June 2018, is indicated with a directional arrow. Details of mitigations are included in the Strategic Risk Report, appendix 'A'.

5 Very Likely (1)	0	0	15	20	25 **ORG0043**
4 Likely (1)	0	0	12	16 **ORG0022** **ORG0032**	20
3 Feasible (9)	0	6 ORG0022	9 ORG0042	12 **ORG0032** ORG0002 ORG0007 ORG0010 ORG0024	15 ORG0009 ORG0011 ORG0040
2 Slight (1)	0	0	0	8	10 ORG0001
1 Very Unlikely (0)	0	0	0	4	0
	1 In-significant (0)	2 Minor (0)	3 Significant (1)	4 Major (6)	5 Critical (5)

The two 'Very High' (red) risks are:

- **ORG0043 - Maintain sustainable budget** (current score maintained)– score of very high (25 (5x5))
- **ORG0022 – Unintentional events, including changes to our IT system or intentional attempts that damage our systems,**

	property, reputation or one of our other resources (previously low risk - green)**.** With the departure from SCC of the Corporate Director with responsibility for this risk, the new Director covering ICT has raised the current risk score to very high (16(4x4)) based on, “Risks continue with MTFP challenges. Awareness and beginnings of plan in place re continuity”. **Other changes:** • **ORG0032 Information Governance** (previously very high risk) – The risk sponsor has reduced the current score to a medium risk (12 (3x4)) and has entered the comment; “New focus on information governance with improved pathway to director/CEO. Moving [the] service from ICT into customers [and Communities Directorate] will provide more scrutiny, understanding and reaction to events”.
	Review of the robustness of actions (mitigations) in place for key areas of risk: A review by the Risk Manager and individual action owners is taking place for the strategic risks in appendix A. As the circumstance around a risk can change over time so should the mitigation that is put in place. There are currently 35 actions recorded across the 12 strategic risks, each being assigned to multiple officers. Each named officer receives an automated email from JCAD informing them that their ‘actions’ are due to be reviewed, they receive weekly prompts until the task has been completed by themselves. Each member of SLT, where assigned as the risk sponsor, is responsible for sign-off the reviews. SLT is acting to drive improvements in the maintenance of the Risk Register and to ensure that the mitigating actions are undertaken effectively. The review of the Register will be a regular feature of the SLT agenda.
2.9	**Review of effectiveness of the risk management arrangements:** A review of the SCC risk management framework “Taking Managed & Informed Risk,” will take place over the winter of 2018 with a view to sign-off and publication spring 2019. Audit Committee should seek reassurance that the principles around how the Council manages risk remains in-line with national guidance.
3. Background	
3.1	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.
3.2	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 and the Financial Imperative Work. The aim of risk management is to identify business risks and effectively manage them in line with the County Council’s Risk Management framework.

	Audit Committee receives a risk management update of the strategic risks on a quarterly basis. If necessary, Audit Committee can question Cabinet Members and Senior Managers about their risk management actions and controls in order to ensure risks remain well managed.
3.3	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.
3.4	Assurance on the overall risk management process is provided through the Annual Governance Statement and no significant issues were identified for risk management. Nevertheless, there has been an increase in the level and scale of business risk that the Council faces in delivering its priorities and services.
3.5	Strategic Risk Management Group (SRMG) continues to review risk management and the Strategic Risk Register regularly and escalates any increasing risks, where necessary, to the Senior Leadership Team.

4. Consultations undertaken

4.1	Each relevant SLT Director is responsible for reviewing their risks, in many cases in conjunction with the Risk Manager, and assuring themselves that the actions for mitigation are appropriate and delivering the expected outcome, as outlined in the Councils Risk Management Policy.

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. The risk of "unplanned service failure due to financial turnaround activity" is one of the risks already identified under the FIT programme.

6. Background papers

6.1	1. Council's Risk Management Policy and Strategy

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

RAG Priority Matrix

	Very likely 5	**5 Green – Low Risk**	**10 Green – Low Risk**	**15 Amber - High Risk**	**20 Red - Very High**	**25 Red - Very High**
Likelihood (a)	**Likely 4**	**4 Green – Low Risk**	**8 Green – Low Risk**	**12 Yellow – High Risk**	**16 Red - Very High**	**20 Red - Very High**
	Feasible 3	**3 Green – Low Risk**	**6 Green – Low Risk**	**9 Yellow - Medium Risk**	**12 Yellow – High Risk**	**15 Amber – High Risk**
	Slight 2	**2 Low** No action required	**4 Green – Low Risk**	**6 Green – Low Risk**	**8 Yellow – Medium Risk**	**10 Amber – High Risk**
	Very unlikely 1	**1 Low** No action required	**2 Low** No action required	**3 Green – Low Risk**	**4 Yellow – Medium Risk**	**5 Amber – High Risk**
		Insignificant 1	**Minor 2**	**Significant 3**	**Major 4**	**Critical 5**

Impact (b)

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Strategic Risk Report (SLT)

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:** Peter J Lewis **Next Risk Review Date:** 13/10/2018	**Risk Description:** Strategic Risk 2016: Maintain a sustainable budget: Reserves will not be sufficient to manage any in-year overspends for the forthcoming financial year 2018/19. That we don't set a balanced budget for 2019/20 **Cause:** Unforeseen expenditure and overspends exceed the planned provision 09/09/2018 Although the ten-point plan has been put into operation and there is a Financial Imperative Plan with resources allocated to drive it forward, spend pressures on the Council, notably in Children's Services, means that further proposals for change are needed in the current financial year. These will be considered by the Cabinet on 12 September, but even if agreed, there is a challenge in delivering them, hence this score cannot be reduced at this time. 10/09/2018 At the end of 2017/18 about 57% (£11.1m) of the planned (£19.5m) savings were delivered; there were particular challenges around three of the larger proposals for which only 41% was delivered and this impacted the overall success rate. For 2018/19 a more robust review process is in place and currently around 80% of proposals are on track to be successfully delivered. **Consequence:** A balanced budget has been set for	Likelihood :5 Impact :5 25 Red - V. High Risk	o **Heightened budget monitoring on those services showing budget overspend** Part of the 10 point plan, in progress; significant detailed work on children's services budget underway in Aug/Sept 2018 to revise the base budget for 2018/19 *In Progress* (80% complete)	**Peter J Lewis** 13/10/2018 *31/12/2018*	Likelihood :5 Impact : 5 25 Red - V. High Risk	Likelihood :4 Impact :5 20 Red - V. High Risk	09/09/2018 Although the ten-point plan has been put into operation and there is a Financial Imperative Plan with resources allocated to drive it forward, spend pressures on the Council, notably in Children's Services, means that further proposals for change are needed in the current financial year. These will be considered by the Cabinet on 12 September, but even if agreed, there is a challenge in delivering them, hence this score cannot be reduced at this time. 10/09/2018 At the end of 2017/18 about 57% (£11.1m) of the planned (£19.5m) savings were delivered; there were particular challenges around three of the larger proposals for which only 41% was delivered and this impacted the overall success rate. For 2018/19 a more robust review process is in place and currently around 80% of proposals are on track to be successfully delivered.
			o **Cabinet receive monthly budget monitoring updates** Part of the 10 point plan, in progress; reports are delivered, but are showing increasing pressure on the budget 2018/19. On 11th sept it was agreed that Scrutiny committee for policies & Place would also receive monthly monitoring reports. *In Progress* (90% complete)	**Peter J Lewis** 12/10/2018 *31/12/2018*			
			o **Review of the earmarked reserves to establish if any of those could be rescinded and returned to general reserves** Part of the 10 point plan, in progress; review has been undertaken by Dir. Finance and latest situation is reported in Sept Cabinet report. Monitoring of reserves will be ongoing *In Progress* (90% complete)	**Peter J Lewis** 12/10/2018 *31/12/2018*			
			o **Development & approval of MTFP 2019/2020 - ensure necessary resources are in place to meet key priorities** Part of the 10 point plan, in progress; reassessment of MTFP considered by Council in Feb 2018 is underway. reports to Cabinet scheduled for Oct 2018 *In Progress* (25% complete)	**Peter J Lewis** 13/10/2018 *31/12/2018*			

	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
		2018/19 but there is considerable risk that not all savings will be achieved and overspends may exceed contingency and reserves. There is a set of actions to keep this in check. Risk that we don't have a short and medium term financial plan for SCC.		**Better establishment control in SAP** 06/08/2018 review by R Ellins: Training materials have been prepared for all MSS managers and will be released in August. A data cleanse has taken place with all managers of vacant to enable unrequired positions to be deleted and explanations sought for those that are to remain open. further analysis of position information and post holder variances are also being cleansed during the Summer. HR Admin and Payroll, resourcing services, HR Advisory and Finance have all met to discuss better process to manage the SAP structure against the Finance budget and further meetings will be held in late summer. There is full support form all services to align all process relating to the organisational staffing position. *In Progress* (80% complete)	**Chris Squire** 15/10/2018 *31/10/2018*			
				Control on Agency Spend 20/08/2018: Interim process of sign-off, Reed contract resourcing team relocated, On track *In Progress* (40% complete)	**Chris Squire** 20/09/2018 *29/03/2019*			
				focussing on contract spend in all areas but specifically in Children's services Part of the 10 point plan, in progress *In Progress* (10% complete)	**Simon Clifford 2** 12/09/2018 *29/03/2019*			
				Short term financial intervention *In Progress* (10% complete)	**Peter J Lewis** 13/10/2018			
				KLOE leads prioritising activity for quick wins and longer term actions *In Progress* (10% complete)	**Daniel Forgham-Healey** 13/10/2018			

	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
				FIT to plan for 2019/20 FIT to review the impact on, and plan for the 2019/20 financial year. *In Progress* (10% complete)	**Peter J Lewis** 29/10/2018 *31/12/2018*			
	ORG0022 **Risk Owner:** Simon Clifford 2 **Next Risk Review Date:** 28/02/2019	**Risk Description:** Strategic Risk 2018 update: ICT: Unintentional events, including changes to our IT system, or intentional attempts that damage our systems, property, reputation or one of our other resources. **Cause:** delayed implementation of ATP, lack of a Disaster Recovery Plan along with an out of date Corporate Business Continuity Plan **Consequence:** The effect of this is to leave us with a lower level of security and increased vulnerability to malicious attacks by third parties on our IT systems.	Likelihood :5 Impact :5 25 Red - V. High Risk	**Increase awareness & understnding within SCC around suspicious or unsolicited email with attachments & website file downloads** 05092018 - investigate free & open source anti phishing software to increase awareness with staff *In Progress* (10% complete)	**Dave Littlewood** 14/01/2019	Likelihood :4 Impact : 4 16 Red - V. High Risk	Likelihood :2 Impact :2 4 Green - Low Risk	28/08/2018 risks continue with MTFP challenges. Awareness and begingings of plan in place re continuity
	ORG0011 **Risk Owner:** Paula Hewitt **Next Risk Review Date:** 13/09/2018	**Risk Description:** Strategic Risk 2016: Health & Safety: Death or injury to a member(s) of the public or a member(s) of staff, volunteers, visiting contractors or service users **Cause:** Failure to manage our activities, assets, premises and contracts in compliance with our statutory duties and organisational policies in respect of Health & Safety, either directly, or indirectly through our strategic partners **Consequence:** 1. Death or serious harm ("dangerous	Likelihood :5 Impact :5 25 Red - V. High Risk	**Ensure visibility of appropriate health and safety-related contract management activity in relation to key contracts** 10/04/2017: This has now been published and the HSPSG will be informed at the April 2017 Meeting. By GLH *In Progress* (20% complete)	**Carly Wedderburn** 03/10/2018 *12/11/2018*	Likelihood :3 Impact : 5 15 Amber - High Risk	Likelihood :3 Impact :5 15 Amber - High Risk	13/08/2018 Risk score remains unchanged at this time. This risk has not been reviewed for some time. It was only assigned to me in August 2018. P Hewitt, 13/08/18

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	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
		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&S / Fire / Corporate Manslaughter legislation. 3. Civil Claims and/or personal litigation claims for negligence 4. Adverse publicity and damage to reputation for the Council 5. Increased audit inspection 6. Increased costs and financial penalties		o **Create common processes so staff can be interchanged across County** 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. 21/05/2018 - Review complete - associated changes due to be implemented with effect from 1st September 2018. 04/09/2018 - Taunton restructure implemented 30/08/18 Business Support functions due to move with effect from 1 November. Processes to be produced for remaining FM tasks. *In Progress* (50% complete)	**Heidi Boyle** 04/12/2018 *28/02/2019*			
Page 74	**ORG0009** **Risk Owner:** Julian Wooster **Next Risk Review Date:** 30/11/2018	**Risk Description:** Strategic Risk 2016: Safeguarding Children: We fail to deliver our statutory service delivery duties and legal obligations in relation to vulnerable children. **Cause:** Systemic leadership, financial constraints and management challenges **Consequence:** 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.	Likelihood :4 Impact :5 20 Red - V. High Risk	o **CYPP 7 Improvement Programmes** 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 *In Progress* (35% complete)	**Adrienne Parry** 30/11/2018 *31/03/2019*	Likelihood :3 Impact : 5 15 Amber - High Risk	Likelihood :3 Impact :5 15 Amber - High Risk	13/09/2018 Reduced resources and increased demand may mean that Children's needs are not identified at the earliest point. Some children's needs may therefore not be identified at all and others may only be identified when risks have reached a high threshold. This may mean that some children will live in unsafe situations. Other children, having been identified late will require high cost interventions over a sustained period which earlier intervention could have prevented.

	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
Page 75	**ORG0040** **Risk Owner:** Patrick Flaherty **Next Risk Review Date:** 14/08/2018	**Risk Description:** 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. **Cause:** 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. **Consequence:** 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).	Likelihood :5 Impact :5 25 Red - V. High Risk	o **Review need for Business Case refresher training during service planing** 14/08/17 - Business Cases being used to track 5 high-spend corporate priority areas. *In Progress* (75% complete) o **Collaboration between Services and provision of specialist knowledge to the Core Council Programme projects/programmes** 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. *In Progress* (75% complete)	**Daniel Forgham-Healey** 14/02/2018 *14/08/2018* **Daniel Forgham-Healey** 14/08/2018 *14/08/2018*	Likelihood :3 Impact : 5 15 Amber - High Risk	Likelihood :3 Impact :5 15 Amber - High Risk	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.

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
ORG0007 **Risk Owner:** Paula Hewitt **Next Risk Review Date:** 28/11/2018	**Risk Description:** Strategic Risk 2014: Business Continuity: Short or long-term service disruption may occur **Cause:** [because of] Lack of formal arrangements in place or being finalised that enable managers to review risks in the planning for business continuity **Consequence:** [resulting in] Major disruptive challenge to service provision and unplanned costs.	Likelihood :3 Impact :5 15 Amber - High Risk	o **Annual update of SCC Corporate Business Continuity Plan** 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 underway and includes a refresh of the business impact analysis to reflect changes to the SCC IT. This is being informed by learning from Exercise Long Reach (17/4/2018) *In Progress* (75% complete)	**Nicola Dawson** 16/10/2018 *31/10/2018*	Likelihood :3 Impact : 4 12 Yellow - Medium Risk	Likelihood :3 Impact :4 12 Yellow - Medium Risk	28/08/2018 Review undertaken. Some actions need to be updated. Risk score remains unchanged. P Hewitt 28/08/18

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	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
				◦ **Corporate Business Continuity Plan for SCC** 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 5/4/18 A draft document has been produced after discussions with all the District Councils. The completed document was reviewed internally by the Civil Contingencies Team	**Claire Lovett** 19/11/2018			

	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
				who confirmed it was fit for purpose, although others have sought more detail. A further internal meeting is therefore taking place on 23 April to review it again. CLL *In Progress* (30% complete)				
				o **Business Continuity Steering Group** 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 2018/19 meetings are scheduled for July, autumn 2018 and spring 2019. *In Progress* (30% complete)	**Nicola Dawson** 14/10/2018 *31/03/2019*			
				o **Annual Corporate Business Continuity Exercise** Hold a table-top exercise in spring 2019 to test the SCC Corporate Business Continuity Plan and the supporting service level plans. Invite SCC services and district councils to participate. Build on the lessons identified in Ex Viral Crisis (March 2017) and Exercise Long Reach (April 2018) *In Progress* (10% complete)	**Nicola Dawson** 10/12/2018 *31/03/2019*			

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
ORG0002 **Risk Owner:** Paula Hewitt **Next Risk Review Date:** 13/11/2018	**Risk Description:** Strategic Risk 2015: Commissioning: Failure to adequately commission services and/or failure in the market and supply chain **Cause:** 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 **Consequence:** 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	Likelihood :5 Impact :5 25 Red - V. High Risk	o **Discussions with commissioners to ensure information available is appropriate and readily accessible.** Regular updates with SCMG on a monthly basis regarding latest insight and intelligence. Monthly meetings with Adults Social Care and regular attendance at Children's SLT to discuss data requirements. *In Progress* (90% complete) o **Refresh Market Position Statement to better reflect Adult Services priorities** *In Progress* (10% complete)	**Malc Riches** 09/11/2018 *09/11/2018* **Niki Shaw** 12/10/2018 *29/03/2019*	Likelihood :3 Impact : 4 12 Yellow - Medium Risk	Likelihood :3 Impact :4 12 Yellow - Medium Risk	13/08/2018 The risk score is likely to rise in Autumn 2018, due to further savings as a result of SCC's financial position.

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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
ORG0032 **Risk Owner:** Simon Clifford 2 **Next Risk Review Date:** 30/12/2018	**Risk Description:** 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. **Cause:** 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. **Consequence:** 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.	Likelihood :5 Impact :4 20 Red - V. High Risk	○ **Publication of EUGDPR Privacy Notice** 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 *In Progress* (70% complete) ○ **Induction and Refresher training for Information Security and Data Protection** 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. *In Progress* (95% complete) ○ **Publication and distribution of EU-GDPR policies to all employees** 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. *In Progress* (70% complete) ○ **Information Sharing Agreements and Contracts** Somerset County Council will review and implement all current Information Sharing Agreements and contracts in compliance with the EU-GDPR *In Progress* (50% complete)	**Lucy Wilkins** 28/09/2018 *28/09/2018* **Lucy Wilkins** 07/10/2018 *08/10/2018* **Lucy Wilkins** 07/10/2018 *08/10/2018* **Lucy Wilkins** 07/10/2018 *10/10/2018*	Likelihood :3 Impact : 4 12 Yellow - Medium Risk	Likelihood :3 Impact :4 12 Yellow - Medium Risk	14/06/2018 14.06.18 - The Data Protection act (2018) has been passed including the provisions for meeting the EU-GDPR The implementation project has gone well leaving only two areas of risk that are being addressed. The Processing of Data Subject Access Requests (DSARs) and the provision of an effective Information Asset Register to reflect our obligations for Records of Processing Activity.

	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
				o **Information Asset register** 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; Major deferral to allow Microsoft to implement the IAR *In Progress* (15% complete) o **Effective management of Data Subjects rights** 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 *In Progress* (25% complete)	**Lucy Wilkins** 31/12/2018 *31/12/2018* **Lucy Wilkins** 31/12/2018 *31/12/2018*			

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
ORG0010 **Risk Owner:** Stephen Chandler **Next Risk Review Date:** 08/11/2018	**Risk Description:** Strategic Risk 2016: Safeguarding Adults: We fail to deliver our statutory safeguarding activity in relation to adults **Cause:** 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 **Consequence:** leading to increased audit inspections, personal litigation claims, adverse publicity for the council and possible financial penalties	Likelihood :3 Impact :5 15 Amber - High Risk			Likelihood :3 Impact : 4 12 Yellow - Medium Risk	Likelihood :3 Impact :4 12 Yellow - Medium Risk	08/08/2018 Performance within our dedicated Safeguarding Service continues to be closely monitored and informed by learning from audits. Further work planned to enhance Making Safeguarding Personal approach, with support from the Somerset Safeguarding Adults Board. The team has also undertaken CPD events across the 4 locality areas to enhance practitioner safeguarding awareness. During June 2018, 99% of safeguarding pathway decisions were made within the target 2 working days. The Safeguarding Adults Board will formally present its Annual Report 2017/18 to Scrutiny in Sept 2018, which includes learning to emerge from any statutory Safeguarding Adults Reviews undertaken during the year.

