

Audit Committee

Thursday 19 September 2019

10.00 am Library Meeting Room, Taunton
Library



To: The Members of the Audit Committee

Cllr C Paul (Chair), Cllr M Lewis (Vice-Chair), Cllr M Caswell, Cllr H Davies, Cllr B Filmer, Cllr L Leyshon, Cllr G Noel and Cllr M Rigby

Issued By Scott Wooldridge, Strategic Manager - Governance and Risk - 11 September 2019

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 19 September 2019

*** 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 previous meeting (Pages 7 - 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 these reports.

6 **Value For Money Tracker update (Pages 53 - 70)**

To consider these reports.

7 **Internal Audit update report (Pages 71 - 90)**

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To consider this report.

8 **Partial Audits and Risk Management updates** (Pages 91 - 110)

To consider these reports.

9 **Debtor Management update report** (Pages 111 - 116)

To consider this report.

10 **Committee Future Workplan** (Pages 117 - 120)

To consider this report

11 **Any other urgent items of business**

The Chair of the Committee 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 via Telephone (01823) 359045 or 357628; or Email: democraticservices@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, the Committee's Administrator, by **5.00pm on Friday 13 September**. This is the deadline to register to speak and requests to speak received after this time will be at the Chair of the Committee's discretion.

At the Chair of the Committee'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 Chair. You may not take direct part in the debate. The Chair will decide when public participation is to finish.

If there are many people present at the meeting for one item, the Chair 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 Committee meeting rooms have infra-red audio transmission systems. To use this facility, you we need a hearing aid set to the T position.

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 Chair 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

- (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 Library Meeting Room, Taunton Library, on Tuesday 30 July 2019 at 10.00 am

Present: Cllr C Paul (Chair), Cllr M Lewis (Vice-Chair), Cllr H Davies, Cllr B Filmer, Cllr L Leyshon, Cllr G Noel, Cllr M Rigby and Cllr P Clayton (Substitute).

Other Members present: Cllr S Coles, Cllr M Keating and Cllr M Chilcott.

Apologies for absence: Cllr M Caswell

138 **Declarations of Interest** - Agenda Item 2

The Chair of the Committee noted that details of all Councillors interests in District, Town and Parish Councils will be displayed in the meeting room.

Cllr Noel declared a personal interest in his capacity as Chair of the Pensions Committee in respect of agenda item 6.

139 **Minutes from the previous meeting** - Agenda Item 3

The Committee agreed that the minutes of the last meeting were accurate and the Chair signed them.

140 **Public Question Time** - Agenda Item 4

The Chair of the Committee confirmed that 2 members of the public had registered to speak at the meeting.

Members heard a statement from Mr David Orr, who before he spoke thanked the Monitoring Officer for providing clarity and allowing him some flexibility.

“Surrey County Council experienced similar finance problems to Somerset in early July last year, with an £11.8m overspend announced. Sounds all too similar to the deficit position here in Somerset last year. The common factor is they are both County Councils with inadequate National social care funding.

This Council’s budget issues arose, in part, because the austerity freezing of Council Tax, I felt, went on three years too long and damaged the Council’s base budget. Additionally, recovering from the Inadequate rating for our Children’s Services was a long task which required significant additional funding that made balancing planned budgets difficult.

This authority was courageous enough to film with Panorama, without editorial control, and show all of England that the cost pressures and impacts on people’s lives, through underfunded social care is real and shames us all, as a First World society. Somerset has helped make the social care crisis National.

While it is good news that this Council will not follow Northamptonshire County Council into effective bankruptcy this year, the low reserves and the sustainability of the medium-term budget remain serious concerns.

I commend the external auditor for their report and for delaying their final opinion, to ensure that clear demographic and other cost pressures in social care, are properly reflected in medium-term budget projections. 3 years after Brexit, the government can't get on with the day job.

Until the County Council has sustainable National funding for social care, then I do not believe that a Unitary Council across Somerset can be viable. If social care remained under funded, then there is a danger that over time the reserves of the District Councils could be used to make up for social care deficits. Also, the non-statutory service budgets could over time also come under pressure (as they have in the County Council).

I hope that our new PM Boris Johnson will make good on his pledge to "fix the social care crisis once and for all". At the very least, 2020 to 2021 should see interim social care funding from the Government, whilst a sustainable tax base is created to support social care with dignity (and without bankrupting those whose families are unlucky enough to be struck down by the illness of dementia)".

The Chair replied by thanking Mr Orr for addressing the Committee with his thoughts. She noted there had not been a question in his statement, and as it was not directly related to the agenda items relating to the County and Pension Fund Statement of Accounts for 2018/19, she would make no further comment nor invite any officer response.

141 **Statement of Accounts - Somerset County Council - Agenda Item 5**

This report was introduced by Mr Barber of Grant Thornton the Council's External Auditors, and he directed attention to the Audit Findings report and he provided an overview of the findings regarding the Council's financial statements for the year ended 31 March 2019. He noted he had issued a short addendum since the agenda had been published and this had been circulated to Members.

Mr Barber explained that no material errors had been identified and in the opinion of the External Auditors, the financial statements prepared by the Council:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

The findings of External Auditors were summarised on pages 5 to 11 of their report and it was noted that the overall audit opinion on this was of a 'Going

Concern' with no material uncertainties. Members were informed that the Council could meet its liabilities for the next 12 months and continue to deliver its services and that it had a programme of continued financial intervention in place to deliver the identified savings required.

The Interim Director of Finance introduced her covering report and noted that statutory deadlines were adhered to and some minor changes had been made to the accounts and an updated Annex 1 of the report had been tabled, and this listed a few minor amendments that had arisen since the draft accounts were issued and publication of the agenda.

During the consideration of the report, issues/concerns were raised, questions asked/answered and further information was provided on:

- The Schools land valuations matter, as this was the most significant unadjusted misstatement, and it was noted that the auditors disagreed with the application of a generic downward 24% valuation to the schools' land that had not been subject to formal valuation in 2018/19. However, the application was applied from informed opinions of the professional internal valuer and this should be considered a matter of differing professional opinions and not an error. It was further explained that Officers accepted that 24% was not specific to any individual asset, however it fairly represented the assets across the entire portfolio on the balance sheet; a 'do nothing' approach was not felt appropriate;
- On the judgement of 'going concern' it was explained how assets were valued on the balance sheet, and if the Council was judged to be a 'going concern' those assets could be valued differently, and the auditors were assured the Council would be able to meet its obligations for the next 12 months;
- Regarding the McCloud ruling and the adjustment that had been made to reflect that, it was explained that the auditors had liaised with the Pension Fund's actuaries, and the adjustment had therefore been based on a series of reasonable assumptions;
- There was a brief discussion about cashflow and the Council's Service Manager – Investments, noted that cashflow was carefully controlled in accordance with the Council's Treasury Management Strategy;
- Concerning reduced central government funding for local government, as part of what was known as 'austerity', it was noted that there was a section about national context and the impact of austerity in the report.