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
ORG0024 **Risk Owner:** Simon Clifford 2 **Next Risk Review Date:** 28/12/2018	**Risk Description:** Strategic Risk 2011: Operations: Quality of contract management is inconsistent and fails to meet our customers expectations **Cause:** **Consequence:** Loss of customer confidence and trust in the Council, impacting on the reputation of the council	Likelihood :4 Impact :4 16 Red - V. High Risk	**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 *In Progress* (40% complete) **Ensure adequate management information and reporting is in place to monitor quality through the Business Intelligence Function** *In Progress* (80% complete)	**Simon Clifford 2** 10/03/2019 *17/12/2018* **Malc Riches** 09/10/2018	Likelihood :3 Impact : 4 12 Yellow - Medium Risk	Likelihood :3 Impact :3 9 Yellow - Medium Risk	28/08/2018 new appetite for support in our biggest risk area of children's contracts
ORG0001 **Risk Owner:** Paula Hewitt **Next Risk Review Date:** 28/11/2018	**Risk Description:** Strategic Risk 2014: Civil Emergencies: A major civil emergency results in loss of life and major disruption to services **Cause:** we do not adequately plan for civil emergencies including the testing of plans and prioritisation of our resources, **Consequence:** impact on Somerset County Council's reputation and standing locally and Nationally	Likelihood :4 Impact :5 20 Red - V. High Risk	**Deliver phase one of the SLACCP Training and Exercise Policy** 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 will be e-learning packages for the key emergency roles outlines in the Corporate Emergency Response and Recovery Plan. The contents of the training packages has been drafted and the e-learning is under preparation. Roll out has been rescheduled due to staff changes but now on course for autumn 2018. *In Progress* (50% complete)	**Nicola Dawson** 10/12/2018 *31/12/2018*	Likelihood :2 Impact : 5 10 Amber - High Risk	Likelihood :2 Impact :5 10 Amber - High Risk	28/08/2018 Risk score remains unchanged. P Hewitt 28/08/18

	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
				o **Deliver an annual programme of resilience activities.** Deliver an annual resilience work programme for all six Somerset local authorities including development of capabilities, plans and procedures for emergency planning, preparation, response and recovery. Delivery of the programme to be steered and monitored by the Somerset Resilience Board which meets three times a year (June, September and February). *In Progress* (10% complete)	**Nicola Dawson** 05/12/2018 *31/03/2019*			
Page 84	**ORG0042** **Risk Owner:** Chris Squire **Next Risk Review Date:** 22/10/2018	**Risk Description:** Strategic Risk 2015: HR: The risk of not having the employee capacity to deliver and support delivery of core front line services **Cause:** Combination of austerity measures and market forces in being able to attract suitably qualified people to work for the Council **Consequence:** Reduced levels of service activity, more reliance on existing employees and possible issues with consistency on quality.	Likelihood :4 Impact :4 16 Red - V. High Risk	o **Closely monitored operationally & at Programme Improvement Boards** Reviewed 26/10/2017: Dashboard in place at corporate & service level. Establishment control in place. Complete *In Progress* o **Social Worker degree course starting at Yeovil College 2019** *In Progress* (10% complete)	**Chris Squire** **Chris Squire** 22/10/2018	Likelihood :3 Impact : 3 9 Yellow - Me dium Risk	Likelihood :3 Impact :3 9 Yellow - Me dium Risk	12/07/2018 POsition remains similar July 2018. Vacancy controls are in place with an exempt list for critical posts, but there remains a strong risk of not being able to attract high quality candidates due to the publicity around financial problems.

Report Selection Criteria

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

Somerset County Council

Report of Internal Audit Activity

Plan Progress 2018/19 - September Update

SWAP
SOUTH WEST AUDIT PARTNERSHIP
Delivering Audit Excellence

Agenda item 8

Internal Audit ▪ Risk ▪ Special Investigations ▪ Consultancy

Contents

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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 12th April 2018.

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
- School 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 2018/19. 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.

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

2017/18

In completion of last years internal audit plan the following partial assurances were reported since the last progress update:

Concessionary Fares – key control review

Significant improvements have been made to the control framework for the Concessionary Bus Fare scheme. Since the last audit that took place in March 2017, a dedicated Concessionary Fares Officer has been appointed and validation of reimbursement claims is a key responsibility of this role.

Though a validation process is now in place, we identified some weaknesses with the accuracy of the data that is used by SCC for validation checks. This may result in discrepancies not being identified or followed up when required.

IT Active Directory/User Administration

The industry standard automated controls commonly used to mitigate risk in the management of logons were not in place at time of the audit. In addition, the movers process concentrates on setting up the new access required for the new role, without ensuring access needing to be removed is also identified. These control weaknesses increase the risk of inappropriate processing of information and possible financial or reputational impact for the Council.

There are projects in place to significantly improve access controls and when implemented will be risk based, automated and have a much more robust challenge response regime.

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

2018/19

Childrens– Team Around the School (TAS)

TAS is a means of early intervention for children and families requiring additional support and a mechanism for schools to meet with other key agencies on a regular basis, to share information about children and families to manage and mitigate the impact of existing issues. TAS is intended to target families assessed at level 2 of the Somerset Safeguarding Children Board (SSCB) early help thresholds, as part of a strategy to reduce the number of families requiring complex or acute support in the future.

The approach has been effective in establishing and strengthening connections between local agencies. Our review of a sample of cases indicates that TAS intervention has been effective in addressing issues faced by children and families referred to the service.

However, some significant issues do remain in place. Specifically, for 65% of cases we reviewed documented consent to share personal information amongst agencies had not been obtained, and 22% of cases did not have a completed Behaviour & Vulnerability Profiling Tool (BVPT) assessment. BVPT is currently the only method through which the impact of TAS intervention can be quantified, and therefore it is crucial that this tool is used both at the beginning and end of intervention.

Plan Performance 2017/18

Update 2017/18 and 2018/19

Completed Assignments in the Period

Internal Audit Work Programme Progress to Date

Refer to Appendix B for detail of the individual audits.

2017/18

In relation to the 2017/18 plan there is just one more audit to finalise and this is currently at draft report stage.

2018/19

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

- 4 final reports
- 1 draft report
- 13 in progress

There have been some delays experienced in the scheduling of work, with both requests made to move audits back to later in the year and to defer to the following year.

The majority of quarter 1 and 2 reviews now scheduled are in progress.

The Healthy Organisation review is underway which represents a substantial piece of work in this years plan.

In addition, 8 school visits have taken place so far this year.

We keep our audit plans under regular review so as to ensure that

Approved Changes to the Plan

we auditing the right things at the right time.

The main changes agreed to the plan this year have been the result of requests made to delay audits to later in the year or to defer to the following year. Where audits have been deferred a replacement audit has been agreed. The result has been that time has been spent carrying out initial work where this has not then resulted in an audit starting. In addition, audit resources are largely fixed and there is a limit to the amount of work that it will be possible to carry-out in quarters 3 and 4 and there is a risk that not all audits will be deliverable as a result.

Conclusion

Reasonable progress has been made with the majority of audits scheduled for quarters one and two underway. Although every effort will be made to deliver the plan in full this is now more difficult to achieve with the delays and deferrals that have taken place.

Partial Opinion Comparison

SWAP – Comparison of Partial Opinions across the Partnership

The fully risk based approach followed at Somerset means that a high proportion of partial opinion audit reports are issued. At the June Audit Committee meeting a cross partner analysis of the proportion of partial opinion audits was requested to allow a comparison with Somerset to be made. For results of this work refer to Appendix C.

Other partners include individual schools within their analysis and therefore these have been added back to allow a more meaningful comparison to be made. It is the case that SCC did report the highest proportion of partial opinion audits in 2017/18, although the figures are very close to those of Herefordshire Council. The County Councils and Unitary Authorities do have higher proportions of partial opinions with the exception of Wiltshire Council. The audit plan at Wiltshire was found to have a higher proportion of key control audits and audits relating to previous district council functions which may help explain this lower percentage. As we have reported previously the approach at Somerset is to focus the audit plan to those areas of greatest risk. This approach is backed up with strong follow-up and scrutiny arrangements to help ensure action to mitigate the risks reported is taken.

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

Substantial	▲★★★	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.
Reasonable	▲★★☆	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.
Partial	▲★☆☆	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.
None	▲☆☆☆	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	1 = Major	↔	3 = Minor	Comments
								Recommendation			
								1	2	3	
2017/18											
ICT	Follow-up	Hardware and Software Asset Management	Q4	Final		15/01/2018					Insufficient progress to be removed from JCAD. Will be revisited as part of Healthy Organisation review.
Adult Services	Follow Up	Adults Income Collection - Personal Finance Contributions	Q4	Final		23/01/2018					Will be followed up as part of our annual debt management key control reviews.
ECI	Key Control	Concessionary Fares - Key Control Review	Q4	Final	Partial	24/01/2018	5		2	3	
Adult Services	Follow Up	Direct Payments – ISP interface	Q4	Final		01/02/2018					Insufficient progress to be removed from JCAD. Gaps remain in control framework – further
Corporate	Governance	Corporate Contracts - Performance Management	Q3	Draft		15/01/2018					Relates to childrens independent placements contracts.
ICT	ICT	Active Directory/User Admin	Q4	Final	Partial	26/02/2018	4		4		
Childrens Services	Follow Up	Independent Placements for CLA and Education - Financial Controls	Q3	In Progress (merged with 18/19 audit)		09/01/2018					Now reported within 2018/19 audit plan.

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	1 = Major	↔	3 = Minor	Comments
								Recommendation			
								1	2	3	
2018/19											
Adult Services	Operational	Adults Placements - Finance and Activity Related Controls	Q1	In progress		23/07/2018					
Finance	Key Control	Cash Handling	Q1	Not started							Moved back to Q4 to allow new policy to embed.
Childrens Services	Key Control	Troubled Families - Phase 2 Claims	Q1	In progress		22/06/2018					Certification of claims ongoing through the year
Procurement	Governance	Procurement - Category Management	Q1	Removed							Will pick up within Healthy Organisation review.
Finance and Performance	Governance	Performance Management	Q1	Removed							Will pick up within Healthy Organisation review.
Human Resources	Governance	Role of the Somerset Manager	Q1	Draft		14/05/2018					
ICT	Follow-up	RIPA Use of Internet as a means of Surveillance	Q1	Final	n/a	02/05/2018					Sufficient progress made to remove from JCAD
ICT	ICT	WAN Connection	Q1	Draft		20/06/2018					
Education	Operational	Team Around the School	Q1	Final	Partial	01/05/2018	6		2	4	
Finance and Performance	Follow-up	Dillington House Financial Controls	Q1	Final	n/a	04/05/2018					Insufficient progress made to be removed from JCAD.

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	1 = Major		3 = Minor	Comments
								Recommendation			
								1	2	3	
Education	Operational	Independent Placements for CLA and Education - Financial Controls	Q1	In progress		04/06/2018					
Schools	Schools	School Theme - Premises Health and Safety	Q1	In progress		22/05/2018					School visits took place during the summer term.
Adult Services	Follow-up	Better Care Fund Follow-up	Q1	Not started							Moved to Q3 from Q1 due to review underway with CCG.
ICT	Follow-up	Data Subject Access Request (DSAR)	Q1	Deferred							More officer time needed to complete agreed actions. Days transferred to Tax Evasion.
Governance	Governance	Provision for Fraud and Corruption work	Q1	In progress		01/04/2018					To be used as required through the year
Governance	Governance	Whistleblowing Allegation	Q1	Final	Advisory	04/04/2018					Audit work concluded that there was not a case to be pursued.
Governance	Governance	Ethical Governance	Q2	In progress		18/07/2018					
Finance	Governance	Combating Tax Evasion	Q2	In progress		24/08/2018					Days increased to ensure all key areas can be covered.
Governance	Governance	Healthy Organisation	Q2	In progress		5/06/2018					
Human Resources	Governance	People Strategy	Q2	Removed							Will pick up within Healthy Organisation.

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	1 = Major	↔	3 = Minor	Comments
								Recommendation			
								1	2	3	
Adult Services	Operational	Management of Blue Badges	Q2	Not started							Moved back to Q4 to allow for changes in service delivery to take place.
Procurement	Follow-up	Corporate Contracts - Performance Management follow-up	Q2	In progress		09/08/2018					
Procurement	Governance	Corporate Contract Management	Q2	Not started							Move to Q3 to ensure procurement work is staggered.
Schools	Schools	Schools Financial Value Standard Moderation	Q2	In progress		11/09/2018					
ICT	ICT	Payment Card Industry (PCI)	Q2	Not started							Delays experienced in starting ICT audit work.
Adult Services	Operational	Client Finances	Q2	Not started							Moved to Q3 to allow for embedding of bank-line.
ICT	ICT	Back Ups - Azure	Q2	Not started							Delays experienced in starting ICT audit work.
ICT	ICT	Risk Analysis Full Lifecycle	Q2	Not started							Delays experienced in starting ICT audit work.
Adult Services	Operational	Learning Disabilities - Review to Improve Lives	Q2	Not started							
	Governance	Adults Residential Home – payments review	Q2	In progress							New - initial meeting 31/08

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	1 = Major	↔	3 = Minor	Comments
								Recommendation			
								1	2	3	
Finance	Follow-up	Payroll IR35	Q2	Not started							Will complete at same time as STAR payroll to improve efficiency and staff disruption.
Finance	Key Control	STAR Payroll	Q3	Not started							Addition to Plan replaces Procurement Category Management.
Property Services	Operational	Health & Safety - Premises Management	Q3	Not started							Initial meeting 22/08/2018
Schools	Schools	School Theme - Schools Financial Value Standard (SFVS)	Q3	Not started							
ICT	Follow-up	Readiness for General Data Protection Regulations (GDPR)	Q3	In progress		18/06/2018					
Childrens Services	Follow-up	Childrens Direct Payments	Q3	Not started							
Property Services	Follow-up	Strategic Asset Management	Q3	Not started							
Governance	Governance	MTFP - the new Approach	Q3	Not started							Moved to Q4 at request of Strategic Manager Finance.
Adults	Follow-up	Risk of Care Provider Failure	Q3	Not started							

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	1 = Major		3 = Minor	Comments
								Recommendation			
								1	2	3	
Procurement	Follow-up	Procurement - The Monitoring and Control of Savings Made	Q3	Not started							
Childrens Services	Follow-up	The Education of Children Looked After	Q3	Not started							
Adult Services	Follow-up	Mental Health - Care Plans	Q3	Not started							
Childrens Services	Follow-up	Use of Part-time Timetables	Q3	Not started							
ICT	Follow-up	IT - Information Sharing	Q3	Not started							
ICT	Follow-up	SAP – Key controls	Q3	Not started							
ICT	Follow-up	Network Resilience	Q3	Not started							
Property Services	Governance	Corporate Property Maintenance - Schools	Q3	Not started							Moved to Q4 at request of Head of Property
Human Resources	Governance	Workforce Planning	Q3	Not started							
Finance	Key Control	Debt Management	Q3	Not started							
ICT	ICT	BRM Infolink Azure	Q3	Not started							

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	1 = Major		3 = Minor	Comments
								Recommendation			
								1	2	3	
Schools	School Theme	School Theme - Safer Recruitment	Q4	Not started							
Finance	Key Control	Creditors	Q3	Not started							
Adults	Operational	Adults - New Operating Model	Q4	Not started							
ICT	ICT	E5, MS Windows Defender, ATP, Security Suite Deployment	Q4	Not started							
Childrens Services	Operational	Childrens - Special Guardianship Allowances	Q4	Not started							
Property Services	Governance	Corporate Management of Health and Safety	Q4	Not started							
ECI	Operational	Section 106 Agreements	Q4	Not started							
Schools	Schools	School Theme - Sports and PE Grants	Q4	Not started							
Adults	Operational	LD - Discovery Contract	Q4	Not started							
ECI	Operational	Delivery of Major Transport Projects	Q4	Not started							

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	1 = Major	↔	3 = Minor	Comments
								Recommendation			
								1	2	3	
ECI	Operational	Concessionary Fares	Q4	Not started							
ICT	ICT	Asset Management - Telephony	Q4	Not started							
Schools											
Schools	Follow-up	Stoke St Michael Primary - SFVS Follow-Up Audit	Q1	Final	n/a	17/07/2018					
Schools	School	Premises Management - Ash Primary	Q1	Draft		21/05/2018					
Schools	School	Premises Management - Fiveways	Q1	Draft		21/05/2018					
Schools	School	Premises Management - St Nicholas Primary	Q1	Draft		21/05/2018					
Schools	School	Premises Management - Ditcheat Primary	Q1	Draft		21/05/2018					
Schools	School	Premises Management - Blackbrook Primary	Q1	Draft		21/05/2018					

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	1 = Major		3 = Minor	Comments
								Recommendation			
								1	2	3	
Schools	School	Premises Management - Haselbury Plucknett Primary	Q1	Final	Reasonable	21/05/2018	6			6	
Schools	School	Premises Management - Berrow Primary	Q1	Final	Reasonable	21/05/2018	7		1	6	

Partner		Substantial/ Reasonable	Partial/ None
Somerset - without individual schools		37%	63%
Somerset - with individual schools	County	**52%**	**48%**
Dorset	County	67%	33%
Wiltshire Council	Unitary	88%	12%
Herefordshire	Unitary	48%	52%
Powys	Unitary	75%	25%
Taunton Deane	Borough	60%	40%
Mendip	District	73%	27%
South Somerset	District	100%	0%
West Somerset	District	90%	10%
East Devon	District	100%	0%
Cotswold	District	85%	15%
West Oxfordshire	District	84%	16%
Forest of Deane	District	95%	5%
Cheltenham	Borough	90%	10%

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Somerset County Council
Audit Committee
20 September 2018

Payroll Key Controls and IR35 2017-18

Service Director: Chris Squire – Director of HR & OD
Lead Officer: Rachel Ellins, Strategic Manager HR Admin & Payroll
Author: Rachel Ellins, Strategic Manager HR Admin & Payroll Manager
Contact Details: tel: (01823) 358011 or e-mail: raellins@somerset.gov.uk
Cabinet Member: Cllr Mandy Chilcott
Division and Local Member:

Audit Opinion was split into 2 categories
Payroll Key Controls – Reasonable
IR35 – Partial
This report is in respect of the IR35 opinion only although it should be noted that HR Admin and Payroll (HRAP) are part of the audit programme most years and have not received a rating below reasonable for many years.

1. Background Information

In April 2017 new legislation was introduced requiring the Public Sector to assess whether workers, provided via an intermediary and up until this point paid outside of payroll, would have been subject to PAYE if not paid via the intermediary. The intermediary could be their own personal services company, an agency or a third party paying the intermediary. The legislation is called "Off Payroll Working in the Public Sector" but is commonly referred to as IR35.

The legislation applied to payments made on or after 6th April 2017 and therefore contracts in place prior to this date, but continuing to operate or invoices settled after it, had to be reviewed along with all new ones.

1.1. The HMRC final guidance and toolkit to support the assessment of employment status was issued well into 2017 and there was national debate on the legislation implementation date being delayed to allow more time for Public Bodies to prepare for the implementation. This was not agreed.

Responsibility for managing the change in process and assessing any vendors who may fall into the requirements was given to the Strategic Manager in HR Admin and Payroll, but there was close working between Procurement, Exchequer Services and HR.

1.2. One member of HR worked on this project almost full time from the beginning of February 2017 and for several months afterwards. The ongoing assessment of workers who may be covered by this legislation and knowledge sharing with Council and School employees continues to be a key part of her role.

2.0 Update following Audit Opinion
Since the audit, processes have continued to be developed and actions taken to address the weaknesses identified. An update to the recommendations is provided below in each recommendations action plan section and labelled Update September 2018.

1.	**IR35 (off payroll working rules):** The Council is liable for additional tax and NI deductions, penalties and interest due to non-compliance with IR35 regulations.

1.1	Identification of affected suppliers

In anticipation of forthcoming changes to off-payroll working rules for public sector bodies, all strategic, service managers and schools were contacted by HR Admin & Payroll to provide details of potentially affected suppliers to HR Admin & Payroll for assessment. 1,541 lines of data were received initially, and as of November 2017 an additional 235 suppliers have been referred for assessment. The HR Admin & Payroll team reported in February 2018 that 34 assessments are currently outstanding. It should however be noted that to comply with the legislation, the status of particular types of supplier will require regular reassessment depending upon the type of work they are doing, and the personnel used to perform this work.

We were advised during this review that there was no review of the council's contract register to identify suppliers potentially affected by the legislation. Some initial work to review known vendors in the financial management system (SAP) was completed in relation to 174 vendors identified through the process explained above, however this did not result in any vendors being blocked (a status which ensures no payments can be processed). HR Admin & Payroll and Finance representatives confirmed that no comprehensive review of vendors has been completed in respect of IR35 due to the substantial number of vendors on SAP (noted to be approximately 30,000), and because it is not possible to apply a blanket block without completing additional checks for each vendor. A review is undertaken by the Exchequer team periodically to block vendors that have not been used in more than two years, but the most recent exercise was before the IR35 legislation changed in April 2017.

On this basis a decision has been made to review suppliers as they engage with SCC. However, if supplier affected by IR35 exist in SAP and have not been blocked, there is a risk they will be paid without necessary tax deductions being made. A specific risk exists around invoices which are successfully three-way matched, as these invoices will be paid without any intervention from the Exchequer team.

During the review we saw evidence that both the Commercial & Procurement and Exchequer teams have referred suppliers to HR Admin & Payroll for assessment as these have been set up or invoices received. However, without a suitable control to reduce the risk posed by existing suppliers, there is a risk that payments will not be processed in accordance with the legislation and this could lead to SCC becoming liable for relevant income tax and NIC charges.

1.1a	Proposed Outcome:	**Priority 4**

We recommend that the Service Manager – Chief Accountant and Strategic Manager – HR Admin & Payroll identify a suitable method to limit the risk posed by existing vendors. This could include blocking of vendors that have not been used since the IR35 legislation was updated to prevent payments being made to them without a tax status assessment.

Action Plan:

•Person Responsible:	Lizzie Watkin	•Target Date:	•In progress
• Original Management Response:	•The Finance team are starting a full review of all vendors that have not been paid prior to a certain date. This is expected to result in many hundreds of vendors being blocked. This is however not as straight forward as just applying the block as open purchase orders and other activities need to be considered and managed at the same time. Once complete it has been agreed that the list collated by the HR Admin and Payroll team as part of the initial personal service company data collection exercise will be matched to the remaining vendors. It is anticipated that this will show that the vendors who have required		

Update September 2018	payment since April 17 were reviewed when they were re-engaged or invoices were processed. • As at 15/05/2018 we had 49,891 vendor records, of which 17018 were blocked. The recent cleanse process looked at 13158 vendors who had not been used during the last 2 years and 9059 were blocked. A further review is about to commence to reduce open vendors further.

1.2	Record of assessments

The primary method for collating data received from officers, monitoring assessment progress and recording assessment results has been the use of spreadsheets. Review of the spreadsheets identified that they have not always been completed in a consistent manner and hence could not be easily analysed. For instance, in one spreadsheet there is a 'assessment status' column for which the answers 'yes' and 'no' refer to whether Exchequer performed a check to see if they had any transactions in the previous twelve months, while the same column is used to determine whether assessments have been completed or are pending. We were advised that the spreadsheets have developed over a period of several months and not all entries have been reviewed as more columns had been added.

We were informed during the review that there is an intention to share a list of assessed suppliers with services via SharePoint. There is a risk that a lack of clarity in source documentation could result in incorrect information being provided to service areas, or affected suppliers not being identified for assessment, meaning they may not be paid in the manner required by off-payroll working rules.

1.2a	Proposed Outcome:	Priority 3

We recommend that the Strategic Manager - HR Admin & Payroll Services ensures that supporting spreadsheets are reviewed to ensure that assessment status and results have been clearly and consistently recorded.

Action Plan:

•Person Responsible:	Rachel Ellins	•Target Date:	•Complete
•Original Management Response **Update September 2018**	•HRAP are now using a One Note workbook to record and store information relating to assessment status and results in a clear and consistent manner •Processes have continued to be developed and the use of OneNote has enabled all information to be held in one place with simple search and retrieval process. •Assessed suppliers have not been shared widely because the terms of each engagement often differ and therefore each contract needs to be considered in its own right. •We also now block some vendors, who we have identified as potentially providing in scope services, after each invoice is processed to ensure that payment is reviewed.		

1.3	Appeals procedure

We received evidence that standard letter templates have been prepared for agencies, partnerships, sole traders and personal service companies for notifying suppliers of the new legislation and their tax status assessment results. Each of the templates confirms that the recipient can challenge their assessment result by writing to HR Admin and Payroll Services.

There is no documented appeals procedure, though through testing we observed that a common process is in place. Challenges from suppliers are also referred to in draft guidance yet to be issued to service managers (see 1.4) and while this confirms HR Admin and Payroll will provide support for any challenges, this does not outline an appeals procedure.

Without a documented procedure, there is a risk that managers will not understand the procedure and hence the appeals process will not be applied consistently across the organisation, which could lead to complaints from suppliers.

1.3a	Proposed Outcome:	**Priority 3**

We recommend that the Strategic Manager - HR Admin and Payroll Services introduces a documented procedure for IR35 assessment appeals; and that this is shared amongst all managers who will be responsible for completing tax status assessments.

Action Plan:

•Person Responsible:	Rachel Ellins	•Target Date:	•Complete
•Management Response: **Update September 2018**	•Our decision letter does include details of who to contact if you do not agree with the decision. The process that follows is dependent on any additional information supplied but ultimately the status decision sits with the engager and the legislation supports this. The legislation does require us to put in writing why we have made the decision we have within 31 days of receiving a challenge, but generally we provide this information when informing the worker of our status decision if we believe them to be subject to the legislation. The guidance has been enhanced. •The appeals continue to be managed centrally to ensure consistency due to the complex legislation and low volumes.		

1.4	Resource available for completing assessments

The HR Admin & Payroll service holds responsibility for the completion of tax status assessments for existing and new suppliers. As explained under 1.1, managers and school officers were asked to identify any known suppliers who could be impacted by the legislation, and a considerable number were identified.

The HR Admin & Payroll service was previously part of Southwest One. When this contract ended in late 2016, staff who had been employed by SCC and seconded to Southwest One were returned to SCC employment, but there was an overall reduction in resource as other staff returning to other partners.

We have found that though there have been instances of officers outside of the HR Admin & Payroll service completing assessments, the majority have been completed by one officer in this team. This officer was selected due to them previously being responsible for similar assessments for self-employed suppliers. However, we were informed during this review that managers could cover these responsibilities in the short term but there is not sufficient knowledge of the legislation within the service to cover in the long term.

In the event of long term absence, there is a risk that tax status assessments will not be completed correctly or within reasonable timeframes. Subsequent delays in releasing payments to suppliers could result in cessation of services and reputational damage.

1.4a	Proposed Outcome:	**Priority 3**

We recommend that the Strategic Manager - HR Admin & Payroll Services reviews arrangements for completing tax status assessments to ensure there is sufficient cover available.

Action Plan:			
•Person Responsible:	Rachel Ellins	•Target Date:	•In progress
•Management Response **Update September 2018**	•Additional resource has already been introduced to support the process and an additional colleague will also be trained soon. •Additional staff are now able to provide advice in relation to the process, review the engagements and sign off the decisions.		

• •

1.5	•Authorisation of assessment decisions

We completed testing on a sample of assessments to establish whether there was evidence of senior officer review and authorisation of assessment decisions. Our testing established that evidence of authorisation was in place for only five of the 15 supplier assessments reviewed.

Discussion with officers confirmed that there is no standard authorisation process and that, depending on the results of the tax status assessment, authorisation is not always required. For instance, if an assessment identifies that a supplier should be paid through the payroll system, this is discussed but not formally signed off. Though we were informed that all results are at least discussed, without documented authorisation there is no evidence to show this. Without documented evidence there is a risk assessments results may not be correct, and this could mean suppliers that tax and National Insurance deductions are not made where required by law.

1.5a	Proposed Outcome:	**Priority 3**

We recommend that the Strategic Manager - HR Admin and Payroll Services ensures there is consistent process by which all tax status assessments are reviewed and authorised. This process should also incorporate authorisation requirements for tax status assessments undertaken outside of HR Admin and Payroll.

Action Plan:			
•Person Responsible:	Rachel Ellins	•Target Date:	•Complete
•Management Response: **Update September 2018**	•The team are now using One Note to store or link to correspondence relating to assessments and decisions. As part of this the One Note page is notated by the HRAP authoriser following discussion with the processor. Assessments undertaken for Reed appointments, that are outside of IR35 are checked prior to instructing Reed, by HRAP and when assessments are undertaken by managers the results will be reviewed, where necessary challenged, and then stored in HRAP. •Improved skills in OneNote have now enabled us to electronically date stamp each authorisation		

1.6	Guidance for service managers

Though supplier employment status assessments have been carried out by the HR Admin & Payroll team since the change in legislation, in the long term the intention is for status assessments to be completed by service managers who engage suppliers before they are set up on the financial management system (SAP). Draft guidance has been produced to help facilitate this transition in responsibility. Review established that the guidance produced is comprehensive and clearly outlines the requirements for assessment and the potential implications if managers do not apply the guidance correctly.

Though the guidance was drafted in mid-2017, officers reported that there have been several amendments made to the HMRC Employment Status for Tax tool which have necessitated amendments to the guidance. This has prevented the guidance from being issued and has meant the HR Admin & Payroll team have retained the responsibility for completing assessments.

It is imperative that guidance be issued, and managers have a chance to familiarise themselves with this guidance before responsibility for assessment transfers to them. Without sufficient guidance, there is an increased risk that assessments will not be completed correctly, and this could result in penalties from HMRC.		
1.6a	Proposed Outcome:	Priority 3
We recommend that the Strategic Manager - HR Admin & Payroll Services ensures that guidance is finalised and issued to all service and strategic managers before they become responsible for completing employment status assessments.		
Action Plan:		

•Person Responsible:	Rachel Ellins	•Target Date:	•September 2018
•Management Response **Update September 2018**	•The guidance will be finalised ready for launch at the Autumn Term schools ADL meetings. It will also be shared with the SCC Business Managers Group, for further circulation, at a similar time. •The detailed guidance and process documentation will be released at the October School Admin, Development and Liaison meetings and will also be available via the SCC intranet. Since March 2017 many employees involved in the procurement of services or processing the invoices have been trained, mainly on a one to one basis, so that they now understand the regulations and the requirements placed on the Council.		

•1.7	Ongoing identification of third parties requiring assessment	
During this review we met with representatives from the HR Admin & Payroll, Commercial & Procurement and Exchequer teams to establish the process by which third parties are highlighted to HR Admin & Payroll for assessment. We observed that there are several ways that HR Admin & Payroll may be notified of third parties requiring a tax status assessment, including Commercial & Procurement approval of suppliers before they can be set up on SAP, a joint Payroll/Exchequer tax status enquiries email inbox and SAP Workcycle. We were also informed that the HR Admin & Payroll team had provided guidance to these teams on the legislative requirements and discussed potential procedural changes to ensure a tax status assessment is completed before a third party can be set up as a vendor on the financial management system (SAP). However, we were informed by representatives of Exchequer that their responsibilities within the identification process had not yet been formally defined and though they had received a draft process map this required refinement. The responsibility for compliance with off payroll working rules does not lie with one service area and the council's success in ensuring compliance will be dependent on cross-service procedures operating effectively. If relevant parties are not aware of their responsibilities or these have not been defined, there is a risk that suppliers who are affected by these requirements will not be assessed and in turn this leads to SCC becoming liable for tax and national insurance deductions, as well as potential penalties.		
1.7a	Proposed Outcome:	•Priority 4
•We recommend that the Strategic Manager - HR Admin & Payroll Services contacts relevant officers within the Commercial & Procurement and Exchequer teams to establish agreed and documented processes for referring new suppliers for assessment.		
•Action Plan:		

•Person Responsible:	•Rachel Ellins	• Target Date:	•June 2018
•Management Response:	•A meeting will be arranged to discuss this proposed outcome. However excellent working relationships between the teams, shared knowledge of the requirements and the many communications, discussions and		

Update September 2018	sharing of the requirements with Council employees involved in the procurement process, across service areas, means that management do not believe this to be a priority risk in practice. • All teams continue to work closely together. A new vendor set up form has been developed and will soon be launched. This includes brief guidance on the Off-Payroll requirements. This should further reduce the number of requests for new vendors who should first be assessed under the regulations.

3.0 Next Steps

3.1 Further data cleanse of vendors

3.2 Issue of guidance

3.3 HR Admin and Payroll will welcome a further audit to confirm that actions have been taken that will raise the audit opinion.

SOMERSET County Council

SWAP SOUTH WEST AUDIT PARTNERSHIP Delivering Audit Excellence

Payroll Key Controls and IR35 2017-18

Final Report

Issue Date: 17th May 2018

Working in Partnership to Deliver Audit Excellence

Contents

Executive Summary

This section provides an overview for senior management to understand the main conclusions of this audit review, including the opinion, significant findings and a summary of the corporate risk exposure.

Findings and Outcomes

This section contains the more detailed findings identified during this review for consideration by service managers. It details individual findings together with the potential risk exposure and an action plan for addressing the risk.

Appendices:

- Audit Framework Definitions
- Support and Distribution
- Statement of Responsibility

Executive Summary

Overview

As part of the 2017/18 audit plan a review has been undertaken to assess the adequacy of the key controls and procedures in place for Payroll at Somerset County Council. A separate review was undertaken to review the procedures in place for the administration of IR35 legislation within the Council and our findings from both reviews are reported within this single report.

As these are distinct areas, we have offered separate audit assurance opinions.

IR35 (off payroll working rules):
IR35 legislation came into force in the year 2000 with the intention that in respect of personal taxation and national insurance (NI), individuals working through their own limited company, often as contractors in both the Private and Public-Sector Body (PSB) were treated in the same way as people directly employed, where the relationship was proved to be the same as an employee.

From 6th April 2017 it has been the responsibility of the PSB to determine whether such an individual who is not directly employed, is subject to IR35 legislation. Where it is identified that IR35 legislation applies to an individual, the PSB is required to deduct PAYE and NI from payments made for services provided.

This review sought to verify whether the Council has completed IR35 assessments for both existing and potentially new workers employed through intermediary bodies and how it is managed in the future.

Payroll Key Controls:
Since the previous audit in 2015/16, Somerset County Council agreed a formal exit programme from their partnership with Southwest One, who previously provided HR and Payroll Administration services. As part of the exit, a number of officers returned to the Council on 1st December 2016, and although the payroll procedures and system have remained the same, these functions are now carried out by the Council.

As at the beginning of the audit, the Council (including Somerset Waste Partnership) had 3,946 posts on record. This includes a mix of full time, part time and casual posts. Between August 2016 and August 2017, the Council filled 871 posts with new starters. Over the same period 2,132 Council employees left their posts, however 1,134 of these employees were transferred from the in-house Learning Disabilities service to the new provision known as Dimensions.

Due to concerns raised in another audit we also agreed to undertake a review of the process for honorarium higher grade payments and their authorisation.

Objective

To provide assurance that key controls within Payroll are operating effectively and procedures are in place to ensure compliance with IR35 legislation.

Significant Findings	
Finding:	**Risk:**
We were advised during this review that there was no significant review of the council's contract register or financial management system to identify suppliers potentially affected by the IR35 legislation.	Without a review of all existing suppliers, there is a risk that all intermediary bodies have not been identified and this could lead to SCC becoming liable for relevant income tax and NIC charges.
Though we observed that there are processes in place to identify suppliers to HR Admin & Payroll Services for assessments, processes and responsibilities have not yet been formally agreed and documented.	Procedures are not defined so may not be applied consistently. If staff change roles, there is no documentation available to support handover.

IR35 Audit Opinion:	**Partial**

We can 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.

The recent changes to the off payroll working rules has presented a significant challenge to PSBs, including Somerset County Council, and controls relating to this are still being developed. Through testing and discussion with officers we have confirmed that the Council took proactive steps to identify potentially affected suppliers by contacting all service and strategic managers, and school leaders. Our testing of payments made to suppliers who have been assessed and deemed to be within the IR35 legislation also identified that tax and National Insurance deductions had been calculated correctly; while walkthrough testing established that tax status assessments conducted by the HR Admin and Payroll service were reasonable based upon information available to the service.

The responsibility for compliance with the IR35 legislation does not sit solely with HR Admin & Payroll but is shared across the organisation. We have identified two significant weaknesses relating to this which has reduced the assurance level offered. Firstly, the council has not completed a thorough review of either its vendor list or contracts register to identify existing suppliers who may be affected by the new requirements, meaning some suppliers who need to be subject to tax and National Insurance deductions may not have been identified and attempts to make payments to such suppliers will not be prevented in all circumstances. Secondly, cross-service arrangements for ensuring new suppliers are assessed on an ongoing basis have not yet been formally agreed, documented and implemented, which increases the risk that suppliers will be missed. These findings have already been communicated to the Payroll and Exchequer teams who are considering options to reduce relevant risks.

Payroll Key Controls Audit Opinion:	**Reasonable**

We can 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.

Testing of the key controls for starters, leavers and changes identified a reasonable level of compliance with the agreed procedures. A minor weakness was identified in relation to the authorisation list and Payroll procedures, which require updating.

More significantly we identified that even though the Honorarium Policy was suspended on 31st March 2013, there are currently 44 active payments with an honorarium wage type in place. Six of these do not have end dates and three payments have been running for over two years with no periodic reviews or central monitoring in place.

Well Controlled Areas of the Service

- The agreed action from our previous key control payroll audit regarding confirmation of payments to HMRC was found to be complete.
- There are appropriate security and authorisation arrangements in place for the BACS Payroll Submission.
- Tax status assessments completed by the HR Admin & Payroll service are based on sound rationale.
- Payments to suppliers identified as being within the IR35 legislation included accurate tax and National Insurance deductions.

Corporate Risk Assessment

Risks	Inherent Risk Assessment	Auditor's Assessment
1. The Council is liable for additional tax and NI deductions, penalties and interest due to non-compliance with IR35 regulations.	**High**	**Medium**
2. Employees are not paid or are paid incorrectly.	**High**	**Low**

Findings and Outcomes

Method and Scope

This audit has been undertaken using an agreed risk-based approach. This means that:

- the objectives and risks are discussed and agreed with management at the outset of the audit;
- the controls established to manage risks are discussed with key staff and relevant documentation reviewed;
- these controls are evaluated to assess whether they are proportionate to the risks and evidence sought to confirm controls are operating effectively;
- at the end of the audit, findings are discussed at a close-out meeting with the main contact and suggestions for improvement are agreed.

The scope of the Payroll audit covered the processes and procedures in place for transactions between August 2016 and August 2017. A sample of starters, leavers and changes were reviewed to ensure they had been correctly processed and authorised. A sample of exception reports and BACS authorisations were reviewed for compliance with the documented procedures.

For IR35 testing we obtained a report of all payments made to IR35 suppliers between April and October 2017. This showed a total of 13 payments had been made, so a sample of five payments were tested against the invoice, income tax and National Insurance thresholds to confirm that tax deductions were correct. For walkthrough testing a sample of 15 suppliers who had been subject to tax status assessment was selected and were reviewed in conjunction with the assessing officer to establish the result was reasonable in each instance.

1.	**IR35 (off payroll working rules):** The Council is liable for additional tax and NI deductions, penalties and interest due to non-compliance with IR35 regulations.

1.1	Identification of affected suppliers

In anticipation of forthcoming changes to off-payroll working rules for public sector bodies, all strategic, service managers and schools were contacted by HR Admin & Payroll to provide details of potentially affected suppliers to HR Admin & Payroll for assessment. 1,541 lines of data were received initially, and as of November 2017 an additional 235 suppliers have been referred for assessment. The HR Admin & Payroll team reported in February 2018 that 34 assessments are currently outstanding. It should however be noted that to comply with the legislation, the status of particular types of supplier will require regular reassessment depending upon the type of work they are doing, and the personnel used to perform this work.

We were advised during this review that there was no review of the council's contract register to identify suppliers potentially affected by the legislation. Some initial work to review known vendors in the financial management system (SAP) was completed in relation to 174 vendors identified through the process explained above, however this did not result in any vendors being blocked (a status which ensures no payments can be processed). HR Admin & Payroll and Finance representatives confirmed that no comprehensive review of vendors has been completed in respect of IR35 due to the substantial number of vendors on SAP (noted to be approximately 30,000), and because it is not possible to apply a blanket block without completing additional checks for each vendor. A review is undertaken by the Exchequer team periodically to block vendors that have not been used in more than two years, but the most recent exercise was before the IR35 legislation

changed in April 2017. On this basis a decision has been made to review suppliers as they engage with SCC. However, if supplier affected by IR35 exist in SAP and have not been blocked, there is a risk they will be paid without necessary tax deductions being made. A specific risk exists around invoices which are successfully three-way matched, as these invoices will be paid without any intervention from the Exchequer team. During the review we saw evidence that both the Commercial & Procurement and Exchequer teams have referred suppliers to HR Admin & Payroll for assessment as these have been set up or invoices received. However, without a suitable control to reduce the risk posed by existing suppliers, there is a risk that payments will not be processed in accordance with the legislation and this could lead to SCC becoming liable for relevant income tax and NIC charges.			
1.1a Proposed Outcome:			**Priority 4**
We recommend that the Service Manager – Chief Accountant and Strategic Manager – HR Admin & Payroll identify a suitable method to limit the risk posed by existing vendors. This could include blocking of vendors that have not been used since the IR35 legislation was updated to prevent payments being made to them without a tax status assessment.			
Action Plan:			
Person Responsible:	Service Manager – Chief Accountant	Target Date:	In progress
Management Response:	The Finance team are starting a full review of all vendors that have not been paid prior to a certain date. This is expected to result in many hundreds of vendors being blocked. This is however not as straight forward as just applying the block as open purchase orders and other activities need to be considered and managed at the same time. Once complete it has been agreed that the list collated by the HR Admin and Payroll team as part of the initial personal service company data collection exercise will be matched to the remaining vendors. It is anticipated that this will show that the vendors who have required payment since April 17 were reviewed when they were re-engaged or invoices were processed.		