The Chair invited Mr Barber to provide an overview of the external auditors' Value For Money (VFM) assessment and he welcomed the good progress made against his VFM recommendations of last year and he noted there remained further scope to strengthen arrangements. He stated that in the opinion of the external auditors the risk of future overspends was a particular risk for County Councils like Somerset given their limited ability to raise additional income but also given that a significant and generally increasing percentage of their total spend was taken up funding social care which continued to be under increasing pressure.

Mr Barber explained that before issuing his VFM conclusion for 2018/19, he wanted to gain more confidence over the robustness of the Council's budget

setting process (MTFP) and the deliverability of the Children Services and Adults Services budgets through to 2021/22. In that regard he had asked colleagues from Grant Thornton's Public Sector Advisory team to act as 'auditor's experts' and provide a further assessment of the robustness and realism of the Children's and Adult Social Care annual budgets within the Council's MTFP, including consideration of the robustness of savings plans.

As a result of this proposed additional work he stated the external auditors were unable to conclude the VFM conclusion by 31 July 2019, but he envisaged this additional work would be completed by the end of August 2019 and be used to inform his final VFM conclusion for 2018/19 that he would present to the Committee's September meeting.

The Chair of the Committee invited the Chief Executive to respond and he began by thanking the external auditors for their efforts and interest, and he hailed the Council's financial turnaround as being impressive, achieved through maintaining an absolute grip on finances and determination to live within its means. The Interim Director of Finance noted that despite a reduced spend overall performance had not dipped during the last year and had improved in some areas, noting the 'VFM tracker' was now considered at each meeting of the Committee and a new tracker would be developed once the opinion was received.

The Chair noted that the member of the public, Mr Nigel Behan, who had submitted questions about the external auditor's value for money assessment was not present, however his questions were considered in his absence. Question 1 Relates to Preliminary Findings (p16) where it states: "Elements of this total underspend were as a result of a combination of: nonrecurring; one-off; technical savings (e.g. minimum revenue provision totalling £4.2m benefit in 2018/19); additional use of the capital flexibilities (which was budgeted at £2.6 million but £8.6 million used), and; unplanned additional central government income (including £2.5 million extra adult social care funding)." If in the current (and future) years the nonrecurring; one-off: technical savingsunplanned additional central government income, etc. are not available (as they were in 2018/19) how does this impact on the risks of unbalanced budgets and the depletion of reserves?

In response the Interim Director of Finance stated that there had been significant work carried out on service budgets during 2018/19 to ensure that budget estimates were robust, as confirmed in the statement of accounts at the year end. At the same time opportunities were taken to increase the level of reserves – adding over £20m across the year. A balanced budget for 2019/20 budget had been agreed by the Council last February. This included plans to further increase reserves and had made no assumptions about one-off or non-recurring funding being received.

Question 2 Level of Reserves- Comparison across County Councils (Source: individual councils' unaudited financial statements for 2018/19 from individual council websites P17) According to the chart for 2018/19 SCC appears to be still hold a low position of reserves in relation to the other County Councils and is only higher than overspending (children's services being one of the main areas responsible) "Troubled Northamptonshire CC" (The MJ 11th July 2019).

What is the likelihood of increasing the general and earmarked reserves (and removing negative reserves) without adverse consequences on service provision?

In response the Interim Director of Finance noted the Council took opportunities during 2018/19 to eliminate most of its negative reserves. The largest remaining, linked to Dedicated School Grant pressures, was a nationally recognised issue and the Council, along with other Councils, had submitted a deficit recovery plan to Government last month. Reports to the Cabinet last June and July, had detailed how the financial turnaround in 2018/19 had been achieved at the same time as sustaining good performance across services.

Question 3 Relates to p16 -18 where it is stated (by the external auditors): “In order to arrive at the appropriate VFM (Value For Money) conclusion for 2018/19 we are now seeking more assurances over the embeddedness of the improvement arrangements. We recognise the good progress that has been made over the last 10 months but also note that reserves and balances, despite the increases in year, provide limited resilience should significant overspends emerge in the future. This risk of future overspends, in our experience, is a particular risk at county councils given their limited ability to raise additional income but also given that a significant and generally increasing percentage of their total spend is take up funding social care which continues to be under increasing pressure due to demand and unit cost increases. We therefore want to, before issuing our VFM conclusion for 2018/19, gain more confidence over the robustness of the Council’s MTFP and in particular the deliverability of the Children Services and Adults Services budgets through to 2021/22. We have therefore asked our social care colleagues from our Public Sector Advisory team to act as ‘auditor’s experts’ and provide us with their assessment of the robustness and realism of the Children’s and Adult Social Care annual budgets within the Council’s MTFP. The review to include consideration of the robustness of savings plans. As a result of this proposed additional work we are unable to conclude our VFM conclusion by 31 July 2019. Our auditors expert are aiming to complete this work by the end of August 2019 and we proposed to use their findings to inform our final VFM conclusion for 2018/19 that will be reported to the Audit Committee at their September 2019 meeting.”

What are the potential consequences if the ‘auditor’s experts’ concludes that the “Children’s and Adult Social Care annual budgets within the Council’s MTFP” are discovered (assessed) to be not robust and realistic (recalling that the Children’s Services net budget was rebased in 2018/19 from approximately £66m to approximately £85m)?

In response the Chief Executive replied that both the external auditors and Officers were not concerned about the social care budgets being robust for the current financial year (2019/20) following the full re-basing exercise undertaken during 2018/19 to ensure that the services budgets were based on latest information. The first budget monitoring report (seen by Cabinet in July) had confirmed this, and the second report, to be published in the next few days, continued this positive trajectory. The additional work to be carried out sought to assess the level of confidence in the budgets into 2020/21 and beyond. As is usual practice, the Council was working on its medium-term financial plan where all assumptions including around funding, savings and costs pressures

were being reviewed and updated based upon the latest information. He confirmed that any audit conclusions would be reflected in this forward planning.

During the consideration of the report, issues/concerns were raised, questions asked/answered and further information was provided on:

- On the subject of reserves, there was a brief discussion of a bar graph in the external auditor's report and it was noted that Councils varied in how they recorded/treated reserves, including the dedicated schools grant (DSG) and any comparison was therefore an 'art not a science';
- Concern was expressed that the external auditors couldn't provide a VFM conclusion and Mr Barber noted that he was considering an improved rating, but he couldn't conclude his work and provide his opinion yet;
- It was asked if the auditors would recommend the costs/funding allocations of various services through the MTFP, and Mr Barber noted it was for the Council to make decisions about funding, but he could advise about risks;
- It was asked what the Council had to do to get to a 'Northamptonshire level' and in response Mr Barber noted that if he had concerns about the Council's viability, and in his opinion, nothing was being done to address those issues, he could make a statutory recommendation;
- There was a question about the work of the external auditors looking at general issues or those more specific to Somerset and comparing how other Councils dealt with the same issues and in response it was stated the auditors looked at factors specific to Somerset whilst also being mindful of wider pressures and general impacts;
- On the Council's Minimum Revenue Provision (MRP) it was noted that Officers had been engaged with the external auditors since last November on the change of MRP approach and it was recognised as not a one off an adjustment and that it would bring benefits over several years, including budget setting preparations;
- There was a question about how the Council was planning for the UK's withdrawal from the European Union, known as 'Brexit' and if there were plans for a no-deal Brexit. In response it was noted that the Council was planning to mitigate the potential impacts of 'Brexit' such as looking at its workforce and arrangements with suppliers;
- There was a proposal for the Committee to receive an update report at its next meeting on the Council's planning for a no-deal 'Brexit' and the Chair suggested the proposal be considered during the workplan agenda item.

Following consideration of the reports, the Committee agreed unanimously, to approve:

- The audited Statement of Accounts for 2018/19 (Appendix A);
- The Letter of Representation for 2018/19 (Appendix B);
- The updated Annual Governance Statement as included within the Statement of Accounts (section 6).

The Committee considered these reports that summarised the findings from the 2018/19 external audit of the Pension Funds financial statements. Members were informed that this was a positive report for the Council as the external auditors had indicated that the accounts have received an unqualified opinion.

The formal process of closing the Pension Fund's 2018/19 accounts, requires the Chief Financial Officer to approve the draft statement of accounts by 31 July.

The Service Manager – Investments provided an explanation of the practical impacts of the 'McCloud judgement' and the effects both positive and negative of the continuing devaluation of sterling. Members noted that at 31 March 2019 the overall value of the Fund stood at £2.2bn

There was a brief discussion regarding the administration of pensions benefits payable; the impact on the fund regarding redundancy and transfers of staff and the external auditors' recommendation for journals to be authorised by a second person.

Members further noted the action plan included in the report, and there was a discussion on the level of materiality figure as this had increased during the audit to reflect the overall value of the Pension Fund.

The Committee agreed, unanimously, to:

- Approve the audit accounts of the Pension Fund for 2018/19; and
- Approve the letter of representation on behalf of the Council.

143 **Committee Future Workplan** - Agenda Item 7

The Committee noted the report that listed future agenda items and reports for the next meeting on 19 September 2019, and the report was accepted.

There was a discussion about a topic raised during consideration of the Statement of Accounts concerning the Council's preparation in respect the UK not reaching an agreement regarding its withdrawal from the European Union (EU), referred to as a 'no deal Brexit'. The Chief Executive confirmed that although the Council had considered the implications of and had prepared in respect of the UK's departure from the EU there was not a specific risk log or plan in respect of a 'no deal Brexit'. The Monitoring Officer noted that at the September meeting the Committee was due to receive a quarterly update on the Council's Strategic Risk Register and that an update on the preparations in respect of 'Brexit' could be incorporated.

Cllr Rigby proposed, and Cllr Davies seconded a proposal that a report of the risk log of the Council's preparations for a 'no deal Brexit' be brought as a standing item to each future Committee meeting; 3 Members of the Committee voted for his proposal with 5 votes against.

It was requested that the work plan for the next meeting provide details of the agenda items for the Committee's meeting over the forthcoming year.

The Chair noted that the Committee would receive an update on the partial audit opinion regarding Discovery at a future meeting, and the Vice Chair suggested that Officers work more closely with the external auditors so that further land valuation disputes might be avoided.

144 **Any other urgent items of business** - Agenda Item 8

The Chair, after ascertaining there were no other items of business, thanked all those present for attending and closed the meeting at 12.20.

(The meeting ended at 12.20 pm)

CHAIRMAN

The Annual Audit Letter for Somerset County Council and Pension Fund

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August 2019



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Section

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Appendices

- A Reports issued and fees

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 the Pension Fund for the year ended 31 March 2019.

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 Report on 30 July 2019.

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Our work

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 and Pension Fund's financial 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). As at the time of issuing this letter our work in this area for 2018/19 remains outstanding.

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

Materiality

We determined materiality for the audit of the Council's financial statements to be £14.3 million, which is 1.75% of the Council's gross revenue expenditure.

We determined materiality for the audit of the Pension Fund's financial statements to be £21.8 million, which is 1% of the total net assets.

Financial Statements opinion

We gave an unqualified opinion on the Council's and Pension Fund's financial statements on 31 July 2019.

Whole of Government Accounts (WGA)

We are currently undertaking our work on the Council's consolidation return following guidance issued by the NAO. The deadline for completion of this work is the 13 September 2019.

Executive Summary

Value for Money arrangements In order to arrive at the appropriate VFM conclusion for 2018/19 we are seeking more assurances over the embeddedness of the arrangements in respect of sustainable resource deployment. This necessitates further work around the robustness of the Council's MTFP and in particular the deliverability of the Children Services and Adults Services budgets through to 2021/22.

As a result of this proposed additional work we were unable to conclude our VFM conclusion by 31 July 2019. Our auditor's experts are aiming to complete this work by the end of August 2019 and we proposed to use their findings to inform our final VFM conclusion for 2018/19 that will be reported to the Audit Committee at their September 2019 meeting.

Use of statutory powers and Certificate

We have not exercised any of our additional statutory powers or duties.

We are unable to certify the closure of the 2018/19 audit of Somerset County Council in the audit opinion due to the following:

- Outstanding VFM work in respect of demand lead budgets yet to be concluded (work due to complete by September 2019)
- Whole of Government Accounts statement (deadline 13 September 2019)
- Opinion on the consistency of the pension fund financial statements with the Pension Fund Annual Report (deadline 1 December 2019)

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council and Pension Fund 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 financial statements to be £14.3 million and determined materiality for the audit of the Pension Fund financial statements to be £21.8 million.

We also set a lower level of specific materiality for senior officer remuneration at the Council of £0.02 million due to the sensitive nature of these.

We set a lower threshold of £0.713 million for the Council and £1.090 million for the Pension Fund, above which we reported errors to the Audit Committee, as Those Charged with Governance, in our Audit Findings Reports.

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 financial statements and the annual governance statement published alongside the financial statements to check it is consistent with our understanding of the Council and Pension Fund.