1.2	Record of assessments	
The primary method for collating data received from officers, monitoring assessment progress and recording assessment results has been the use of spreadsheets. Review of the spreadsheets identified that they have not always been completed in a consistent manner and hence could not be easily analysed. For instance, in one spreadsheet there is a 'assessment status' column for which the answers 'yes' and 'no' refer to whether Exchequer performed a check to see if they had any transactions in the previous twelve months, while the same column is used to determine whether assessments have been completed or are pending. We were advised that the spreadsheets have developed over a period of several months and not all entries have been reviewed as more columns had been added. We were informed during the review that there is an intention to share a list of assessed suppliers with services via SharePoint. There is a risk that a lack of clarity in source documentation could result in incorrect information being provided to service areas, or affected suppliers not being identified for assessment, meaning they may not be paid in the manner required by off-payroll working rules.		
1.2a	Proposed Outcome:	**Priority 3**
We recommend that the Strategic Manager - HR Admin & Payroll Services ensures that supporting		

spreadsheets are reviewed to ensure that assessment status and results have been clearly and consistently recorded.			
Action Plan:			
Person Responsible:	Strategic Manager – HR Admin & Payroll Services	Target Date:	Complete
Management Response:	HRAP are now using a One Note workbook to record and store information relating to assessment status and results in a clear and consistent manner.		

1.3	Appeals procedure	
We received evidence that standard letter templates have been prepared for agencies, partnerships, sole traders and personal service companies for notifying suppliers of the new legislation and their tax status assessment results. Each of the templates confirms that the recipient can challenge their assessment result by writing to HR Admin and Payroll Services. There is no documented appeals procedure, though through testing we observed that a common process is in place. Challenges from suppliers are also referred to in draft guidance yet to be issued to service managers (see 1.4) and while this confirms HR Admin and Payroll will provide support for any challenges, this does not outline an appeals procedure. Without a documented procedure, there is a risk that managers will not understand the procedure and hence the appeals process will not be applied consistently across the organisation, which could lead to complaints from suppliers.		
1.3a	Proposed Outcome:	**Priority 3**
We recommend that the Strategic Manager - HR Admin and Payroll Services introduces a documented procedure for IR35 assessment appeals; and that this is shared amongst all managers who will be responsible for completing tax status assessments.		

Action Plan:			
Person Responsible:	Strategic Manager – HR Admin & Payroll Services	Target Date:	Complete
Management Response:	Our decision letter does include details of who to contact if you do not agree with the decision. The process that follows is dependent on any additional information supplied but ultimately the status decision sits with the engager and the legislation supports this. The legislation does require us to put in writing why we have made the decision we have within 31 days of receiving a challenge, but generally we provide this information when informing the worker of our status decision if we believe them to be subject to the legislation. The guidance has been enhanced.		

1.4	Resource available for completing assessments
The HR Admin & Payroll service holds responsibility for the completion of tax status assessments for existing and new suppliers. As explained under 1.1, managers and school officers were asked to identify any known suppliers who could be impacted by the legislation, and a considerable number were identified. The HR Admin & Payroll service was previously part of Southwest One. When this contract ended in late 2016, staff who had been employed by SCC and seconded to Southwest One were returned to SCC employment, but there was an overall reduction in resource as other staff returning to other partners.	

We have found that though there have been instances of officers outside of the HR Admin & Payroll service completing assessments, the majority have been completed by one officer in this team. This officer was selected due to them previously being responsible for similar assessments for self-employed suppliers. However, we were informed during this review that managers could cover these responsibilities in the short term but there is not sufficient knowledge of the legislation within the service to cover in the long term. In the event of long term absence, there is a risk that tax status assessments will not be completed correctly or within reasonable timeframes. Subsequent delays in releasing payments to suppliers could result in cessation of services and reputational damage.

1.4a	Proposed Outcome:			Priority 3
We recommend that the Strategic Manager - HR Admin & Payroll Services reviews arrangements for completing tax status assessments to ensure there is sufficient cover available.				
Action Plan:				
Person Responsible:	Strategic Manager – HR Admin & Payroll Services	Target Date:	In progress	
Management Response:	Additional resource has already been introduced to support the process and an additional colleague will also be trained soon.			

1.5	Authorisation of assessment decisions			
We completed testing on a sample of assessments to establish whether there was evidence of senior officer review and authorisation of assessment decisions. Our testing established that evidence of authorisation was in place for only five of the 15 supplier assessments reviewed. Discussion with officers confirmed that there is no standard authorisation process and that, depending on the results of the tax status assessment, authorisation is not always required. For instance, if an assessment identifies that a supplier should be paid through the payroll system, this is discussed but not formally signed off. Though we were informed that all results are at least discussed, without documented authorisation there is no evidence to show this. Without documented evidence there is a risk assessments results may not be correct, and this could mean suppliers that tax and National Insurance deductions are not made where required by law.				
1.5a	Proposed Outcome:			Priority 3
We recommend that the Strategic Manager - HR Admin and Payroll Services ensures there is consistent process by which all tax status assessments are reviewed and authorised. This process should also incorporate authorisation requirements for tax status assessments undertaken outside of HR Admin and Payroll.				
Action Plan:				
Person Responsible:	Strategic Manager – HR Admin & Payroll Services	Target Date:	Complete	
Management Response:	The team are now using One Note to store or link to correspondence relating to assessments and decisions. As part of this the One Note page is notated by the HRAP authoriser following discussion with the processor. Assessments undertaken for Reed appointments, that are outside of IR35 are checked prior to instructing Reed, by HRAP and when assessments are undertaken by managers the results will be reviewed, where necessary challenged, and then stored in HRAP.			

1.6	Guidance for service managers

Though supplier employment status assessments have been carried out by the HR Admin & Payroll team since the change in legislation, in the long term the intention is for status assessments to be completed by service managers who engage suppliers before they are set up on the financial management system (SAP). Draft guidance has been produced to help facilitate this transition in responsibility. Review established that the guidance produced is comprehensive and clearly outlines the requirements for assessment and the potential implications if managers do not apply the guidance correctly.

Though the guidance was drafted in mid-2017, officers reported that there have been several amendments made to the HMRC Employment Status for Tax tool which have necessitated amendments to the guidance. This has prevented the guidance from being issued and has meant the HR Admin & Payroll team have retained the responsibility for completing assessments.

It is imperative that guidance be issued, and managers have a chance to familiarise themselves with this guidance before responsibility for assessment transfers to them. Without sufficient guidance, there is an increased risk that assessments will not be completed correctly, and this could result in penalties from HMRC.

1.6a	Proposed Outcome:	Priority 3

We recommend that the Strategic Manager - HR Admin & Payroll Services ensures that guidance is finalised and issued to all service and strategic managers before they become responsible for completing employment status assessments.

Action Plan:

Person Responsible:	Strategic Manager – HR Admin & Payroll Services	Target Date:	September 2018
Management Response:	The guidance will be finalised ready for launch at the Autumn Term schools ADL meetings. It will also be shared with the SCC Business Managers Group, for further circulation, at a similar time.		

1.7	Ongoing identification of third parties requiring assessment

During this review we met with representatives from the HR Admin & Payroll, Commercial & Procurement and Exchequer teams to establish the process by which third parties are highlighted to HR Admin & Payroll for assessment.

We observed that there are several ways that HR Admin & Payroll may be notified of third parties requiring a tax status assessment, including Commercial & Procurement approval of suppliers before they can be set up on SAP, a joint Payroll/Exchequer tax status enquiries email inbox and SAP Workcycle. We were also informed that the HR Admin & Payroll team had provided guidance to these teams on the legislative requirements and discussed potential procedural changes to ensure a tax status assessment is completed before a third party can be set up as a vendor on the financial management system (SAP). However, we were informed by representatives of Exchequer that their responsibilities within the identification process had not yet been formally defined and though they had received a draft process map this required refinement.

The responsibility for compliance with off payroll working rules does not lie with one service area and the council's success in ensuring compliance will be dependent on cross-service procedures operating effectively. If relevant parties are not aware of their responsibilities or these have not been defined, there is a risk that suppliers who are affected by these requirements will not be assessed and in turn this leads to SCC becoming liable for tax and national insurance deductions, as well as potential penalties.

1.7a	Proposed Outcome:			Priority 4
We recommend that the Strategic Manager - HR Admin & Payroll Services contacts relevant officers within the Commercial & Procurement and Exchequer teams to establish agreed and documented processes for referring new suppliers for assessment.				
Action Plan:				
Person Responsible:	Strategic Manager – HR Admin & Payroll Services	Target Date:	June 2018	
Management Response:	A meeting will be arranged to discuss this proposed outcome. However excellent working relationships between the teams, shared knowledge of the requirements and the many communications, discussions and sharing of the requirements with Council employees involved in the procurement process, across service areas, means that management do not believe this to be a priority risk in practice.			

2.	**Payroll Key Controls:** Employees are not paid, or are paid incorrectly.

2.1	Authorisation list

We checked a sample to ensure that each new starter and contract change had been authorised in line with the authorisation list. Whilst each form had been authorised, ten instances were identified where the authorisation list requires updating. It was also identified that two starter forms had been authorised by Team Managers who were not authorised to make permanent changes. If the authorisation list is not kept up to date, there is an increased risk that permanent and temporary changes may be inappropriate or incorrect.

2.1a	Proposed Outcome:	**Priority 3**

We recommend that the Strategic Manager - Admin & Payroll Services ensures that the authorisation list is regularly reviewed and kept up to date.

Action Plan:

Person Responsible:	Strategic Manager – HR Admin & Payroll Services	Target Date:	July 2018
Management Response:	All schools have been contacted to update their information and we are now chasing those that have not yet responded. The SCC Business Managers are supporting us with the Council signatories and we are working towards a fully updated list during July.		

2.2	Honorarium and higher-grade payments

The HR Honorarium Policy previously in place was suspended on the 31st March 2013. However, a report run by the HR and OM Team in December 2017 showed 44 active payments in place across different service areas with an honoraria wage type, all with a start date after 2013. 42 of the payments relate to higher grade work, one to project work and one is marked 'other.' The reasons these payments are in place is not recorded on the report and have not been investigated as part of this review.

Payments with an honoraria wage type can be requested through a Personnel Change Request (PCR) on SAP. As of April 2018, only two types of honoraria can be processed this way, and the HR Admin and Payroll team implement requests if the requester is the applicable manager within the SAP organisation structure.

A separate Salary Policy (2014) exists and refers to payments for Acting Up in a Higher Graded Post. It states that a payment may be offered when an individual has undertaken 25 per cent of the duties of the higher graded post for at least four weeks, however there is no guidance on how the payments should be authorised or monitored.

Of the payments currently in place, we found six did not have end dates, and three of these payments had been in place for over two years. We have been informed that it is possible to process a request without a specified end date by entering 31/12/9999 onto the PCR. The HR Advisory team were not aware of these payments and they were not being monitored.

If additional payments are processed without end dates and authorisation requirements are not defined, there is a risk that payments may be set up inappropriately and a further risk that the member of staff will continue to receive payments even when they are no longer justified.

<table>
<tr><td>2.2a</td><td colspan="3">Proposed Outcome:</td><td>Priority 3</td></tr>
<tr><td colspan="5">We recommend that the Director of HR and OD ensures that the Salary Policy includes guidance on authorisation requirements for honorarium payments and communicates this to service managers and the HR Admin & Payroll team. The payments identified should be investigated to establish why they are in place, how the level of payment has been calculated and when the payments are expected to cease, where this is not already clear. Payments without a specified end date should not be processed. Checks should be performed on a regular basis to confirm that all additional payment arrangements have recorded end dates.</td></tr>
<tr><td colspan="5">Action Plan:</td></tr>
<tr><td colspan="2">Person Responsible:</td><td>Strategic Manager – HR Admin & Payroll Services</td><td>Target Date:</td><td>June 2018</td></tr>
<tr><td colspan="2">Management Response:</td><td colspan="3">This proposed outcome will be discussed with the policy team so that a review of the guidance can be considered and current reports will be run and where necessary, managers asked to provide further information to support the payment. The narrative on the PCR MSS screen will be amended to remind managers to include an end date when setting up honoraria.</td></tr>
</table>

Audit Framework and Definitions

Assurance Definitions	
None	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.
Partial	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.
Reasonable	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.
Substantial	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.

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

Categorisation of Recommendations	
When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors, however, the definitions imply the importance.	
Priority 5	Findings that are fundamental to the integrity of the unit's business processes and require the immediate attention of management.
Priority 4	Important findings that need to be resolved by management.
Priority 3	The accuracy of records is at risk and requires attention.
Priority 2 and 1 Actions will normally be reported verbally to the Service Manager.	

Support and Distribution

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Support

We would like to record our thanks to the following individuals who supported and helped us in the delivery of this audit review:

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North Dorset District Council
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Statement of Responsibility

Conformance with Professional Standards

SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Auditing Standards.

SWAP Responsibility

Please note that this report has been prepared and distributed in accordance with the agreed Audit Charter and procedures. The report has been prepared for the sole use of the Partnership. No responsibility is assumed by us to any other person or organisation.

Somerset County Council
Audit Committee
– 20 September 2018

SWAP Audit - Use of Part Time Timetables

Lead Officer: Dave Farrow, Head of Outcomes and Sufficiency
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Cabinet Member: Faye Purbrick
Division and Local Member: All

1. Summary

1.1. In December 2016 the Local authority agreed a Protocol setting out what was considered to be best practice in relation to the application of Part Time Timetables with school representatives through the Somerset Education Partnership Board (SEPB). This was considered necessary because of evidence of an increasing use of part time timetables in schools and the associated concerns in relation to the statutory compliance, safeguarding and educational achievement.

After a year in place it was considered appropriate to audit the arrangements set out in the Protocol to assess impact and compliance. The findings are set out in the Audit report which is attached as Appendix A.

2. Issues for consideration / Recommendations

2.1. The Audit report made a number of recommendations and these along details of action taken to date are set out in Appendix B to this paper.

3. Consultations undertaken

3.1. A first draft of a revised Protocol was considered by the SEPB at its meeting on the 11 July 2018. Feedback was provided which needed to be incorporated in to the Protocol which will be resubmitted to the SEPB meeting on the 11 October for final approval. The changes proposed did not affect the core principles of what we are trying to achieve but were more about clarity and use of language

4. Implications

4.1. The revised Protocol will provide additional protections to vulnerable pupils and ensure that schools have clarity about when the use of a Part Time Timetable is appropriate and what actions they need to take when applying one. It will also enable the Local Authority to provide greater challenge to schools where appropriate.

5. Background papers

5.1. None

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

Use of Part-time Timetables in Schools 2017-18

Final Report

Issue Date: 21st May 2018

Working in Partnership to Deliver Audit Excellence

Contents

Executive Summary

This section provides an overview for senior management to understand the main conclusions of this audit review, including the opinion, significant findings and a summary of the corporate risk exposure.

Findings and Outcomes

This section contains the more detailed findings identified during this review for consideration by service managers. It details individual findings together with the potential risk exposure and an action plan for addressing the risk.

Appendices:

- Audit Framework Definitions
- Support and Distribution
- Statement of Responsibility

Executive Summary

Overview

As part of the 2017/18 audit plan a review has been undertaken to assess the adequacy of the controls and procedures in place across a sample of schools in Somerset for part-time timetables.

The Department for Education (DfE) 'School Attendance' guidance (November 2016) states that:

> *All pupils of a compulsory school age are entitled to a full-time education. In very few exceptional circumstances there may be a need for a temporary part-time timetable to meet a pupil's individual needs... A part-time timetable must not be treated as a long-term solution. Any pastoral support programme or other agreement must have a time limit by which point the pupil is expected to attend full-time or be provided with alternative provision.*

The use of a part-time timetable for a child of compulsory school age is not technically legal, though the Education Act 1996 states that part-time education is acceptable where this is in their best interests because of their health needs.

Following a consultation, Somerset County Council issued the *Somerset Protocol on the Use of Part-time Timetables* in December 2016. The Protocol outlines the Council's position on part-time timetables and defines the practice that must be followed by all schools in Somerset, including academies and pupil referral units (PRUs).

This review is intended to identify the degree to which schools comply with the requirements of the Somerset Protocol and to assist management in identifying areas where further work is needed to ensure the use of part-time timetables is appropriate.

Objective

To ensure that all children of compulsory school age, within the Authority's area of responsibility, are accessing their full entitlement to education and are safe.

Significant Findings

Finding:	Risk:
During the review the Local Authority developed a new report which can identify children who are likely to be on a part-time timetable, but a procedure for challenging schools is not yet in place. Schools are not required to notify the Education service when a part-time timetable is implemented.	Monitoring and challenge is not sufficient to identify children whom should not be on a part-time timetable, which reduces their educational outcomes.
The required procedure outlined in the Somerset Protocol for part-time timetables is not appropriate in all circumstances, particularly where a child is recognised as having higher support needs.	A lack of guidance for specific circumstances reduces the effectiveness of the Protocol, meaning schools either cannot or may not follow best practice guidelines.
Only 4 of 21 children who were, or had been, on a part-time timetable had a Pastoral Support Plan (PSP) in place. The remaining children	It is not clear whether other forms of support plans are acceptable alternatives for a PSP. This may lead to schools deciding to rely on existing

either did not have a support plan or schools placed reliance on plans created by other agencies. The Protocol does not confirm whether other plans are acceptable substitutes for a PSP.	plans or duplicating the content of existing plans to meet this requirement. Production of a new assessment where others exist may not be an efficient use of time for schools.
We did not observe any instances of schools completing risk assessments or safeguarding agreements with alternative education providers. Only one school were found to be including safeguarding responsibilities in their agreement with parents.	If schools do not have appropriate agreements and risk assessments in place, there is a risk they and by extension the Local Authority may be held responsible if a child were to be harmed during school hours. This could lead to significant reputational damage.
Documented parental agreement to a part-time timetable was only evident in 9 of 17 cases reviewed.	A lack of support for the part-time timetable by parents may lead to reduced educational outcomes and an increased risk of legal challenge.

Audit Opinion:	Partial

We can 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.

A key objective of this audit was to determine the extent to which schools in Somerset are complying with the Somerset Protocol. Our review has established that no schools visited fully complied with the Somerset Protocol for several reasons, most pertinently:

- Schools not being aware of the Somerset Protocol;
- Schools not consistently completing Pastoral Support Plans;
- Schools not obtaining recorded parental agreement from parents;
- Schools not having recorded safeguarding agreements with parents and alternative education providers, or risk assessments in place.

As explained under Findings and Outcomes, most of these weaknesses relate to a lack of awareness of the Somerset Protocol and the procedures described in the Protocol not being appropriate for all circumstances which can lead to a part-time timetable. Our discussions with school representatives did not identify any clear instances where a part-time timetable had been used inappropriately, however the Somerset Protocol requires revision and supporting templates to assist schools in conforming with its requirements.

Well Controlled Areas of the Service

- Schools explained and were able to demonstrate that they would work closely with other agencies to achieve the best outcomes for the child. This includes Local Authority departments such as the Education Welfare Service, Children's Social Care and the Virtual School, as well as CAMHS, GPs, hospitals and alternative education providers.
- All schools were able to identify a member of staff with overall responsibility for attendance monitoring as well as monitoring of part-time timetables.
- Though some minor errors were identified, we found that attendance was being coded correctly in most instances.

Corporate Risk Assessment		
Risks	Inherent Risk Assessment	Auditor's Assessment
1. Children of compulsory school age in the Local Authority's area who are not accessing their full entitlement to education are at significant risk of underachieving, being victims of harm, exploitation or radicalisation, and becoming NEET (Not in Education, Employment, or Training) in later life.	**High**	**Medium**

Findings and Outcomes

Method and Scope

This audit has been undertaken using an agreed risk-based approach. This means that:

- the objectives and risks are discussed and agreed with management at the outset of the audit;
- the controls established to manage risks are discussed with key staff and relevant documentation reviewed;
- these controls are evaluated to assess whether they are proportionate to the risks and evidence sought to confirm controls are operating effectively;
- at the end of the audit, findings are discussed at a close-out meeting with the main contact and suggestions for improvement are agreed.

A sample of seven schools, including academies, PRUs and primaries, was selected. As Somerset County Council did not have any data to identify children on part-time timetables, sample selection was determined based on attendance data, with focus being placed on schools with significant use of attendance codes B (off-site educational activity) and C (authorised absence). The Somerset Protocol requires all absences for sessions authorised through a part-time timetable to be coded C.

We visited each of the seven schools, with visits taking place between 7th December 2017 and 21st February 2018. Though each school has been provided with feedback regarding areas for improvement, we recommend that Somerset County Council share the findings of this report with all schools in Somerset. The total sample comprised 58 children, though only 24 children were found to have or have had a part-time timetable. Not all children selected were fully assessed as in some instances they were no longer on the roll of the school and paperwork was no longer available, or they had moved into home education.

As the focus of this audit was overall compliance with the Somerset Protocol and accurate coding of attendance, we have not provided an assessment on whether part-timetables found to be in place at the schools visited were justifiable or suitable to improve outcomes.