We carried out our audits 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 opinions.

Our audit approach was based on a thorough understanding of the Council and Pension Fund business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements (Council)

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of property, plant and equipment</p> <p>The Council revalues its land and buildings on a rolling basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>We:</p> <ul style="list-style-type: none"> evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work evaluated the competence, capabilities and objectivity of the valuation expert discussed with the valuer to confirm the basis on which the valuation was carried out challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding tested revaluations made during the year to see if they had been 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 has satisfied themselves that these are not materially different to current value at year end. 	<p>Our audit work identified one issue regarding the downward revaluation of schools land that was not subject to a formal valuation in year. This application of an average reduction to schools land not subject to a formal valuation in the year, was in our view, not an appropriate basis for revaluing these assets as the reduction did not consider the specific factors of each asset individually in arriving at the appropriate carrying value.</p> <p>Based on our own application of relevant indices to the population, we were satisfied that this did not give rise to a material difference based on our different estimation techniques.</p> <p>With the exception of the issue above, we did not identify any further issues in relation to property, plant and equipment.</p>
<p>Management override of internal controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We</p> <ul style="list-style-type: none"> evaluated the design effectiveness of management controls over journals analysed the journals listing and determine the criteria for selecting high risk unusual journals tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness with regard to corroborative evidence evaluated the rationale for any changes in accounting policies, estimates and significant unusual transactions 	<p>Our work did not identify any issues in respect of management override of controls to bring to your attention.</p>

Audit of the Financial Statements (Council)

Significant Audit Risks - continued

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of pension net liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>We:</p> <ul style="list-style-type: none"> updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing the additional procedures suggested within the report; and obtained assurances from the auditor of Somerset Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. 	<p>The Court of Appeal has ruled in its McCloud judgement that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members.</p> <p>The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy.</p> <p>In light of this decision the Council requested from their actuary a full detailed ISA 19 report to include an assessment of the impact of the McCloud liability. This identified an additional liability at the 31 March 2019 of £13.168 million in relation to the McCloud adjustment on the Local Government Pension Scheme. The Council has adjusted for this in the final accounts.</p> <p>Our work did not identify any issues in respect of the pension net liability.</p>

Audit of the Financial Statements (Pension Fund)

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of level 3 investments</p> <p>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.</p> <p>We identified the valuation of level 3 investments as a risk requiring special audit consideration</p>	<p>We:</p> <ul style="list-style-type: none"> 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 consider 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 gain an understanding of how the valuation of these investments has been reached; and 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 agreeing these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2019 with reference to known movements in the intervening period. 	<p>Our audit work did not identify any issues in respect of the valuation of these investments</p>
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	<p>We:</p> <ul style="list-style-type: none"> evaluate the design effectiveness of management controls over journals Analysed the journals listing and determine the criteria for selecting high risk unusual journals tested high risk journals recorded during the year and after the draft accounts stage for appropriateness and corroboration gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions 	<p>Our audit work did not identify any issues in respect of management override of controls.</p>

Audit of the Financial Statements (Pension Fund)

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Actuarial Present Value of Promised Retirement Benefits Actuary Data</p> <p>IAS26 requires whole fund valuations to be undertaken to give the present value of pension liabilities. This requires an actuarial valuation which by their nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>The Pension Fund have opted for option A which requires the present value of net liabilities to be disclosed within the Net Asset statement.</p> <p>We identified the actuarial present value of Promised Retirement Benefits Actuary Data as a significant risk</p>	<p>We:</p> <ul style="list-style-type: none"> evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; tested the consistency of the liability disclosed in the core financial statements with the actuarial report from the actuary; undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report. 	<p>As with the Council (page 7) the Pension Fund was affected by the McCloud ruling regarding age discrimination. The impact was a £30.295 million, material adjustment to the actuarial present value of promised retirement benefits disclosed in the net asset statement within the financial statements. The Pension Fund has adjusted for this in the final accounts.</p> <p>Our audit work did not identify any issues in respect of the Actuarial Present Value of Promised Retirement Benefits.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council and Pension Fund's financial statements on 31 July 2019.

Preparation of the financial statements

The Council and Pension Fund presented us with draft financial statements in accordance with the national deadline. All information and explanations requested from management were provided.

Issues arising from the audit of the financial statements

We reported the key issues from our audits to the Audit Committee on 30 July 2019.

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 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 and Pension Fund.

Whole of Government Accounts (WGA)

We are currently undertaking our work on the WGA submission, the deadline for this is the 13 September 2019.

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, or to apply to the Court for a declaration that an item of account is contrary to law.

We have not exercised any of our additional statutory powers or duties.

Certificate of closure of the audit

We are unable to certify the closure of the 2018/19 audit of Somerset County Council in the audit opinion due to the following:

- Outstanding VFM work in respect of demand lead budgets yet to be concluded (work due to complete by September 2019)
- Whole of Government Accounts statement (deadline 13 September 2019)
- Opinion on the consistency of the pension fund financial statements with the Pension Fund Annual Report (deadline 1 December 2019)

Value for Money conclusion (Council only)

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 risks where we concentrated our work.

The one risk we identified and the work we performed to date are set out overleaf.

Overall Value for Money conclusion

As noted earlier in this report, in order to arrive at the appropriate VFM conclusion for 2018/19 we are seeking more assurances over the embeddedness of the arrangements in respect of sustainable resource deployment. This necessitates further work around the robustness of the Council's MTFP and in particular the deliverability of the Children Services and Adults Services budgets through to 2021/22.

As a result of this proposed additional work we were unable to conclude our VFM conclusion by 31 July 2019. Our auditor's expert are aiming to complete this work by the end of August 2019 and we proposed to use their findings to inform our final VFM conclusion for 2018/19 that will be reported to the Audit Committee at their September 2019 meeting.

Value for Money

VFM work undertaken during the year

Given the qualified 'adverse' value for money conclusion last year we have committed significant time and resource to engaging with the Council at all levels to gain a full understanding of the changes being implemented to address our concerns.

During the audit year we have provided regular challenge and feedback to the senior leadership within the Council on progress against our 7 recommendations arising from our review last year. We have also provided regular feedback to the Audit Committee as Those Charged with Governance via our progress reports.