1.	Children of compulsory school age in the Local Authority's area who are not accessing their full entitlement to education are at significant risk of underachieving, being victims of harm, exploitation or radicalisation, and becoming NEET (Not in Education, Employment, or Training) in later life.	**Medium**

1.1 Central monitoring of part-time timetables

At the onset of the review the Local Authority did not have a method for central identification of children on part-time timetables. Though a report to identify children who had attended less than 90% of sessions in the previous twelve weeks was available, and this provided a breakdown number of sessions in that period assigned to particular attendance codes, our review identified that because the authorised absence code can be used legitimately in other circumstances, the available data cannot be reliably used to identify where part-time timetables are in place.

Since the final audit visit was completed in February 2018, the Local Authority has developed a new report which identifies all children who have had at least one session B- or C-coded in the preceding six weeks. The report includes a breakdown by school with a graphical display of each child's attendance coding, so trends can be identified. This more targeted report should allow the Local Authority to identify children with significant levels of authorised absence, though a procedure to challenge schools based on this report has not yet been agreed.

The Somerset Protocol requires schools to engage with both the Team Around the School and Early Help Assessment process before a part-time timetable can be agreed, and in some cases, agreement must be sought from the Virtual School and SEN teams before this can go ahead. The Protocol does not currently stipulate that the Education service should be notified when a part-time timetable commences or contribute to the decision.

A notification requirement and a documented system for challenging schools would further improve the Local Authority's ability to maintain oversight on the use of part-time timetables. Without this, there is a risk that children could be put onto part-time timetables inappropriately and this could negatively impact their educational outcomes.

1.1a	Proposed Outcome:	Priority 4

We recommend that the Head of Educational Outcomes establishes a procedure for monitoring and challenging schools identified as having children with significant levels of authorised absence. This could include monitoring of part-time timetables against referrals to Team Around the School and for Early Help Assessment. The Somerset Protocol should be amended to include a requirement for schools to notify the Education service of part-time timetables and provide a justification for these as they are agreed.

Action Plan:

Person Responsible:	Head of Outcomes and Sufficiency	Target Date:	31 August 2018
Management Response:	We are currently developing a mechanism for feeding a range of additional information in to our Schools Causing Concern Process (SCCP) and this will one element of that information. EWS will be using this information in its conversations with schools from June onwards and the SCCP will begin to monitor from September.		

1.2 Use of the Protocol

All schools and academies in Somerset are expected to follow the Somerset Protocol on the use of part-time, reduced timetables, which was made available to schools in December 2016.

Each of the seven schools visited had at least one child on a part-time timetable. Officers from three of these schools reported that they were not aware of the Somerset Protocol, while another reported that they were aware of the Protocol but only used it for guidance purposes. One school visited has used the Protocol as the basis for its own protocol, which includes all the Somerset Protocol requirements as well as a documented internal procedure.

The Protocol outlines the following requirements for a part-time timetable to be permissible:

- The school must have explored all other options to allow the child to attend on a full-time basis, including referral to Team Around the School, discussion with specialist support services and/or referral to the Panel for Excluded and Vulnerable Pupils (PEVP);
- There has been a Team Around the Child (TAC) meeting and it is agreed by all parties, including the parent or carer, that a part-time timetable is appropriate for the child concerned and this is recorded. For Children Looked After (CLA) or children with an Education Health and Care Plan (EHCP), the part-time timetable must also be agreed with the Virtual School or SEN Casework team, respectively;
- A Pastoral Support Plan (PSP) in put into place and is regularly reviewed;
- The school completes a written safeguarding agreement with the parent or carer and, if applicable, the alternative education provider, to confirm the responsibility for safeguarding lies with them when the child is not expected to attend school. A risk assessment should also be completed.

Though the SCC Protocol has been in place for over a year, we did not identify any instances where each of the requirements had been met based upon the guidance currently given. Detailed findings about key areas of non-compliance follow this section.

One potential issue identified through discussion with school officers is that the Protocol does not provide any information about the steps schools should take where a child's support arrangements exceed the Early Help mechanisms referred to in the Protocol. For instance, if Children's Social Care is already supporting a child who is about to be put on a part-time timetable, the Protocol indicates an Early Help Assessment and Team Around the Child meeting should be completed even though these tools are intended to support children with lower identified needs. We have noted through online research that there are examples of other local authorities, such as Swindon Borough Council, who have clarified steps that should be taken in specific circumstances, such as children with Child Protection plans.

If the Protocol does not provide sufficient guidance to cover children in different circumstances, there is a risk that schools will not follow best practice, and this will impact on educational outcomes for affected children.

1.2a	Proposed Outcome:		Priority 4
We recommend that the Head of Educational Outcomes revises the Somerset Protocol to provide further guidance on expectations for children whose support needs exceed Early Help procedures. The Somerset Protocol should be then reissued to all Somerset schools and promoted through a mixture of methods, including direct email, iPost, governor newsletters, Education Welfare Officers and designated teacher meetings.			
Action Plan:			
Person Responsible:	Head of Outcomes and Sufficiency	Target Date:	31 August 2018
Management Response:	The protocol will be redrafted and presented to the Somerset Education Partnership Board at its July meeting for implementation from September 2018		

1.2b	Proposed Outcome:		Priority 3
We recommend that the Head of Education Outcomes creates a Protocol Checklist which encompasses the main requirements of the Protocol and allows schools to record evidence of compliance at each stage of the process. This form could also form part of the notification process recommended under 1.1a.			
Action Plan:			
Person Responsible:	Head of Outcomes and Sufficiency	Target Date:	31 August 2018
Management Response:	Agreed. Will be produced alongside re-drafted protocol		

1.3 Pastoral Support Plans

The Somerset Protocol confirms that for all children on a part-time timetable there must be a Pastoral Support Plan (PSP) in place which includes:

- how work will be provided to the pupil whilst they are not on the school site;
- how progress will be monitored and reported;
- how the pupil's safety will be assured when they are not on the school site (see 4.2.4 below); and
- a time limit by which point the pupil is expected to attend full-time, with appropriate targets to gradually increase attendance during the period agreed, which must not exceed six school weeks.

Though the Somerset Protocol requires schools to meet several requirements, such as the PSP, the

Local Authority has not produced any materials in the form of suggested templates to assist schools in meeting these requirements. During visits we found that most of the schools had developed or were using their own templates in place of a PSP, however these did not always meet all the requirements of the Protocol considering the points above, and the need for parental and safeguarding agreements. If schools do not use a consistent template there is a risk that necessary information may not be captured in plans, which could lead to issues when children transition between schools. 21 children in our test sample that had or had been on a part-time timetable were tested to verify if there was a PSP in place. Four children were found to have a PSP equivalent plan in place, however the remaining children did not. In most instances, this was because there were other arrangements or plans in place which the schools felt superseded the PSP, such as Education Health and Care Plans, SEN statements, social care involvement, Personal Education Plans, home education and medical care plans. One school visited was a pupil referral unit and it did not have PSPs as higher-level assessments had already been completed, while representatives from two other schools specifically stated a desire not to duplicate assessments already completed. We have found through online research that there are examples of other local authorities, such as Derbyshire County Council, who accept alternative assessments as long as they are multi-agency. Though the Protocol states that a PSP must be in place for a part-time timetable to go ahead, it does not indicate whether reliance can be placed on existing assessments or plans schools are already aware of. Production of a new assessment where others exist may not be an efficient use of time for schools.			
1.3a	Proposed Outcome:		**Priority 4**
We recommend that the Head of Educational Outcomes reviews the Somerset Protocol to clarify whether schools must produce a PSP in all instances or whether reliance can be placed on existing assessments if they meet the same criteria. If this option is taken, the Somerset Protocol should state that schools must retain a copy of this assessment on the child's file and use it as the basis for regular review.			
Action Plan:			
Person Responsible:	Head of Outcomes and Sufficiency	Target Date:	31 August 2018
Management Response:	Agreed		
1.3b	Proposed Outcome:		**Priority 3**
We recommend that the Head of Educational Outcomes ensures that templates to support schools in using the Somerset Protocol are introduced and promoted to schools. This should include templates for a Pastoral Support Plan, parental agreement form, a part-time timetable risk assessment and a written safeguarding agreement for parents and alternative education providers.			
Action Plan:			
Person Responsible:	Head of Outcomes and Sufficiency	Target Date:	30 September 2018
Management Response:	Agreed		

1.4	Parental agreement, safeguarding agreement and risk assessment
The Somerset Protocol states under 4.2.2 that a part-time timetable should not proceed without recorded agreement from a parent or carer. Our testing identified that three schools visited during the audit that had children on part-time timetables were not obtaining recorded agreement from a parent or carer. If schools do not seek documented permission from parents and carers to place their children on part-time timetables,	

there is reduced assurance that such arrangements will be supported at home, which could undermine achievement of outcomes, as well as an increased risk of legal challenge.

Furthermore, clause 4.2.4 of the Protocol states:

> *Schools must ensure that when a pupil is not expected to attend, there is a written agreement with parents or alternative education providers about who is carrying out the duty of safeguarding for each session. To this end a risk assessment should be carried out prior to implementation of the arrangement which must address:*
>
> - *an assessment of the safety and wellbeing of the child*
> - *any Child in Need/Child Protection concerns*
> - *the risk of the pupil engaging in criminal activity*
> - *the risk of substance misuse, child sexual exploitation or other such issue, while not in receipt of education during the day.*

Though we observed that four schools had mechanisms in place to capture parental agreement, this was not evident at other schools and only one school had included safeguarding responsibilities for when the child is not attending school in their procedures. We did not observe any instances in which schools had completed a safeguarding agreement with alternative education providers or a risk assessment as described by the Protocol for the children in our sample, though two schools referred to risk assessments being completed by other agencies such as Children's Social Care. The Protocol indicates schools must complete risk assessments but does not clarify whether reliance can be placed on existing assessments from other agencies.

If schools do not complete safeguarding agreements and risk assessments, there is a risk that schools and potentially the Local Authority may be held responsible in the event a child is harmed during school hours, which could lead to significant reputational damage.

A recommendation to address the lack of a template has been made under 1.3b.

1.4a	Proposed Outcome:	Priority 4

We recommend that the Head of Educational Outcomes introduces a process by which schools are required to provide evidence of parental agreement, risk assessments and safeguarding agreements undertaken for all part-time timetables when requested. This could form part of the notification process recommended under 1.1a.

Action Plan:

Person Responsible:	Head of Outcomes and Sufficiency	Target Date:	31 August 2018
Management Response:	Agreed		

1.5	Absence coding

Our review identified examples at three schools where absence had been coded incorrectly for children with part-time timetables, though all schools reported that they were aware of the DfE School Attendance guidance document. All schools used SIMS to record attendance and attendance records include a summary of the codes available. One school also pointed out that SIMS has a code index which the school used to ensure the correct codes were selected.

During our audit we checked a sample of 51 cases to ensure attendance coding was correct. It should be noted that in some instances the circumstances of the part-time timetable, specifically cases of a very complex nature and cases subject to very frequent review, made this difficult to judge accurately. The sample included 21 children who were or had previously been on a part-time timetable. We found coding to be correct in 44 cases. Of the seven other cases:

- Three children (all attending the same school) had part-time timetables however the school had coded all expected absences as B. The school was aware of these errors however have not changed the records as the census date has now passed.
- For one child only two days per week of off-site education had been coded B, though three days were being accessed.
- For one child their off-site education sessions had been coded C, though this should have been B.
- For one child absence had been C coded where the family would not allow the child to come to school and did not allow education providers to perform visits. This should have been O coded.
- For one child who was dual registered with a PRU, their school coded the PRU sessions as C however this should have been code D.

While we found that attendance had been coded correctly in most instances and that there was evidence that most of the schools consulted their Education Welfare Officer when needed, if attendance is not correctly recorded there is reduced assurance that the Local Authority submits accurate data to the DfE. As noted under 1.1 the Local Authority does not currently have a method for identifying children on part-time timetables other than using attendance data, so incorrect recording also reduces the ability of the Local Authority to monitor effectively.

1.5a	Proposed Outcome:		Priority 3
We recommend that the Head of Educational Outcomes contacts all Somerset schools to remind them of coding requirements for part-time timetables. This could be achieved by re-issuing a revised Somerset Protocol as recommended under 1.1a.			
Action Plan:			
Person Responsible:	Head of Outcomes and Sufficiency	Target Date:	30 September 2018
Management Response:	Agreed		

Audit Framework and Definitions

Assurance Definitions	
None	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.
Partial	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.
Reasonable	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.
Substantial	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.

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

Categorisation of Recommendations	
When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors, however, the definitions imply the importance.	
Priority 5	Findings that are fundamental to the integrity of the unit's business processes and require the immediate attention of management.
Priority 4	Important findings that need to be resolved by management.
Priority 3	The accuracy of records is at risk and requires attention.
Priority 2 and 1 Actions will normally be reported verbally to the Service Manager.	

Support and Distribution

Report Authors

This report was produced and issued by:

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Jenny Frowde, Senior Auditor
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Support

We would like to record our thanks to the following individuals who supported and helped us in the delivery of this audit review:

Ellie Dalwood, County Education Welfare Manager
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Distribution List

This report has been distributed to the following individuals:

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Working in Partnership with

Cheltenham Borough Council
Cotswold District Council
Devon & Cornwall Police & OPCC
Dorset County Council
Dorset Police & OPCC
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West Dorset District Council
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Statement of Responsibility

Conformance with Professional Standards

SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Auditing Standards.

SWAP Responsibility

Please note that this report has been prepared and distributed in accordance with the agreed Audit Charter and procedures. The report has been prepared for the sole use of the Partnership. No responsibility is assumed by us to any other person or organisation.

SWAP Audit on the use of Part Time Timetables in Schools 2017/18

Proposed Outcome	Action to Date
1.1.a We recommend that the Head of Educational Outcomes establishes a procedure for monitoring and challenging schools identified as having children with significant levels of authorised absence. This could include monitoring of part-time timetables against referrals to Team Around the School and for Early Help Assessment. The Somerset Protocol should be amended to include a requirement for schools to notify the Education service of part-time timetables and provide a justification for these as they are agreed.	Data reports have been developed that enable us to identify schools that have a high level of authorised absence along with other indicators which might suggest that pupils are not receiving the education they are entitled to i.e. exclusion rates, home education numbers etc. These will be monitored though the LA's Phase Strategy Groups and discussions will be held with schools where the numbers seem to indicate a concern. We will also be providing the information to Teams Around the School so that they can ensure that schools are referring cases appropriately to allow support to be put in place. This will be monitored through the Contract Management meetings that will be commending during the Autumn term 2018. We are still considering how we apply the last element of the Proposed Outcome as there is insufficient resource centrally to monitor additional notifications over and above them being recorded on the Management Information System and it is not a statutory requirement for schools to notify the LA when they put a Part Time Timetable in place.
1.2.a We recommend that the Head of Educational Outcomes revises the Somerset Protocol to provide further guidance on expectations for children whose support needs exceed Early Help procedures. The Somerset Protocol should be then reissued to all Somerset schools and promoted through a mixture of methods, including direct email, iPost, governor newsletters, Education Welfare Officers and designated teacher meetings.	The Protocol is being revised to take this in to account and will be resubmitted to the SEPB on the 11 October for final approval. Once approved schools will be notified of the changes asset out in the Proposed Outcomes.

1.2.b We recommend that the Head of Education Outcomes creates a Protocol Checklist which encompasses the main requirements of the Protocol and allows schools to record evidence of compliance at each stage of the process. This form could also form part of the notification process recommended under 1.1a.	A checklist has been designed and forms part of the Protocol.
13.a We recommend that the Head of Educational Outcomes reviews the Somerset Protocol to clarify whether schools must produce a PSP in all instances or whether reliance can be placed on existing assessments if they meet the same criteria. If this option is taken, the Somerset Protocol should state that schools must retain a copy of this assessment on the child's file and use it as the basis for regular review.	The Protocol has been re-drafted to reflect this
1.3.b We recommend that the Head of Educational Outcomes ensures that templates to support schools in using the Somerset Protocol are introduced and promoted to schools. This should include templates for a Pastoral Support Plan, parental agreement form, a part-time timetable risk assessment and a written safeguarding agreement for parents and alternative education providers.	Templates have been designed in accordance with this recommendation and included in the revised Protocol
1.4.a We recommend that the Head of Educational Outcomes introduces a process by which schools are required to provide evidence of parental agreement, risk assessments and safeguarding agreements undertaken for all part-time timetables when requested. This could form part of the notification process recommended under 1.1a.	As set out in relation to Proposed Outcome 1.1a there is insufficient capacity centrally to do this for each occasion a Part Time Timetable is put in place. The proposed approach is that we will review documentation on a sample basis through the Education Welfare Service when they carry out visits to schools. Where appropriate documentation is not in place an escalation process will be established to ensure compliance with The Protocol which will include referral to the Phase Strategy Group if compliance is not forthcoming
1.5.a We recommend that the Head of Educational Outcomes contacts all Somerset schools to remind them of coding requirements for part-time timetables. This could be achieved by re-issuing a revised Somerset Protocol as recommended under 1.1a.	The revised Protocol contains advice on appropriate coding of absence.

Somerset County Council
Audit Committee
20 September 2018

Debtor Management Update

Service Director: Peter Lewis, Interim Director of Finance
Lead Officer: Martin Gerrish, Strategic Manager – Financial Governance
Author: Martin Gerrish, Strategic Manager – Financial Governance and Lizzie Watkin
Contact Details: tel (01823) 355303 or mgerrish@somerset.gov.uk
Cabinet Member: Cllr Mandy Chilcott for Resources
Division and Local Member: All

1. Summary/link to the County Plan

1.1. This report incorporates an update to the Audit Committee in relation to the previous Partial audit on Debtor Management and provides information on the latest debt position and performance. Prompt and successful collection of money owed to the County Council is an important part of effective financial control.

1.2. There is also a response to the specific question asked at June's Audit Committee in relation to the use of bailiffs.

2. Issues for consideration

2.1. Members are asked to consider the progress in relation to the auditor's recommendations on the SWAP audit (Appendix 1).

2.2. Members are asked to consider the current debt collection performance and the outstanding debts owed to the County Council (Appendix 2).

3. Background Information

3.1. A debtor management audit is included in the Internal Audit Plan every year. Members will recall that for the last 2 financial years, in response to where the acknowledged risks appeared to be, the concentration has been less on the use of SAP system, and more emphasis has been placed on the service users (Debt Chasers) and their work.

3.2. In response to previous internal audit findings, a new Income Code of Practice was drawn up, and was endorsed by the Audit Committee at its public meeting of November 2017. It was explained that that the new Code was focussed on ensuring future changes had a positive impact to tighten up and simplify the existing procedures. Following Audit Committee, the Code was rolled out to all Accounts Receivable staff and users.

3.3. The audit attached at Appendix 1 shows that the majority of agreed actions from the last audit had already been completed by the time the next audit was delivered and finalised in April 2018. (The audit attached was carried out relatively quickly after the Code was launched). There are however a few recommendations made within this audit report, where further improvements are needed. Officers welcomed the report, because it provides useful intelligence on where to concentrate the Accounts Receivable Team's efforts to ensure that service users are performing their roles in accordance with the Code and good practice. Accounts Receivable staff have, and continue to have, training sessions with particular service areas to improve compliance.

Specific responses to this audit report are included within the document itself, under the heading "September 2018 Update" in each case.

3.4. It was always the intention that the Income Code of Practice would be reviewed and improved once it has been implemented, to ensure that it continued to be the most effective guidance for service users. A further audit of Debtor Management is about to commence, and when this has reported (Quarter 4), then the Code will be reviewed in light of all the audits undertaken, and including the thoughts of the Accounts Receivable Team and users.

3.5. Appendix 2 is the regular report to Audit Committee of the debt recovery performance, focussing particularly on the aged debts. Performance as reported in June was particular strong, but unfortunately, we have fallen back slightly since. As ever, the figures can easily be distorted by the presence of a relatively small number of large, difficult to collect debts, which is clearly an issue in recent months. The category of debtors may not be a surprise to Audit Committee members. Members are reminded that the County Council regularly collects over 99% of the net debt that it raises.

3.6. At the June Audit Committee meeting, a specific request was made for information on the County Council's use of bailiffs as a method of debt collection. This is particularly timely, as a Treasury Committee report and National Audit Office study have both warned public bodies against aggressive use of bailiffs to pursue debts. (The study highlighted the knock-on effect this can have on residents' mental health and the eventual cost to local authorities of increased use of public health services, or the provision of more emergency and social housing for those made homeless).

The County Council does use bailiffs for some limited debt collection work, but only in specific circumstances. For us to consider engaging a bailiff, the County Council would need to have a Court Order for payment, but where we have not received payment or even a response from the debtor. As members will appreciate, only a very small fraction of our debts ever reaches the courts, particularly under the Pre-Action Protocol for individuals. Moreover, if Court Orders are obtained this is often sufficient for the debtor to commence payments. In addition, the Legal Debt Recovery Team has to judge whether the additional step of issuing a warrant and employing a bailiff is actually cost effective. With each warrant costing £110, if the debtor cannot be traced or has no funds then this becomes an additional cost to write-off.