Our work has focused on, but has not been limited to assessing:

- How budget setting, monitoring and outturn reports facilitate challenge of and delivery against budget;
- Whether budget setting is sufficiently robust to set a realistic and achievable budget based on the requirements of demand led services and with regard to prior year performance and outturn;
- The consistency between the original revenue budget and in-year financial monitoring including clear reporting on the delivery of savings that facilitate challenge and corrective action where overspends are identified;
- The robustness of challenge to in-year financial monitoring reports and action taken in response to in-year overspends and ensuring these are appropriately evidenced;
- The adequacy of year end financial reporting to members to 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;
- The compliance with the Capital flexibilities guidelines requiring all identified projects to be included in the budget process and approved prior to the financial year along with achievement against prior year projects;
- The adequacy of the annual Section 25 assessment by the Director of Finance with regard to the adequacy of both general fund and earmarked reserves including any proposed actions to strengthen these going forward; and
- The consideration of the appropriateness of holding negative earmarked reserves.

Improvements in arrangements

Since our report in July 2018 we have seen improvements in the Council's arrangements to deliver sustainable resource deployment. Specifically:

- Improved in year reporting of performance against the budget, facilitating understanding and challenge where appropriate to delivering the budget (better narrative including more explanation of variations, details on the use of capital flexibilities and descriptions of corrective action to be taken)
- Recognition that the original 2018/19 budget was not fit for purpose and required rebasing to combat forecast overspend in Children Services part way through the financial year (clear evidence of the Council grasping the challenge and recognising the need to make the difficult decisions to bring the budget back in line resulting in an additional £15.9m of funding going into Children Services mid-year)
- Taking the difficult decision to introduce further savings in year (MTFP2) to ensure delivery against budget
- Improved identification, monitoring and delivery of budget and both savings plans (MTFP1+2) including clear evidence of timely challenge to variances and holding budget holders to account
- Clearer communication of delivery in year within the 2018/19 outturn report to Cabinet in June including where savings have been made, revenue savings note, greater detail on capital flexibilities etc.
- More robust approach to setting a realistic and achievable budget for 2019/20 including appropriate consideration of the latest outturn projections in 2018/19. The budget includes all expected known pressures such as realistic allowances for pay awards that were absent from previous budgets
- Greater focus on the basis of the MTFP with further contributions to reserves being set-aside and clearer identification of savings to address budget gaps

Preliminary Findings

The improvements set out on the previous page have facilitated a much improved outturn position for 2018/19 with the Council reporting a overall underspend against budget of £5.9 million. This underspend masks a greater underspend that has enabled the Council to increase the combined value of its general fund balances and earmarked reserves by a total of £20.4 million over the last 12 months providing more resilience in this area.

Elements of this total underspend were as a result of a combination of: non-recurring; one-off; technical savings (e.g. minimum revenue provision totalling £4.2m benefit in 2018/19); additional use of the capital flexibilities (which was budgeted at £2.6 million but £8.6 million used), and; unplanned additional central government income (including £2.5 million extra adult social care funding). This nonetheless marks a significant step in the Council's turnaround plan and stops a trend of annual overspends seen in recent years.

	31.3.18 £000's	31.3.19 £000's	Movement £000's
General Fund (excluding schools)	20,929	17,689	-3,240
Earmarked reserves	2,820	26,494	23,674
TOTAL	23,749	44,183	20,434

Within the earmarked reserves total of £26.5 million at 31 March 2019 is £10.2 million of negative earmarked reserves, a reduction from £19.5 million in the previous year. The largest of these is the Dedicated Schools Grant (DSG) with a cumulative deficit of £6.7 million, up from £3.9 million in the previous year. Despite the Council having submitted the required DSG Three-year Deficit Recovery Plan to the Department for Education (on 28 June 2019) that sets out the plans to recover this deficit, the increasing deficit against this reserve remains a concern and places further pressure on the already depleted financial position of the Council.

Our VFM conclusion covers the whole of 2018/19 and we note that at the start of the 2018/19 year it was the poor budget setting process that resulted in the need for reactive emergency measures to identify and deliver further savings to balance the budget

Clearly for a number of the weaknesses identified in arrangements in our report in July 2018 could not have been fully addressed in the intervening 10 months and the Council will only be able demonstrate improvements against all areas over an extended period of time.

Our commentary against the recommendations made last year highlight progress but also further scope to strengthen arrangements going forward.

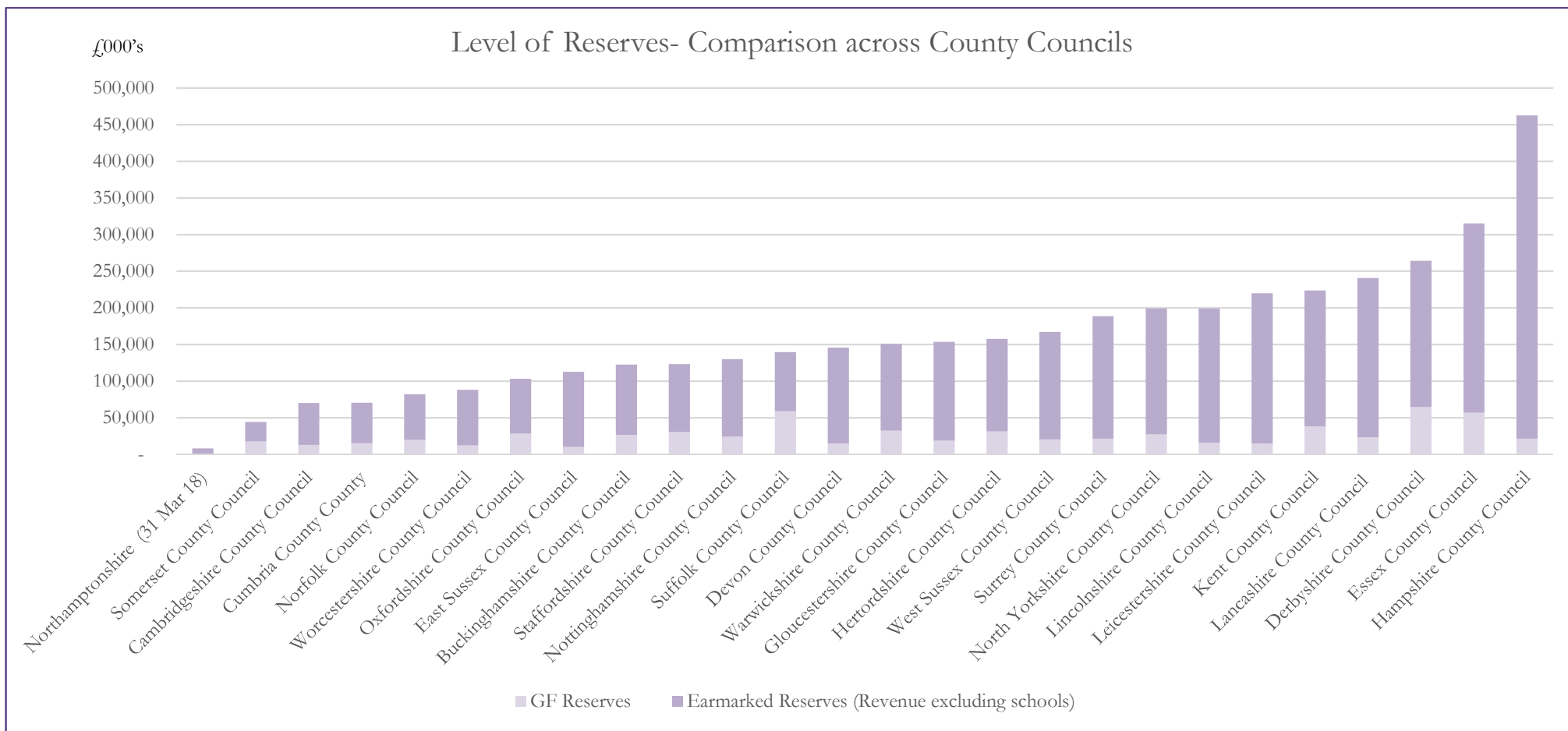
Internal Audit in their Healthy Organisation Report of January 2019 also identified within its financial management section, which was given an 'amber' rating areas of improvement over the last 12 months but also recognised further areas for attention.