Previous use of bailiffs has not been particularly successful, with bailiffs reporting that they are often not allowed peaceful entry to a property to assess whether the debtor has goods on which a levy can be made, or in some cases that the debtor is no longer resident at that address (we are obliged to have strong evidence of residency at an address before re-issuing a warrant).

As a result, there are currently only 9 instances where a bailiff is being used to pursue a debt on behalf of the County Council.

4. Consultations undertaken

4.1. Internal officers only.

5. Implications

5.1. Effective debt collection will ensure that monies owed to the County Council are collected fully and promptly. Failure to follow approved debt collection procedures risks cashflow losses as debts are not collected promptly, and even that debts become written off.

6. Background papers

6.1. Previous SWAP and Debtor Management reports to Audit Committee.

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

SOMERSET County Council

SWAP SOUTH WEST AUDIT PARTNERSHIP Delivering Audit Excellence

Debt Management 2017/18

Final Report

Issue Date: 5th April 2018

Working in Partnership to Deliver Audit Excellence

Contents

Executive Summary

- This section provides an overview for senior management to understand the main conclusions of this audit review, including the opinion, significant findings and a summary of the corporate risk exposure.

Findings and Outcomes

- This section contains the more detailed findings identified during this review for consideration by service managers. It details individual findings together with the potential risk exposure and an action plan for addressing the risk.

Appendices:

- Audit Framework Definitions
- Support and Distribution
- Statement of Responsibility

Executive Summary

Overview

As part of the 2017-18 audit plan a review has been undertaken to assess the adequacy of the controls and procedures in place for debt management across Somerset County Council. The achievement of good performance in this area is linked to the Council's County Plan in relation to "bring in more funding and resources". The audit was required due to a Partial assurance opinion in the 2016-17 review and following a revised SCC Code of Practice for Income Management, published in November 2017. This audit has therefore focussed on debt recovery activity in the period between the previous and improved Code of Practice.

The net outstanding debt figure at the end of January 2018 was £14.326m, which has risen from £11.083 since the end of October 2017. The amount for the 2016-17 end of year was £10.583m, but such fluctuations are fairly typical, due to the raising of invoices of significant value at specific points throughout the financial year.
However, the overall performance for collecting debt at the end of 2016-17 was more favourable than the current position at 99.8%, which is consistent with the performance at the end of 2015/16.

Aged debts are classified as those over 90 days and there is a corporate target for these debts to not exceed 15% of total debt. The total amount of aged debt has exceeded this target throughout 2017-18 and at October 2017 the figure was 22.02% (total £2.441m). This represents a 10% increase compared to the same point in the previous year, but a significant proportion is due to a number of debts over £10,000 (total £1.7394m). In June 2017, the Audit Committee were asked to consider the introduction of the new Pre-Action Protocol introduced by the Ministry of Justice and to support a proposed action plan to mitigate the impacts on the Council. The suspension of the target that no more than 15% of debt should be over 90 days old, was also agreed by Audit Committee.

There was also a relatively low amount of debt reported as written-off during the year, at £0.122m, giving a 99.86% collect rate, which is consistent with the previous years' performance.

The control framework for debt management includes a published Income Code of Practice, which is supplemented by an Authorisation List of staff who are permitted to approve certain transactions.
The financial management system, SAP, is used to produce reports that identify outstanding and aged debts and there is a lead officer in each service who is responsible for compiling debt reports and supplementary information on a monthly basis.
Debts are also reported at corporate and committee level, with reports presented to both Cabinet and Audit Committee on a regular basis.
SAP has additional functionality to identify debts that should not be subject to recovery action, which places a system hold on the debt and supresses automatic reminders from being issued to the debtor. Debts that cannot be pursued can also be processed as a write-off on SAP.
Current procedures require that debts exceeding 49 days are referred to a Legal Debt Recovery Officer, who is responsible for instigating and progressing legal action where appropriate for debts over £100.

This report provides management with a summary of the audit findings, where expected controls are not met, and offers recommendations for improvement to assist in managing the risk.

Audit Objective

To ensure that a framework is in place and is being followed to support the active management and recovery of all debts due to the Authority.

Audit Opinion: Partial

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.

The main activity undertaken since the last audit has been a significant update of the Income Management Code of Practice and we are satisfied that all improvements recommended have been addressed. There has also been significant work undertaken by the Exchequer Team, including a series of workshops run to address training needs and to resolve queries with specific service areas.

The table below identifies a summary on the progress made with regards to implementing controls to mitigate the risk established for the nineteen recommendations in the previous audit.

	Complete	In Progress	Not Started	Not Agreed
Priority 4	3	2	1	1
Priority 3	6	2	2	1
Priority 2	-	1	-	-
Total	**9**	**5**	**3**	**2**

However, the improvements to guidance and procedures were not evident in the sample testing for this audit because they were only implemented two months before the audit commenced and have not yet become embedded. As previously stated, the audit focussed on debt recovery activity in the period between the previous and improved Code of Practice.

Therefore, it was not expected that we would see significant improvements to the timeliness and recording of debt recovery action. Given this position, we have not repeated the recommendations previously made, but it is important that they are communicated to finance staff and revisited in the 2018-19 audit plan to consider their effectiveness in delivering the improvements required.

We have identified further weaknesses in credit notes, which were not included in the previous audit, but are consistent with previous findings regarding insufficient evidence of recovery actions recorded on SAP.

It is recommended that the findings in this report are used to further strengthen the debt management framework and improved monitoring arrangements are put in place to ensure that this is complied with.

Corporate Risk Assessment			
Risk	Inherent Risk Assessment	Manager's Initial Assessment	Auditor's Assessment
Non-recovery of debt results in financial loss to the Authority.	**High**	**Medium**	**Medium**

Findings and Outcomes

Method and Scope

This audit has been undertaken using an agreed risk-based audit. This means that:

- the objectives and risks are discussed and agreed with management at the outset of the audit;
- the controls established to manage risks are discussed with key staff and relevant documentation reviewed;
- these controls are evaluated to assess whether they are proportionate to the risks and evidence sought to confirm controls are operating effectively;
- at the end of the audit, findings are discussed at a close-out meeting with the main contact and suggestions for improvement are agreed.

We conducted sample testing in the following areas:

1. Debts less than 49 days to establish service recovery action;
2. Debts over 49 days not referred to Legal - justification for non-compliance with Income Code of Practice;
3. Debts over 49 days referred to Legal - timeliness of referral and recovery action;
4. Debts on hold to establish whether there is appropriate authorisation and periodic review.
5. Debts written off, to assess whether all recovery options were exhausted and there was both appropriate authorisation and timely action;
6. Debts cancelled through refunds and credit notes, to assess whether the correct method was used, there was appropriate authorisation and timely action.

Our review also included interviews with staff who have debt management involvement across the Authority.

This audit was conducted shortly prior to a separate follow-up review of Income Collection in Adult Services, which received a Partial assurance in 2016-17. For this reason, Adult Services debts have not been included in this audit.

It was agreed at the outset of the audit that we would not be able to review implementation of the Pre-Action Debt Protocol, since this has only been in place since October 2017 and should be embedded for review in 2018-19.

The following recommendation made in 2016-17 was not agreed and has therefore not been followed up:

The Strategic Finance Manager - Governance should introduce procedures to ensure that up to date performance against

a) Time to Pay (or Debtor Days) and

b) percentage of invoices paid within the 30-day target

are monitored at service level and reported corporately.

1.	Non-recovery of debt results in financial loss to the Authority.

1.1	Income code of Practice

Income Code of Practice

Previous recommendation 2016-17:
We recommended that the Strategic Finance Manager undertook a full review of the Income Code of Practice to ensure that all identified weaknesses were addressed. The identified weaknesses were:
- The timetable for recovery did not detail any recovery actions between 42 and 49 days;
- There was no guidance on debts on hold in the Code of Practice;
- Exceptions to the debt recovery procedures were not listed in the Code of Practice.

The updated Income Code of Practice now includes guidance for debts on hold and a list of exceptions to the debt recovery process. There is still a gap of seven days between required actions remains and is to allow time for letters/reminders to reach customers and time for them to respond before the next action stage is reached. We are therefore satisfied that this action is complete.

We also recommended that the Strategic Finance Manager ensured that when the Income Code of Practice was reviewed, the document should include version control, was launched by way of an official communication and that it was made available on the front finance pages of the staff intranet.

The updated Income Code of Practice was formally launched in Core Brief in December 2017. The Income Code of Practice can now also be located on the Finance intranet page under Accounts Receivable.
The Code of Practice does not yet have full version control, and this has been reported verbally to the Strategic Finance Manager. Otherwise, we are satisfied that this action is complete.

1.2	Finding and Impact

Staff Training in Corporate Procedures for Income Management

Previous recommendation 2016-17:
In the previous audit we had found low levels of:
- staff who have received any training in debt recovery procedures;
- awareness of the corporate timescales for recovery of debt;
- staff who are aware of, and how to access the documented guidance and procedures relating to debt recovery;
- staff who stated that they are aware of and comply with agreed procedures for entering recovery action updates onto debtor accounts in SAP.

We therefore recommended that the Strategic Finance Manager should introduce a programme of training through the Learning Centre for all staff in finance roles, which is based on and consistent with the Income Code of Practice. Training should make clear the responsibilities of all staff in respect of debt recovery and be explicit on the responsibilities of staff to encourage improved ownership. Training should also include specific emphasis on the requirements for maintaining full records on SAP of recovery action and compliance with the debt recovery timetable.

The recommendation was partially agreed. It was decided that the training document would effectively be the Income Code of Practice itself, together with supplementary guidance documents

on the website. The point about maintaining an audit trail on SAP was to be clearly emphasised in the new Code.
Our follow-up identified that a programme of training for new staff has not been introduced but the Exchequer Team have delivered individual training sessions to staff teams that have focussed on the Income Code of Practice. The updated Code of Practice now also defines the responsibilities of debt chasers and emphasises the requirement to maintain full records of recovery actions on SAP.

There is an expectation that existing staff will deliver training to any new staff, but this has not been formalised. However, with no official communication of this requirement, there is a risk that lack of awareness for new staff with income collection responsibilities of the requirements and agreed procedures, may compromise the consistency of debt recovery action across the Council. We have therefore assessed our previous recommendation as being in progress.

1.2a	Proposed Outcome:	Priority 3

We recommend that the Exchequer Manager should ensure that existing staff are informed they will be required to train new staff in debt recovery procedures and this should be added to the Income Code of Practice.

Action Plan:

Person Responsible:	Exchequer Manager	Target Date:	On-going / see below
Management Response:	Agreed. This on-going responsibility has been made clear in all the service training sessions, but the Accounts Receivable will support the process to maintain consistency and "best practice". Updates to the Income Code of Practice will be made en bloc when the training roll-out has been completed and comments received back from all services. **September 2018 Update** Since the initial tranche of service training, Accounts Receivable has concentrated its efforts on a service by service basis, addressing local concerns and issues. It is envisaged that any and all improvements to the Income Code of Practice will be made after the 2018/2019 internal audit is completed in Quarter 4.		

1.3	Finding and Impact

Debts less than 49 days old

Previous recommendations 2016-17:
In the previous audit we recommended that the Strategic Finance Manager should introduce further required actions for debts under £5,000 when the debt is 28-35 days old, to minimise the number and value of debts that become aged. The previous Income Code of Practice did not specify any required recovery action at this stage
The updated Income of Practice has introduced a new debt recovery timetable with mandatory recovery actions for all debts at 23-28 days and we are therefore satisfied this recommendation is complete.

2017/18 Audit:

A sample of 21 debts were checked for compliance with the timescales for debt recovery actions specified in the Code of Practice for Income Management.

Because the updated Code of Practice for Income Management was only launched in November 2017, the debts in the sample were reviewed for compliance against the timetable requirements of the previous Code of Practice (December 2015).

Of the 21 debts in the sample we found that:

- Only five debts complied with both the timescales for recovery action and the requirement to add progress notes in SAP;
- For five debts over £5,000, there was no evidence on SAP of recovery action taken during the required timescale (the Code of Practice states that between 28 and 32 days, the customer should be contacted to ascertain a payment date);
- For seven debts there was no evidence on SAP of any recovery action taken between 35-49 days;
- Recovery actions had only been recorded in SAP for 7 out of 21 debts in total.

If timescales specified in the Code of Practice are not adhered to there is a risk that debts may not be collected in a timely manner. Without a full case history of recovery action recorded in SAP, officer time and effort may not be as efficient as possible.

1.3a	Proposed Outcome:		Priority 4
We recommend that the Exchequer Manager should summarise the results of this audit and circulate them to all Debt Chasers as a means of highlighting ongoing weaknesses and the importance of the revised Code of Practice requirements.			
Action Plan:			
Person Responsible:	Exchequer Manager	Target Date:	See below
Management Response:	Whilst we accept the findings, this is not agreed, but an alternative action that will be more service-specific will be put in place after the training roll-out has been completed. It became clear during the training that there was a lack of knowledge in a number of services about the need to comply with the timetable in the new Income Code of Practice. From the previous audit from SWAP, which served to start the work towards the new Income Code of Practice, this was largely expected. The Accounts Receivable Team will continue to highlight where services are not complying with the timetable and are not handing debts for legal debt recovery in accordance with the Code. Officers believe that there will be more success with returning to services with individual failures to comply with the Code timetable than with a wider audit. It is also felt that there is a need to give services a chance to embed the Code and that more current information can be provided to them at a later date. <u>September 2018 Update</u> The service by service approach is still followed. The Account Receivable Team will speak to services when it is apparent that direction or corrective action is necessary.		

1.4	Finding and Impact

Previous recommendations 2016-17:

Debts on hold - County Farms

In the 2016-17 audit report, we recommended that the Strategic Finance Manager should specifically review the arrangements for treatment of debts on hold relating to County Farm tenant payments, to consider whether they needed to be bought in line with corporate procedures, or formally approved and recorded as an exception in the Income Code of Practice. This has been completed and debts on hold for County Farms are now recorded as an exception in the revised Income Code of Practice.

Debts on hold - all services

We also reported that for 3 out of the 15 debts on hold reviewed, services had been unable to provide the date on which the account had been placed on hold. For the remaining 12 debts it was found that 7 had been on hold for over 100 days and 4 of these had been on hold for over 100 days. We therefore concluded that there was no formal oversight of debts with a hold and no trigger to prompt periodic review. The timescales reported demonstrated that debts could be placed on hold for a considerable length of time.

We recommended that the Strategic Finance Manager improved controls for debts on hold to ensure that

- formal management review is prompted after a set number of days;
- positive confirmation is required for the debt to remain on hold;
- debts above a certain threshold should require management authorisation;
- the ability to place debts on hold should be appropriately restricted through system controls.

Debts on hold should also be specifically monitored and reported at both corporate and committee levels.

From review of the updated Income Code of Practice, we have confirmed that the allowable reasons for putting debts on hold have been reviewed and reduced. We are satisfied that this part of the recommendation is complete and follow up of the remaining recommendations is reported below.

2017/18 Audit:

A sample of ten debts on hold were tested to verify whether they have been subject to periodic review and evidence of reviews are retained on SAP. It was found that for six of the ten debts, evidence of recovery and notes on SAP were not present. For two of the debts, this meant it was not possible to determine who was responsible for chasing the debt and if it was being reviewed.

Therefore, it was not possible to confirm that the agreed actions of the previous audit have been sufficiently embedded. The absence of SAP notes meant it was not possible to confirm that a formal review had taken place or that positive confirmation had been given for the debt to remain on hold.

Without comprehensive notes and evidence of review being retained on SAP, there is a risk that debts will not be reviewed appropriately or chased with the necessary frequency. There is a risk that this could result in a financial loss for the Council. This is consistent with our findings for 1.3 and no further recommendation has been added here.

1.5	Finding and Impact

Legal Debt Referrals

Previous recommendation 2016-17:
Sample testing of debts referred for legal recovery identified that six out of fourteen did not comply with the timescales set out in the Income Code of Practice.
However, it was recognised that if all services had referred their aged debts in a timely manner, then the workload would far exceed the capacity of the Legal Debt Recovery Officer. For this reason and whilst still wanting to improve the debt recovery performance across all services, the only option available was to consider the delegation of certain recovery tasks to services.
Testing also identified that there were common issues causing delays to debt recovery and also areas of misunderstanding, which could be addressed by issuing improved guidance to services. Persistent issues include cases where services refer debts to the Legal Debt Recovery Officer which were not enforceable and could not be pursued.

We recommended that the Strategic Finance Manager should revise the debt recovery timetable and process, to make provision for services to refer their debts at 49 days to a nominated Debt Chaser in each service area. Each Debt Chaser should assume responsibility for the initial stages of legal recovery, establishing whether the debt is enforceable and then referring only those eligible cases for legal action to the Legal Debt Recovery Officer. Furthermore, there was a need for improved guidance of the minimum requirements for evidence required to support legal recovery procedures.

The updated Income Code of Practice now includes a clear timetable for the referral of debts for legal recovery and the nominated Debt Chaser now sends a Letter Before Action to the debtor. The Legal Debt Recovery Officer had input into the updated Income Code of Practice, which now also provides clearer guidance about pre-checks and minimum criteria to establish whether a debt is enforceable, before attempting legal recovery. An improved Referral Form has also been implemented and the Legal Debt Recovery Officer continues to work with services to resolve specific issues. We are therefore satisfied that the recommendation has been completed.

2017-18 Audit:

Legal Case Management System
The recent launch of the updated Income Code of Practice and the introduction of a new legal case management system, meant that it was not possible to fully assess compliance with the timeliness of referral of debts for legal recovery, since both improvements are still embedding. Therefore, the testing of a sample of legal debts tested focussed on older debts to assess recovery action and this identified findings whereby services have raised and pursued debts that are not legally enforceable, due not having followed correct procedures in previous interactions with customers. There were also two examples of debts pursued with a deceased customer and a customer who has no means to pay a debt, due to poor communication between services. These findings are consistent with those in the last audit and are therefore thought to be as a result of revised procedures having not yet become fully embedded. The recommendation has not been repeated.

Our testing did however identify a concern with the Prescient case management system used to monitor legal debt recovery. The system was introduced in May 2017 and currently there are some configuration issues that are causing total debts to be misrepresented. This means that the Legal Debt Recovery Officer needs to double check the breakdown of the original debt, any payments and additional fees, to establish the correct balance. The risk of pursuing an incorrect amount is mitigated by the fact that the Legal Officer understands where issues can arise and will carry out a double check. However, for a new system, it appears that is does not yet deliver an acceptable standard of service and this may present a risk to both efficiency and the accuracy of legal debt

management recovery. At the conclusion of the audit, we were informed that some improvements have been implemented and therefore this will remain under review.		
1.5a	Proposed Outcome:	**Priority 3**
We recommend that the Strategic Manager - Governance, ECI and Corporate Services and Legal Debt Recovery Officer should keep the Legal Debt Case Management System under review in respect of the issues with calculating debt values.		
Action Plan:		

Person Responsible:	Strategic Manager - Governance, ECI and Corporate Services	Target Date:	July 2018
Management Response:	*Agreed. We are still looking at the Case Management System and assessing where it could be improved to aid debt collection and Code of Practice compliance.* <u>September 2018 Update</u> The Legal Debt Recovery Officers have liaised with Civica, to rectify system errors and will continue to do so, should errors occur in future cases. The Case Management System is not duplicating the errors that were previously present. Given that some debt values were not been calculated correctly previously, there has been a manual review of every case held on the Case Management System to rectify any discrepancies or errors that were present on the system. A further control has been introduced, whereby all Court applications and forms whereby the system generates figures are rechecked by the Legal Debt Recovery Officers manually by cross referencing with SAP before they are sent out.		

1.6	Finding and Impact

<u>Aged Debts not referred to Legal</u>

<u>2017-18 Audit</u>
A sample of 16 debts over 49 days which had not yet been referred to Legal were selected and reviewed with services, to establish the reasons for non-compliance with the Income Code of Practice.

We contacted the debt chasers to establish the reasons why and despite continuous chasing, a response was not received for two debts.
Of the remaining 14 debts:
- 9 debts had not been referred to Legal as the services in question were still trying to chase the customer;
- 2 debts were not referred to Legal as the service was not aware of the debt, so no recovery action had been undertaken;
- 1 debt was still being disputed by the debtor 164 days after the invoice was raised and the service were continuing to liaise with them;

- 1 debt was not referred to Legal as the service was waiting for information from a different service to establish the balance remaining after a part-payment. The debt chaser was not made aware of the debt until five months after the invoice date;
- 1 debt had been identified as being raised in error but had still not been credit noted after 90 days.

If debts are not referred to the Legal Debt Recovery Officer in a timely manner, there is reduced likelihood that debts owed to the Council will be collected.

Furthermore, there was no evidence of recovery action recorded on SAP for 15 of the debts in the sample. Services were therefore asked to provide evidence of recovery action and attempted contact with the debtor and for 5 debts they were unable to do so. There was also a lack of evidence of timely and ongoing review for a total of 9 debts.
If contact is not maintained with the debtor there is an increased risk the debt will become uncollectable. Maintaining a record of recovery actions on the system is key to efficient chasing of debts.

1.6a	Proposed Outcome:	Priority 4

We recommend that the Exchequer Manager should summarise the results of this audit and circulate them to all Debt Chasers as a means of highlighting ongoing weaknesses and the importance of the revised Code of Practice requirements.

Action Plan:

Person Responsible:	Exchequer Manager	Target Date:	See below
Management Response:	Whilst we accept the findings, this is not agreed, and is similar to 1.3a above. Officers believe that using more service-specific examples are more likely to get Debt Chasers encouraged to be more compliant with the requirements of the Code. <u>September 2018 Update</u> As with 1.3a above, the service by service approach is still followed.		

1.7	Finding and Impact

<u>**Salary Overpayments**</u>

<u>**Previous recommendation 2016-17:**</u>
Testing of debts referred for legal action in 2016-17 identified a high number where the debtors were both existing and ex-employees and the debt was for recovery of a salary overpayment.
This prompted further enquiry and it was found that as at 1st November 2016, there was a total outstanding debt of £135,952 for salary overpayments, with 161 individual debtors.
For the cases referred to the Legal Debt Recovery Officer, there was a disproportionately high volume of cases resulting from negligence by line managers, where contracts had not been correctly terminated in a timely manner. These cases were often further compromised by delayed action from the service in referring the debt.

We recommended that the Strategic Finance Manager should liaise with Human Resources colleagues and seek to establish how the Council could prevent continuation of the high rate of salary overpayments. Any identified issues should be addressed through improved training for line managers.

The Strategic Finance Manager had established with the Head of Payroll that the issue is a result of Line Managers not completing and submitting termination forms in a timely manner when an employee leaves the Authority. It is important to recognise that Payroll cannot end a contract without a timely completed termination form, so the issue here lies with services. Debt reporting has identified that the issue persists and a total of 47 new debtors with salary overpayments during 2017 has generated a total of £41,668 worth of new debt, which includes both SCC services and schools. Therefore, another recommendation has been made, to mitigate the risk that the Council are generating debt themselves through inadequate administration of staff. We have assessed the previous recommendation as being in progress.			
1.7a	Proposed Outcome:		Priority 3
We recommend that the Chief Accountant should issue a communication to Line Managers via Core Brief and iPost to explain the impact on the Council's financial position of not submitting employee termination forms in a timely manner, and a reminder of the required procedure.			
Action Plan:			
Person Responsible:	Chief Accountant	Target Date:	May 2018
Management Response:	Agreed. <u>September 2018 Update</u> Due to the focus of resources on the Financial Imperative work within the authority this communication has not been issued yet. It is envisaged that a communication will be issued in the Core Brief in October which will give a clear instruction on the need to comply with control processes and will illustrate the impact of non-compliance in financial terms. This will be a joint communication between HR and Finance.		

1.8	Finding and Impact

<u>Corporate Reporting of Debt</u>

<u>Previous recommendation 2016-17:</u>

During the last audit, we established that a compiled corporate debt report was produced monthly, but review and challenge was only driven by a notional threshold in mind each month, based on the level of concern and capacity to investigate. The Finance and Performance Senior Management Team reviewed large outstanding debts but there was no formal escalation route to ensure that individual debts defined as significant were identified at a management level and actively pursued with services.

An analysis conducted as part of the audit identified that the reporting approach to treating all Sales Organisations as similar individual businesses was a flawed approach, as there are significant differences in the way that services operate and the factors that influence their aged debt levels.

We recommended that the Strategic Finance Manager should conduct a review of corporate debt reporting, with consideration given to the following improvements:

- A clear framework for reporting of all debts that are deemed to be significant, by both value and age, and an escalation process for follow-up by a Strategic Manager;
- Include trend analysis across the year to identify significant variances in services;
- Include monitoring of the level of debt referred to Legal;
- Include monitoring of any aged debts that have no information in the Long Text field in SAP, where no audit trail of action has been recorded.

It was agreed that corporate debt reporting would be reviewed but it was not felt that the level of information needed to be increased. Any increase would only be triggered by a deterioration in debt collection performance and this was also partly due to limited available resource to increase activity.

2017-18 Audit

It was agreed to review the corporate debt reporting and we confirmed that the Income Code of Practice has been updated accordingly, with requirements for regular reporting specified under section 12 of the Code. We also confirmed that debt recovery performance continues to be monitored through reports to Cabinet and Audit Committee and the Finance Scorecard.

Through a review of the reports presented to Cabinet and Audit Committee it was found that although debts are identified during such meetings and actions have been suggested, these actions are not service specific, providing limited accountability for the actions.

It is however accepted that any increased corporate reporting should be commensurate with the levels of debts collected, which are currently satisfactory, and that available resource prevents corporate-level monitoring of all service areas.

Therefore, this finding is reported for information only and no further recommendations have been offered.

1.9	Finding and Impact

Service Reporting of Debt

Previous recommendation 2016-17:

We previously reported that a contributory factor to the weaknesses in corporate aged debt monitoring was the absence of an assigned Debt Lead for each service area. Service level reporting was being provided to a variety of service managers, none of whom were specifically accountable for income management, including debts. Furthermore, we identified that each service had bespoke requirements for reporting and attendance at finance meetings, and the monitoring of collection rates was carried out in different ways. Service leads were not required to attend any corporate meetings that focused on income collection.

Our recommendations were for the Strategic Finance Manager to establish a Debt Lead in each service and monitor their performance in debt recovery through set targets that align with corporate targets. We also recommended that the Strategic Finance Manager ensured that regular Accounts Receivable User Group meetings resumed, and part of their remit should be to monitor the performance of service Debt leads and share best practice.

Our follow-up review has identified that the Exchequer team have established and recorded members of staff who are effectively debt chasers for each service, although they have not formalised the role of a more senior Debt Lead. The Exchequer Manager explained that they have issued some general communications in Core Brief but still need to liaise with the Strategic Manger Financial Governance, ECI & Corporate Services to provide specific guidance on the requirements of the Debt Chaser role.

It was partially agreed that the Accounts Receivable User Group may be reinstated but this would be informed by a review once the updated Code of Practice and the new requirements have been imbedded. Key corporate finance officers have agreed to continue to meet regularly.

We also reported that whilst the corporate target for debtor performance is that aged debt should comprise no more than 15% of the total debt, this level was not monitored or assessed at service level. We recommended that the Strategic Finance Manager should introduce measures to ensure that all service level debt reporting included:

- an analysis of whether the debt position has improved or worsened each month, including whether aged debt is below 15% in line with the corporate target;

- a comparison of performance each month to previous month, for amounts of debt recovered and new aged debt;
- identification of all legal referred cases and a reason obtained for any debts over 49 days that have not been referred;
- an agreed methodology for the treatment of unallocated cash;
- authorisation of debts excluded from budget monitoring reports.

This information should also be summarised to be reported corporately.

The recommendation was partially agreed and that the information provided to service areas would be reviewed and identify whether there are additional measures that should be reported. However, it was felt to be impractical to do this for every service area regardless of the level of income raised. Guidance would be issued on the treatment of unallocated cash in debt reports and reporting of the level of debt referred to Legal was already in progress.

Our follow-up has confirmed that the four Finance Managers responsible for producing service level reports have agreed a methodology for the treatment of unallocated cash and are now manually adjusting each report to ensure the reports are a true reflection of service debt.

2017-18 Audit

Service areas continue to monitor collection rates in different ways and against different timescales. The Income Code of Practice specifies three key performance indicators that must be reported and tracked by management, however it does not explain who this should be reported to or how the information will be used. The Income Code of Practice does not provide targets or guidance for how budget holders or Finance Managers should be monitoring the monthly aged debt to ensure there is consistency across service level reporting. Without guidance to ensure a consistent approach to service level reporting there is reduced assurance that the debt reports are a true reflection of outstanding debt and ongoing monitoring arrangements adequate.

Whilst the Accounts Receivable Team have offered training sessions in relation to the Income Code of Practice, the Accounts Receivable User Group has not been re-established. There is a risk that without an overarching network of finance managers meeting regularly to monitor the Council's debt position, there are insufficient arrangements to provide the level of scrutiny needed.

Whilst it is acknowledged that some improvements have been achieved and that there is limited resource available, it is important that Strategic Finance Managers keep under review whether debt recovery performance warrants issuing further guidance to set clear expectations for a) the role of the Debt Chaser and b) the reporting of key performance indicators at service level. There should also be further consideration of whether the revised guidance has removed the need for reinstating the Accounts Receivable User Group.

1.9a	Proposed Outcome:	Priority 3

We recommend that the Strategic Finance Manager – Governance and Chief Accountant should keep under review whether debt recovery performance requires clearer guidance in respect of the Debt Chaser role and to improve the consistency of service-level debt monitoring. It should also be kept under review whether to reinstate the Accounts Receivable User Group, when it is clear whether revised guidance has achieved an improved level of compliance with debt recovery requirements.

Action Plan:

Person Responsible:	Strategic Finance Manager – Governance and Chief Accountant	Target Date:	September 2018

Management Response:	A review of the Code will be necessary and carried out over the summer months, when the training roll-out is complete. Staff will be reminded that the Code is mandatory. Officers will also review whether or not the Accounts Receivable User Group should be reconstituted at this stage, and what Terms of Reference is might operate under. The User Group has always been considered a longer-term idea, and we would certainly change the name and the emphasis to make it clear that this User Group would be looking at ICOP, performance and best practice. <u>September 2018 Update</u> It has been agreed that a review of the Code will follow the next (imminent) SWAP audit when the latest sampling has been done. This would also be an opportunity to canvas views of service users of the system as to improvements that could be made in the Code, and re-consider the User Group in this role.

1.10	Finding and Impact

Crediting Budgets When an Invoice Is Raised

Previous recommendation 2016-17:
Last year we reported that a wider issue for the Council in terms of ownership and accountability for debts related to the SAP process that results in services immediately receiving a credit to their budget when an invoice is raised, regardless of when or if it is paid. This approach has two impacts on debt management:
i) it does not encourage individual or budget holder responsibility for recovery or ownership of aged debt;
ii) it creates delays in unrecoverable debts being written off in a timely manner because of the reluctance by budget holders to have the credit being removed from their service budget.
We recommended that the Strategic Finance Manager should investigate options for making changes to current SAP procedures to encourage improved ownership for debt by services.

This recommendation could not be agreed due to the requirement to recognise all income in the year that it is due, in order to comply with accounting practice. Therefore, the recommendation has not been repeated and is reported for completeness of information only.

1.11	Finding and Impact

Debts Written Off

Previous recommendation 2016-17:
We previously reviewed whether a sample of write offs had been agreed in a timely manner from the last action taken to recover the debt. It was found that for 19 out of the 25 debts the write off was agreed within three months of the last debt recovery action. However, four debts were written off between six and thirteen months after the last recovery action, with no explanation for the delay. For 11 of the 25 write offs there were also no notes detailing recovery actions on SAP.
It was further identified that reason codes for write offs were not available within SAP and therefore the common reasons could not be analysed.
We recommended that the Strategic Finance Manager should include in both a review of the

Income Management Code of Practice the requirement for write offs to be agreed and processed in a timely manner as soon as a debt has been confirmed as uncollectable.

Because it was found that debts were being written off for reasons not included in the Code of Practice for Income Management and in some instances before all recovery processes are exhausted, we also recommended that the Strategic Finance Manager should enquire whether SAP can be configured to request a reason code for all write offs processed. Reasons can then be subject to periodic monitoring to identify any significant issues that should be addressed through staff training. Our follow-up findings are reported below.

2017-18 Audit

From a review of the updated Income Code of Practice we found that no reference has been made to the need to agree write offs in a timely manner once a debt has been confirmed as uncollectable. However, the ICOP does make clear the need to process a write off within 10 working days of the decision being made to do so.

A review of the write-off form confirmed that a reason code is now requested. Through testing carried out on a sample of ten write offs, it was found that all had provided a reason code. We are therefore satisfied that these actions are now complete.

However, through testing of a sample of ten write offs, it was found that three had not been processed in line with the Code of Practice deadline of 10 working days from the decision being made. In each case, the delays were caused by services and not the Exchequer Team.

It was also found that although the write off form has been updated and is being used, for seven of the ten write offs tested, the form had not been fully completed and did not include details and dates of the recovery action taken. Without this information, the authorising officer is unable to satisfy themselves that all recovery actions have been exhausted and there is a risk that debts may be written off before it is appropriate to do so.

It was also found that none of the ten had notes or evidence to support the write off retained on SAP and this is consistent with our finding reported under 1.3, for tested debts under 49 days old.

1.11a	Proposed Outcome:	Priority 4

We recommend that the Exchequer Manager should summarise the results of this audit and circulate them to all Debt Chasers as a means of highlighting ongoing weaknesses and the importance of the revised Code of Practice requirements.

Action Plan:

Person Responsible:	Exchequer Manager	Target Date:	See below.
Management Response:	Whilst we accept the findings, this is not agreed, and is similar to 1.3a and 1.6a above. Officers believe that using more service-specific examples are more likely to get Debt Chasers encouraged to be more compliant with the requirements of the Code. September 2018 Update As with 1.3a above, the service by service approach is still followed.		

1.12	Finding and Impact

Credit Notes

The Income Code of Practice states that when a credit note is raised, supporting evidence should be attached to SAP to support the need for a credit note. Credit note requests should also be authorised in line with the Authorisation List, however there is a further stage whereby credit notes can only be released by an officer who has the necessary SAP access rights. A sample of five credit notes were reviewed to confirm that evidence of compliance with procedures. We are pleased to report that in each case, the credit note was the appropriate course of action and none should have been written-off. Of the five notes tested, it was found that two requests were received via email from officers not on the Authorisation List and with limited details of the reason for the credit, and two of the five credit notes were verbally requested by officers, meaning that there was no evidence to support them. This does not comply with the Code of Practice requirements to retain evidence of the reason for the credit note. Furthermore, without an authorised officer requesting the credit note and evidence of this being retained, there is risk that credit notes may be raised inappropriately, possibly resulting in a financial loss to the Council. Furthermore, through our testing of debts less than 49 days old it was also identified that four of the invoices in our sample had either been raised in error or only required part payment, but were waiting for credit notes to be approved. Three of the invoices credit notes were approved during the audit, but this was at 19, 52 and 57 days after they had been requested. At the end of the audit, one credit note was still waiting approval 86 days after it was requested. Again, these delays were caused by services and not the Exchequer Team. If credit notes are not approved in a timely manner, customers will experience a delay in obtaining a refund and aged debt reports will not show a true reflection of debt.				
1.12a	Proposed Outcome:			Priority 3
We recommend that the Chief Accountant ensures that officers are reminded of the required evidence and authorisation process in relation to credit notes.				
Action Plan:				
Person Responsible:	Exchequer Manager	Target Date:	July 2018	
Management Response:	Whilst officers are pleased that audit testing has revealed that credit notes are only made when they are the appropriate course of action (usually where an error has been made), it is accepted that the current performance on credit notes needs to be improved. Credit notes should not be processed without suitable evidence being available in support. Officers who have the SAP role to release credit notes will be reminded that this is dependent on having the necessary written evidence of the reason, and the authority from an officer who is permitted to do so. September 2018 Update All SAP users who have the authority (role) which enables them to release credit notes were contacted, and reminded of the need to hold suitable back-up information to release credit notes from the officer who raised the credit note initially.			
1.12b	Proposed Outcome:			Priority 3
We recommend that the Chief Accountant should agree and communicate a timescale within which requested credit notes should be approved.				
Action Plan:				
Person Responsible:	Chief Accountant	Target Date:	July 2018 / On-going	

Management Response:	A period of 10 working days will be instigated as the required timescale for credit notes to be approved. All officers with the relevant SAP role will be notified that this is case, and this will be included in the next version of the Code of Practice. Debt Chasers and those with budget monitoring responsibility will be reminded that they should be checking for outstanding balances on monthly reports that should have been cleared by a credit note and that they should chase where this has not happened. The Accounts Receivable Team will put in place a periodic checking of unreleased credit notes and will refer necessary actions back to the relevant officer. September 2018 Update Periodic checking is now undertaken.

Audit Framework and Definitions

Assurance Definitions	
None	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.
Partial	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.
Reasonable	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.
Substantial	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.

Definition of Corporate Risks	
Risk	Reporting Implications
High	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.
Medium	Issues which should be addressed by management in their areas of responsibility.

Low	Issues of a minor nature or best practice where some improvement can be made.

Categorisation of Recommendations	
When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors, however, the definitions imply the importance.	
Priority 5	Findings that are fundamental to the integrity of the unit's business processes and require the immediate attention of management.
Priority 4	Important findings that need to be resolved by management.
Priority 3	The accuracy of records is at risk and requires attention.
Priority 2 and 1 Actions will normally be reported verbally to the Service Manager.	

Report Summary

Report Authors

This report was produced and issued by:

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Support

We would like to record our thanks to the following individuals who supported and helped us in the delivery of this audit review:

Kerry Hepple and Nicola Saunders – Exchequer Team Leaders
Kayte Luton – Debt Recovery Officer – Legal Enforcement

Distribution List

This report has been distributed to the following individuals:

Martin Gerrish – Strategic Manager - Governance, ECI and Corporate Services
Steve Rose – Accounts Receivable Manager
Lizzie Watkin – Service Manager – Chief Accountant
Kevin Nacey – Director of Finance & Performance

Working in Partnership with

Devon & Cornwall Police & OPCC
Dorset County Council
Dorset Police & OPCC
East Devon District Council
Forest of Dean District Council
Herefordshire Council
Mendip District Council
North Dorset District Council
Sedgemoor District Council
Somerset County Council
South Somerset District Council
Taunton Deane Borough Council
West Dorset District Council
West Somerset Council
Weymouth and Portland Borough Council
Wiltshire Council
Wiltshire Police & OPCC

Statement of Responsibility

Conformance with Professional Standards

SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Auditing Standards.

SWAP Responsibility

Please note that this report has been prepared and distributed in accordance with the agreed Audit Charter and procedures. The report has been prepared for the sole use of the Partnership. No responsibility is assumed by us to any other person or organisation.

Debtor Management

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Division and Local Member: All

1. Summary/link to the County Plan

1.1. This report reviews the recovery of outstanding debts (monies owed to SCC) and the current performance.

1.2. The achievement of good performance in this area is linked to the County Plan in relation to “bring in more funding and resources”.

2. Issues for consideration

2.1. Members are asked to comment on the position in relation to outstanding debt performance at the end of August 2018.

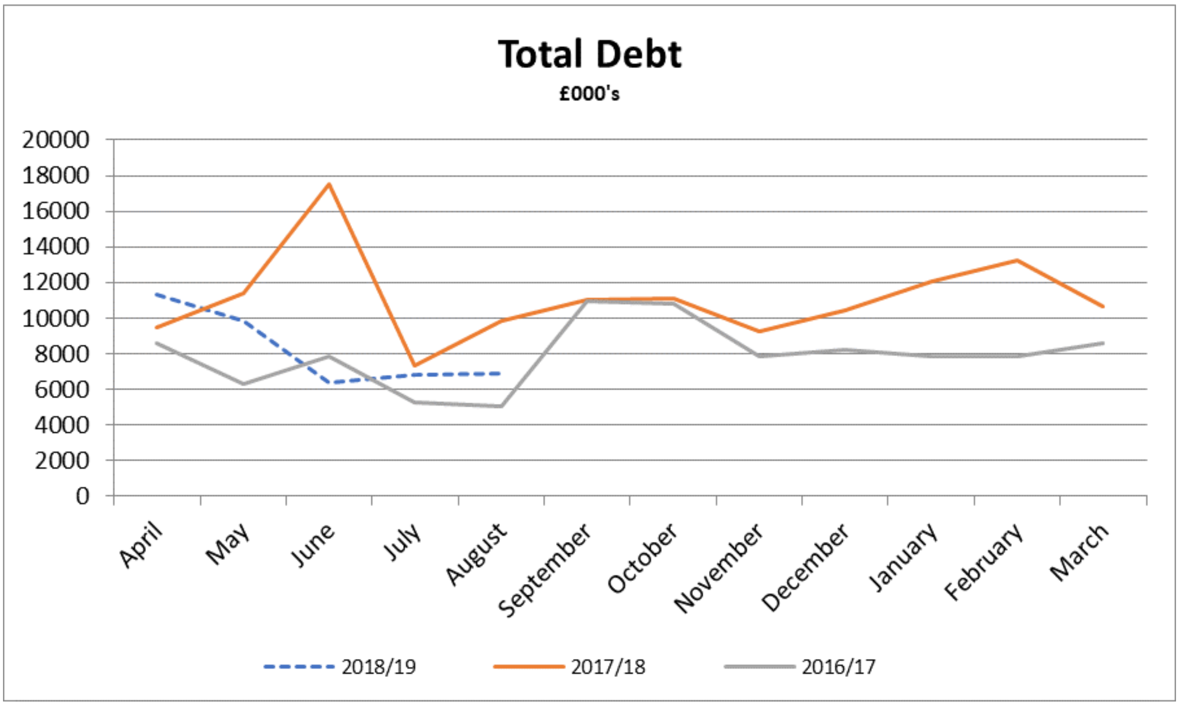
3. Background

3.1. Headline figures as at 31st August 2018

Services’ total net outstanding debt reported on the Accounts Receivable system stood at **£6.812m** as at 31st August 2018. This compares with a figure of £9.813m as at 31st August 2017.