The Corporate Peer Challenge: Follow up Visit of April 2019 commented on the Council's positive response to it's financial challenges indicating it has faced these with 'vigor', also noting the marked improvement in its financial position. The report went on to highlight that in their view, the future demand and growth forecasts into the medium term seemed relatively modest.

In our view, the improvement in the total level of general fund and earmarked reserves has only gone so far in restoring the balance sheet to a position that provides resilience into the medium term. The low level of earmarked reserves compared with peers still provides limited capacity to absorb any unexpected future financial pressures (see table on next page) and this remains an area of concern.

However, the biggest continued concern we have as your auditors remains the ability of the Council to balance its books into the medium term. Our high level analysis of the budget allocations to both Children Services and Adults Services across the MTFP indicates low levels of growth over the next 3 years in both areas and reflects the impact of increased debt charges (principal and interest) restricting the ability of the Council to increase budgets in line with historic annual increases in spend.

VFM work undertaken during the year (continued)



Source: individual councils' unaudited financial statements for 2018/19 from individual council websites

Please note: these figures do reflect inconsistent treatment of any DSG deficit treatment at individual councils

Completion of the VFM audit

In order to arrive at the appropriate VFM conclusion for 2018/19 we are now seeking more assurances over the embeddedness of the improvement arrangements. We recognise the good progress that has been made over the last 10 months but also note that reserves and balances, despite the increases in year, provide limited resilience should significant overspends emerge in the future.

This risk of future overspends, in our experience, is a particular risk at county councils given their limited ability to raise additional income but also given that a significant and generally increasing percentage of their total spend is take up funding social care which continues to be under increasing pressure due to demand and unit cost increases.

We therefore want to, before issuing our VFM conclusion for 2018/19, gain more confidence over the robustness of the Council's MTFP and in particular the deliverability of the Children Services and Adults Services budgets through to 2021/22.

We have therefore asked our social care colleagues from our Public Sector Advisory team to act as an 'auditor's expert' and provide us with their assessment of the robustness and realism of the Children's and Adult Social Care annual budgets within the Council's MTFP. The review is to include consideration of the robustness of savings plans.

As a result of this proposed additional work we are unable to conclude our VFM conclusion by 31 July 2019. Our auditors expert are aiming to complete this work by the end of August 2019 and we proposed to use their findings to inform our final VFM conclusion for 2018/19 that will be reported to the Audit Committee at their September 2019 meeting.

Statutory Recommendation

Our report last year also highlighted the possibility of issuing a statutory recommendation should the Council not have changed and implemented improvements in arrangements over the last 10 months and performance not improved. We are pleased to report that the improvements seen since July 2018 now mean that the risk of us having to issue such a recommendation has reduced significantly.

A. Fees - Council

We confirm below our final proposed fees charged for the audit and provision of non-audit services. Please note that these proposed additional fees are estimates based on our best projection of work and will be subject to approval by PSAA in line with the Terms of Appointment.

Estimated additional Audit Fees

Area of work	Timing	Comment	£
Assessing the impact of the McCloud Ruling	June – July 2019	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we considered the impact on the financial statement along with any audit reporting requirements. This included consultation with our own internal actuary in their capacity as an auditor expert.	3,000
Pensions – IAS 19	June-July 2019	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year.	3,000
PPE Valuation – work of experts	June-July 2019	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE Valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	3,000
VFM conclusion a) The audit team	Sept 2018-July 2019	Additional scrutiny of VFM financial resilience arrangements during the 2018/19 audit cycle including monthly meetings with the Director of Finance	10,800
b) The auditors expert	August 2019		

Total Audit Fees

Audit fee	Actual 2017/18 fee £	Planned 2018/19 fee £	Final 2018/19 fee £
Council Audit	99,873	76,902	76,902
Additional Audit Fee (see above)	11,336	TBC	TBC
Total audit fees (excl VAT)	111,209	TBC	TBC

Non Audit Fees

Fees for other services	Fees £
Audit related services:	
Certification Audit (Teachers' Pensions and School-Centred Initiated Teacher Training claims)	7,950
Total fees for other services	7,950

A. Fees – Pension Fund

We confirm below our final proposed fees charged for the audit.

Planned Audit Fees

Our Audit Plan included a PSAA published scale fee for 2018/19 of £18,371. Our audit approach, including the risk assessment, continues as the year progresses and fees are reviewed and updated as necessary as our work progresses.

Update to our risk assessment – additional work in respect of the audit code

The table below sets out the additional work which we have undertaken to complete the audit, along with the impact on the audit fee where possible. Please note that these proposed additional fees are estimates based on our best projection of work and will be subject to approval by PSAA in line with the Terms of Appointment. Note as these fees have not been finalised at this stage they are not included within the audit fee disclosure within the statement of accounts.

Additional Audit Fees

Area of work	Timing	Comment	£
Assessing the impact of the McCloud ruling	June-July 2019	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we considered the impact on the financial statements along with any audit reporting requirements. This included consultation with our own internal actuary in their capacity as an auditor expert.	1500

Total Audit Fees

	Actual 2017/18 fee £	Proposed 2018/19 fee £	Final 2018/19 fee £
Pension Fund Audit	23,859	18,371	18,371
Additional Audit Fees (see above)			1,500
Total audit fees (excluding VAT)	23,859	18,371	19,871

A. Audit Related Services Fees – Pension Fund

In addition to the audit fees we set out below our final proposed fees for audit related services provided during the course of our audit. Note as these fees have not been finalised at this stage they are not included within the audit fee disclosure within the statement of accounts.