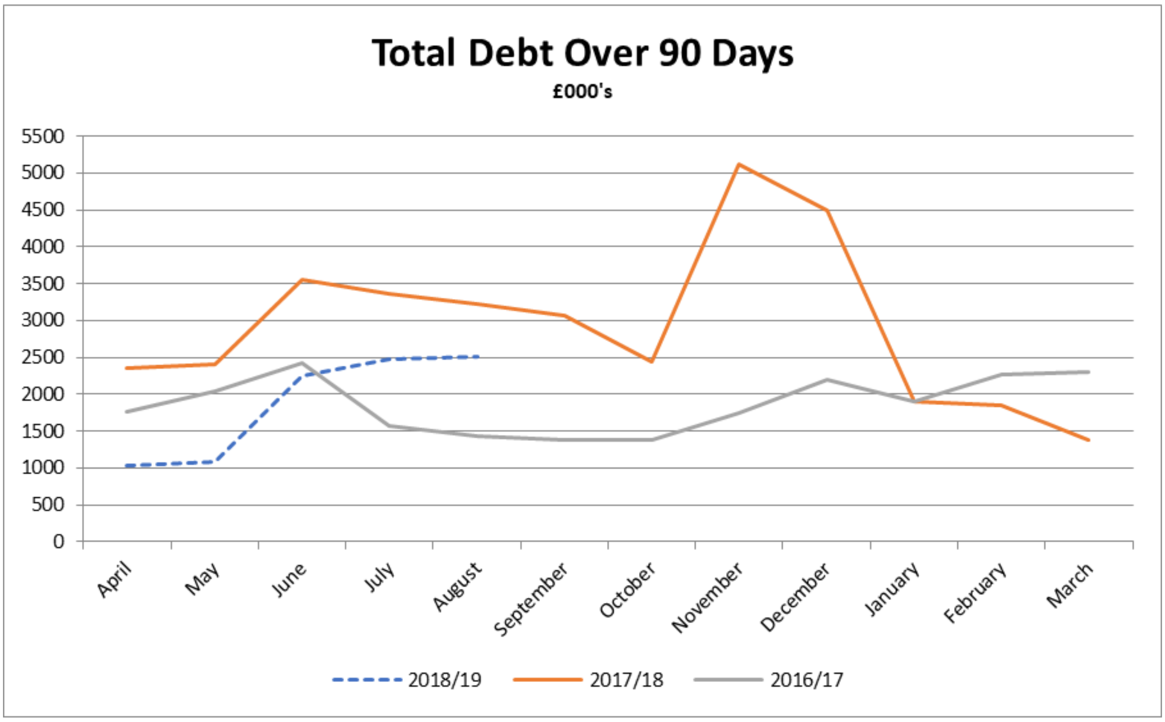
The percentage of debts over 90 days as at 31st August 2018 was **36.49%,** which compares to 32.68% over 90 days as at 31st August 2017. A breakdown of the larger debts and debtors by category is included below. Our long-term target, which would demonstrate a strong performance, is 15%.

The graph below shows the total debt outstanding over the last 2 years plus current year. The total debt figures for 2018/2019 (the dotted line) show that the amount of debt outstanding during the few months is consistently lower than at any point in the previous financial year.

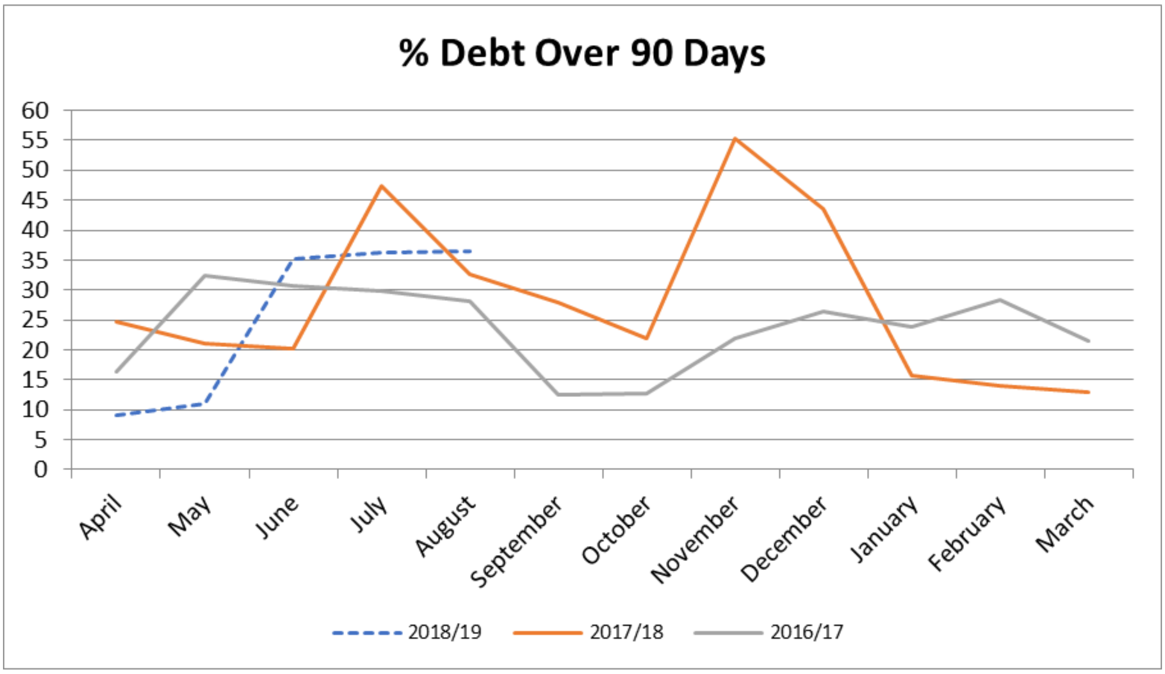


Because the total debt figure is comparatively low, this naturally means that any calculation of long-term debt as a percentage of total debt is slightly distorted – the relative impact of a single large debt over 90 days old is greater.

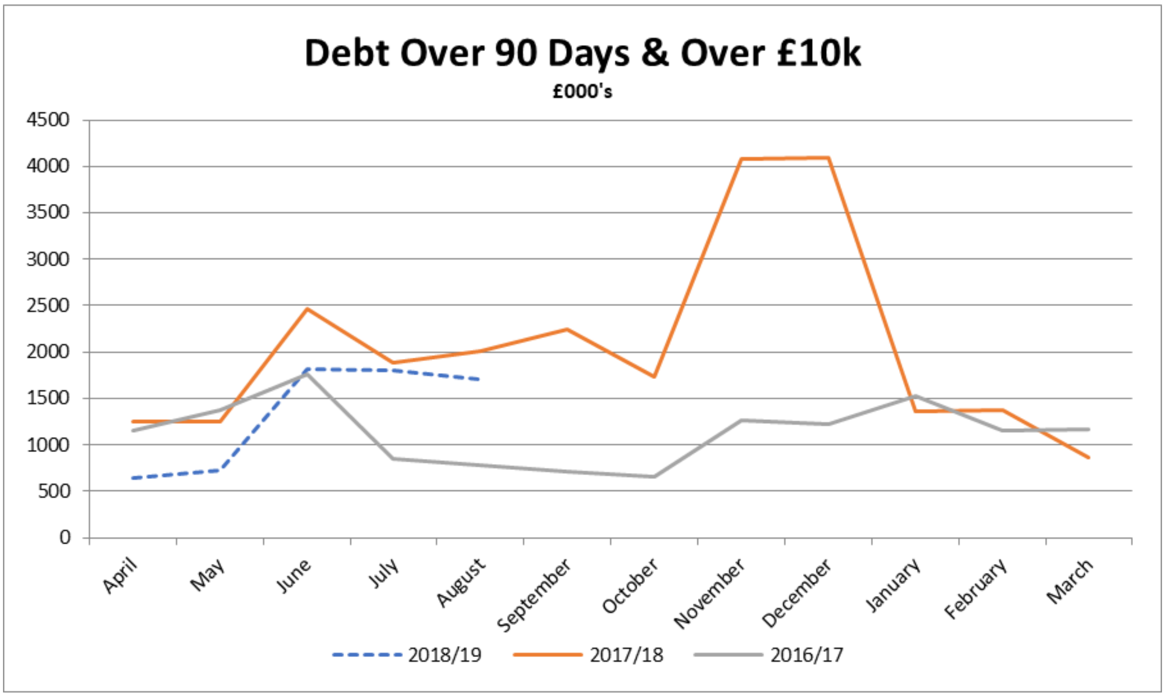
The graphs below show that the total debt over 90 days increased markedly in June 2018, just as our total debt outstanding reduced.



Therefore, as a result, the percentage of total debt over 90 days, also increased significantly in June 2018, declining from what had been our best performance since the final quarter of 2014/2015.



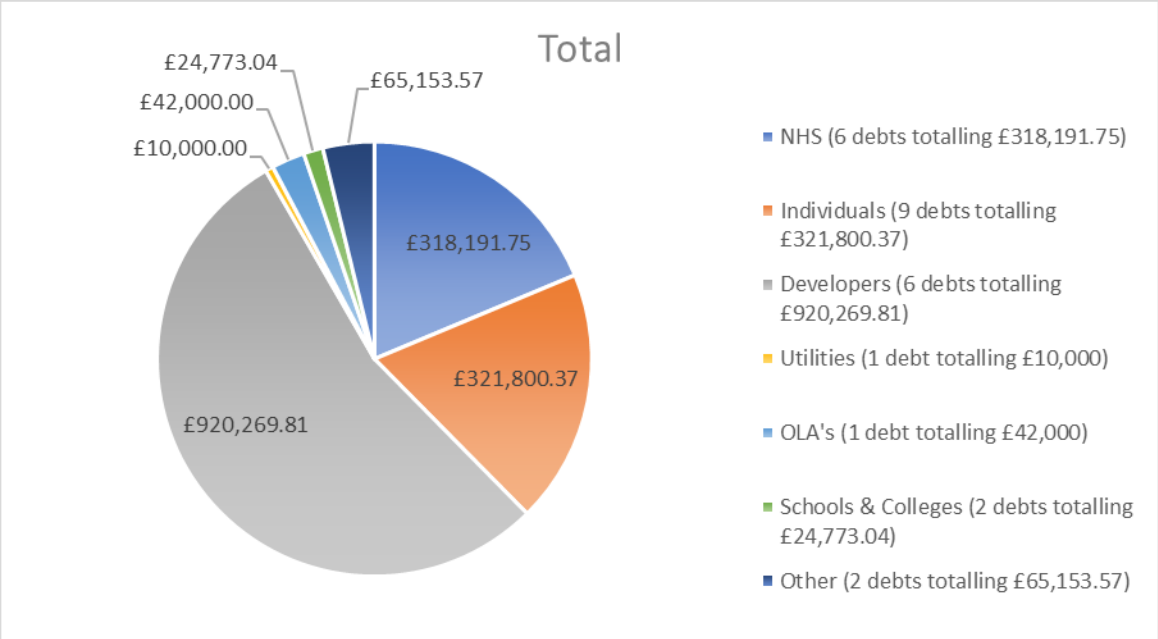
As is often the case, the underlying performance is impacted by a relatively small number of debts that are both over 90 days old and over £10,000 in value.



3.2. Breakdown of larger debt figures

There is a total of **27 debts** that are both over 90 days old and over £10,000 in value as at the end of August 2018. This is actually a particularly low number of debts in this category – in August 2017 the corresponding figure was 63 such debts, and the figure has reached as high as 94 prior to the launch of the Income Code of Practice in November 2017.

However, as the pie chart below illustrates, the total value of these individual debts is higher than in previous reports (totalling £1.702m), and the composition is greatly changed. The last reported figures to Audit Committee only totalled £0.722m).



Health debts, which have previously been the largest single contributor to our large and late debts, have continued to reduce (this figure was over £1m for several months in 2017). Previous Audit Committee reports have included details of how this being managed in a better way between the respective partners, and a portal between us to ensure debt information reaches the right staff.

Developer debts have unfortunately increased substantially in value – by way of comparison there was only two developer debts totalling £46,937.72 when we reported to Audit Committee in June 2018.

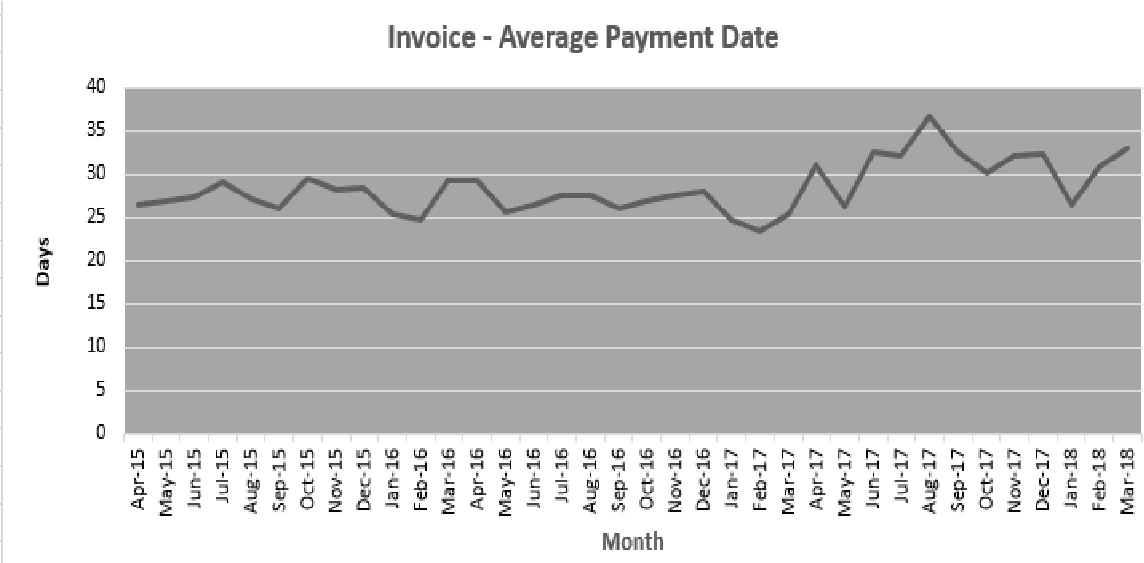
Members can be assured that all these debts are being pursued appropriately. In the first 2 weeks of September 4 of these larger debts have now been paid. These include 2 developer debts (value £132,148.20), one health debt (£55,943.77) and one local authority debt (£42,000.00).

A review of the smaller value of debts over 90 days old reveals that the types of debt remain consistent with previous analyses – utilities, County Ticket and other transport debt, other public sector bodies. These are generally being managed well, and many through Legal Debt Recovery, or directly by the service.

Discussions with the Legal Debt Recovery Team have confirmed that the Pre-Action Protocol introduced by the Courts in 2017 has not greatly delayed the collection of debts from individuals and sole traders.

3.3. **Average payment days**

The other criterion that officers consider important in debt collection is the calculation of the average number of days for an invoice to be paid. Obviously, this cannot be calculated until a sufficient period of time has elapsed to allow for debts to be paid, so our latest analysis is for invoices raised in March 2018 (N.B. this a snapshot position on a month by month basis and not cumulative). March's figure is 32.95 days, which is slightly higher than in the previous 2 months. There appears to be no underlying reason for this figure, although this is a trend for March for previous years.



Members are reminded that, as reported at the June 2018 meeting, we have a strong record of debt recovery. We regularly have collected over 99% of the net debt that we raise through Accounts Receivable over the last 3 financial years.

4. Consultations undertaken

4.1 Debt management is considered regularly at the Finance Management Team meetings. Debt is also regularly reported to Cabinet.

5. Implications

5.1 If debt is not collected promptly it greatly increases the risk that it may need to be written off which has an impact on the revenue budgets of services. It will also have a (smaller) impact on cashflow costs for the County Council.

6. Background papers

6.1. Previous reports to Audit Committee, including the Income Code of Practice (November 2017).

6.2. Pre-Action Protocol documentation and requirements.

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

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Somerset County Council
Audit Committee
20 September 2018

Forward Work Plan

Service Director: Peter Lewis, Interim Director of Finance
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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 fraud and corruption investigations be regularly updated to the Audit Committee.

2. Issues for consideration

2.1. Members are asked to note the outline Agendas for the 22nd November 2018 and 31st January 2019 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 at these or at future meetings.

2.2. Members are asked to consider other agenda items on this agenda, and whether they would like to have a further update or training event on any of these audits, risks or topics.

3. Background

3.1. There are a number of “staple” Audit Committee items that are part of our annual cycle around the Statement of Accounts, or around the annual Internal Audit Plan, which the Audit Committee will need to receive in order to receive the necessary assurance to carry out its role.

Within that cycle, there can be scope for additional items to come to the Audit Committee where members or officers perceive a risk or issue that needs to be managed.

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 for improvements. We need to bring Partial audits to the Audit Committee on a timely basis, to ensure that they are responded to promptly.

3.2. The recent Adverse Value For Money opinion from Grant Thornton, our external auditors, has included a number of recommendations as to how the County Council can improve a number of its processes. This is being tracked within JCAD, our risk management system. It is proposed that this tracker is brought to Audit Committee meetings, so that members can receive the necessary assurance that sufficient progress is being made against each recommendation.

3.3. **November**'s meeting does not have many prescribed items, and it is proposed that further Partial audits be brought to the meeting, in order that members are seeing appropriate management responses in a relatively short time span from the completion of the audit. Members will recall that at the June meeting, a number of Partial audits were reported on by the internal auditor, and it was agreed that these would be scheduled into forthcoming meetings. November's meeting is appropriate for a number of these to be reported.

It has also been proposed by an Audit Committee member that we consider a publication from the National Audit Office into how the Audit Committee can play a role in governance around transformational projects (link below).

https://www.nao.org.uk/report/transformation-guidance-for-audit-committees/

3.4. **January**'s meeting has traditionally been where the Audit Committee has received its annual update on our anti-fraud and corruption work and policies, and emerging national fraud risks that could impact on the County Council. In addition, the further Section 106 review that members have requested will be ready for consideration by the January meetings.

3.5. It is always possible, and has been the case in the past, that additional Audit Committee meetings can be added to incorporate the workload.

3.6. Members are reminded of the training events being held by the South West Audit Partnership at Haynes International Motor Museum, Sparkford (October 15th) and Buckfast Abbey Conference Centre, Buckfast Abbey, Devon (October 16th) that are free events and include a number of items and speakers that would be of particular interest to Audit Committee members.

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 and Vice-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

Future Agenda Items	**Notes**
22nd November 2018	
External Audit Update	**An update on Grant Thornton's work and planning progress, and an update from the audit sector in general.**
Value For Money Tracker	**An update on SCC's progress against the recommendations made by Grant Thornton at the July 2018 Audit Committee meeting.**
Internal Audit Update	**The regular progress report from SWAP on the completion of the 2018/2019 Internal Audit Plan, highlighting any high risks that have arisen from their work.**
National Audit Office report	**For members to consider a report from the NAO that looks at the governance requirements of transformational projects.**
Partial Audit and Risks	**To review any completed internal audits that have only received a Partial Assurance, where the dates in the agreed Action Plan show progress should have been made.**
31st January 2019	
External Audit Update	**An update on Grant Thornton's work and planning progress, and an update from the audit sector in general.**
Value For Money tracker	**An update on SCC's progress against the recommendations made by Grant Thornton at the July 2018 Audit Committee meeting.**
Risk Management	**The regular update on progress in mitigating the highest scoring risks that face the County Council.**
Internal Audit Update	**The regular progress report from SWAP on the completion of the 2018/2019 Internal Audit Plan, highlighting any high risks that have arisen from their work.**
Debtor Management	**The usual update report on collection of monies owed to the County Council, and an update on management progress against the latest SWAP audit.**
Section 106 Review	**Members have requested an update on how the processes have been improved since the previous SWAP audit and Service Showcase report to Audit Committee.**
Anti-Fraud and Corruption Report	**Our formal annual review of national fraud risks, our fraud policies and our work to prevent and detect frauds against the County Council.**

<u>Future Agenda Items</u>	
Role of the Chief Internal Auditor	**CIPFA is producing a Statement on Role of Head of Internal Audit (due end of December 2018) and a revised Guidance for Audit Committees document. It would be appropriate for the Audit Committee to review both documents at its January or March's meeting.**
Income Code of Practice update	**This will be reviewed after the SWAP Internal Audit that is being commenced, and it will come back to Audit Committee in early 2019.**