Audit related	£	Description
<p>IAS 19 assurance letters to other auditors In addition to the audit of the main financial statements, we are also responsible for the audit of the Pension Fund. In that capacity, we have been contacted by the audits of 8 other local authorities who are admitted bodies of the pension scheme to provide assurance in terms of our work on the Pension Fund audit. Both PSAA, in the Terms of Appointment, and the National Audit Office, in its Auditor Guidance Notes, expects that auditors will cooperate with other local government auditors and therefore we are required to respond.</p> <p>We are required to respond to requests received from other auditors of admitted bodies for assurance in respect of information held by the Fund and provided to the actuary to support their individual IAS 19 calculations.</p>	£7,000	<p>The Financial Reporting Council has highlighted that the quality and scope of work by audit firms in respect of IAS 19 assurance letters needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year.</p> <p>Historically the cost of this work has been absorbed within the audit fee of the administering and admitted bodies. Given the lower fees we are now recovering the cost of this extra work through an additional invoice to Somerset Pension Fund. It will be for the Pension Fund to determine any appropriate recharges. For 2018/19 IAS 19 letters of assurance were provided to the following admitted bodies of Somerset Pension Fund.:</p> <ul style="list-style-type: none"> • Somerset County Council • South Somerset District Council • Mendip District Council • Sedgemoor District Council • Taunton Deane District Council • West Somerset District Council • Exmoor National Park • Avon and Somerset Police and Crime Commissioner <p>Our estimate is that the fee for this will be £3,000 plus an additional £500 for each local government body which requests a letter of assurance.</p>

A. Reports issued

We confirm below our final reports issued

Reports issued

Report	Date issued
Audit Plan (Council & Pension Fund)	January 2019
Audit Findings Report (Council & Pension Fund)	July 2019
Annual Audit Letter (Council & Pension Fund)	August 2019



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Somerset County Council Value for Money Conclusion update



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Section

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2. VFM conclusion
3. Additional Fees

Appendices

- A. Childrens and Adults auditor expert findings
- B. Follow up of prior year recommendations
- C. Audit opinion to include VFM conclusion

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Summary

Audit Committee 30 July 2019

We presented our Audit Findings Report for Somerset County Council ('the Council') to the Audit Committee as Those Charged with Governance on 30 July 2019.

In this report we indicated our intention to issue an unqualified audit opinion on the Council's financial statements for 2018/19. This opinion was subsequently issued on the 31 July 2019.

At the same meeting we indicated that we were unable to conclude our VFM conclusion for 2018/19 because we needed more assurances over the embeddedness of the arrangements in respect of sustainable resource deployment. Specifically, in order to arrive at the appropriate VFM conclusion further work was required around the robustness of the Council's Medium Term Financial Plan (MTFP). The focus of this work being the deliverability of the Children Services and Adults Services budgets through to 2021/22.

This further work has now been completed by our auditor's expert and this report summarises the findings of their review and the impact on the VFM conclusion. The full report from our auditor's expert has been provided to officers.

Findings

The additional work by our auditor expert has concluded that both Children's and Adults Services, in partnership with the corporate finance team, have strong financial measures in place with robust mechanisms to manage and monitor spend against the budget.

For Adults services we have confidence that the Council can deliver to the MTFP. The budget is consistent with the historical financial performance and is reflective of the transformation activity of the previous years and their continued grasp of cost and demand.

We believe there is greater risk against Children's services, given the historical financial performance and reduction in spend required to deliver to budget in 2019/20 and beyond. As a result of this risk, our auditor expert tested the budget against potential scenarios that may impact on spend. Given corporate contingency is sufficient to manage an external placement overspend and 3% increase in annual costs, we believe, there is sufficient capacity within the budget to manage this risk and deliver to the MTFP.

We also note that the '2019/20 Revenue Budget Monitoring – Quarter 1 (month 3) Report' to Cabinet in August 2019 indicates that the Council remains on budget with an overall projected balanced position for the Council and £6.1 million of the corporate contingency budget remaining unallocated. This provides further evidence of improvements in financial control across the Council.

A summary of the findings in each area and suggested actions arising from this additional work are set out in Appendix A.

Conclusion

Having considered all the evidence from our initial VFM conclusion work reported to Audit Committee in July 2019 supplemented by this additional assurance set out above and in the detail within this report, we are now satisfied that sufficient progress has been made since our Adverse VFM conclusion in 2017/18 to conclude that the financial challenges facing the Council are no longer pervasive to the whole Council.

Our VFM conclusion covers the whole of 2018/19 and we note that at the start of the 2018/19 year it was the poor budget setting process that resulted in the need for reactive emergency measures to identify and deliver further savings to balance the budget.

The Council is on a journey and we recognise that it still needs to demonstrate it can set a realistic and achievable budget that it can deliver to.

We commend the Council for the response to the Adverse conclusion last year and note that 4 of our 7 recommendations made last year have been completed, with work continuing to fully address the remaining 3. Appendix B provides the current position against each recommendation.

We are also reassured by the improvement in the total level of general fund and earmarked reserves since last year, but note that this has only gone so far in restoring the balance sheet to a position that provides resilience into the medium term. The low level of combined general fund balances and earmarked reserves compared with peers still provides limited capacity to absorb any unexpected future financial pressure and this remains an area of concern.

We therefore intend to issue an improved 'except for' VFM conclusion for 2018/19 concluding that the Council does have arrangements in place to ensure VFM in the use of its resources with the exception of its arrangements for ensuring sustainable resource deployment.

Importantly, This 'except for' rating recognises that there is still much to do within the Council to return it to a fully sustainable financial position and it is critical that continued effort is directed to ensuring the positive trajectory over the last 12 months continues.

Qualified except for VFM conclusion

Appendix C provides the proposed update to the auditors report that once signed by ourselves will need to be added to your published financial statements.

This updated opinion references the basis for the 'qualified except for' VFM conclusion as:

The Council set its original 2018/19 revenue budget in February 2018. Early in the financial year it became clear that this budget did not accurately reflect the Council's spending commitments and the pressing need to deliver further savings. In order to address these issues, the Council took several actions, including:

- *setting a new more realistic budget for children's services*
- *identifying and delivering additional savings*
- *making greater use of capital receipts to fund service transformation.*

The Council has increased its general fund and earmarked reserves from £23.7 million at 31 March 2018 to £44.2 million at 31 March 2019 (excluding school reserves). Despite this increase, these levels of reserves remain low in comparison to similar councils and provide limited capacity to absorb unexpected future financial pressures.

These matters are indicative of weaknesses in the Council's arrangements for strategic financial planning. They are evidence of weaknesses in proper arrangements for sustainable resource deployment in planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

We will continue to work with the Council over the next 12 months to assess further progress in addressing these areas for improvement.

Certification

At time of drafting this report we are unable to certify completion of the audit due to the following:

- Whole of Government Accounts statement (deadline 13 September 2019)
- Opinion on the consistency of the pension fund financial statements with the Pension Fund Annual Report (deadline 1 December 2019)

We will provide a verbal update on progress against each of these to the Audit Committee in September 2019.

Additional Fees

As set out in our Audit Findings Report presented to the Audit Committee on 30 July 2019 additional fees will be incurred in the delivery of the VFM conclusion for 2018/19.

We are now able to confirm that the additional fee for the auditor's expert work and our consideration of their findings will be £13,000.

Below is the total costs incurred in the year in discharging our responsibilities. Please note that these proposed additional fees will be subject to approval by Public Sector Audit Appointments in line with the Terms of Appointment.

Audit fee	Actual 2017/18 fee £	Scale 2018/19 fee £	Final 2018/19 fee £
Council Audit	99,873	76,902	76,902
Additional Audit Fee			
- Extra opinion work by auditor			9,000
- Extra VFM work by auditor	11,336		10,800
- Extra VFM work by auditors expert			13,000
Total audit fees (excl VAT)	111,209	76,902	109,702

Non –Audit Fees for other services	Fees £
Audit related services:	
Certification Audit	7,950
Total fees for other services	7,950

Children's - MTFP (2019-22) Funding Assessment

Risk	Level
Red	High
Amber	Moderate
Yellow	Low
Green	Very Low

Children's Services – MTFP Funding

Risk Assessment

Moderate

Children's Services are in the early stages of the journey to address historical cost and demand pressures and have introduced a number of measure to control and manage current demand. The rebasing of the budget has set a more realistic budget target for the service, albeit with challenging savings targets to reduce spend from previous years. Cost and market forces add to this pressure.

Given the need to contain current spend, along with the delivery of MTFP savings targets, there is a significant amount of pressure on the service to manage demand. These pressures can have a big impact on the projected budget and the potential to be overspent. This is reflected in the 2019/20 Revenue Budget Monitoring – Month 3 Highlight Report which reports a predicted overspend of £1.046m on external placements.

Given this position at Month 3, we have modelled a number of scenarios to test the ability of the service to deal with cost and demand pressure as part of the MTFP. There is sufficient contingency for up to a 3% increase on the budget, taking into account pay award and use of the Council's contingency fund.

Additional work has begun to better forecast demand for Children Looked After and Children in Need but more could be done to understand what is driving demand and where the significant cost pressures arise. This will help to understand future pressure and enable the service to generate a strategy to address this and ensure (as far as possible) it does not impact on the future budget.

As a result, there is a moderate risk to the delivery of the MTFP for Children's services. However, given an assumption that Children's Services will be the main beneficiary of the Council's Contingency Fund and the evidence from the risk scenario exercise carried out, we believe there is capacity to manage this risk.

The service has evidently embarked on a very positive change journey, which has created stronger financial grip, and a clear strategy. There are early signs these efforts are resulting in financial improvement.

Based on our analysis we suggest three areas of further action:

1. Whilst there is positive benefit to an improvement Partner, Council officer ownership and accountability for savings and demand management will be vital and should be considered.
2. We suggest, in the context of the MTFP, that better understanding and analysis of highest risk pressures is needed. Work on volatile cohort financial risk would given better direction to both transformation and financial management activity.
3. More work on placement sufficiency is required to ensure the Council gets best value for money in the context of dramatic increases (nationally) in the cost of placements.

Adults - MTFP (2019-22) Funding Assessment

Risk	Level
Red	High
Amber	Moderate
Yellow	Low
Green	Very Low

Adults Services – MTFP Funding

Risk Assessment

Very Low

Adults Services have come through a significant transformation programme which has brought actual and budget spend in line, and led to an underspend in 2017/18. The strategy has installed a service practice which ensures a focus on independence and as a result, keeps people away from high-cost placements whilst at the same time improving outcomes for the individual.

The current savings targets are on-track and reflect the expected continued impact in the way services are delivered. Where some cost and demand pressures exist with the LD cohort, measures are in place to contain this spend with limited additional pressure through the MTFP savings. This is further evidenced by the projected balanced budget position as per the 2019/20 Revenue Budget Monitoring – Month 3 Highlight Report.

Given the success of the last 3 years, and the current measures in place, there is a very low risk to the delivery of the MTFP for Adults Services. There is an opportunity to increase resilience through better demand forecasting for high cost cohorts. In addition, the success of the past 3 years of transformation has taken out much of the more obvious efficiencies in the system. The challenge for the service now is maintaining the positive benefits achieved and dealing with any unexpected or future pressures.

We suggest two main areas for action in further strengthening the financial resilience of the service:

1. Whilst there is a strong financial grip, demand for Adults is still rising nationally and the service could improve their modelling of future activity. Younger Adults with complex needs as well as a growing over 75's population could be areas for more strategic analysis/thinking.
2. There is an opportunity for the service, having stabilised their finances, to think further ahead in terms of service innovation and improvement of outcomes for SCC residents.

Follow up of prior year VFM recommendations

We made 7 recommendations as a result of our 2017/18 VFM conclusion work. We set out below progress against each of these recommendation.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue and recommendations
✓	<p>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.</p>	<ul style="list-style-type: none"> • The Council has reviewed and updated the format of the financial information reported to officers and members iteratively over the last 10 months. It is noted that the reports now include greater detail on overspends and the reason for them as well as tracking of delivery of the savings programmes, projected outturn and the likely year end reserve position. • Detailed financial information is provided to a wider cohort of forums including the relevant scrutiny committees for consideration of the financial performance in demand led services which are subject to the greatest amount of pressure. • Each in-year revenue budget monitoring report includes a 'headline summary table' in this appendix. Whilst this table is now much better with more detail than in previous years, for example providing movement from the previous report, it is our view not easy to interpreted how, for example, the 'non-service item (including Debt Charges)' line is reallocated over the service headings as the year progresses. • The 2018/19 revenue budget outturn report is much improved on the previous year providing recipients with a more transparent assessment of the true in year performance. We note that a further revision to the in-year revenue budget monitoring report effective from M2 2019/20 to provide more explanation around the table in the appendix. <p>Conclusion</p> <ul style="list-style-type: none"> • Good progress has been made in addressing this recommendation. • Going forward the Council should consult further with the recipients of its financial reports to determine whether they provide information in a digestible way, with the right level of detail and whether any areas require further refinement to fully inform future decision making. This may be facilitated through a workshop where decision makers have the opportunity to seek clarity on and aspects of the financial reporting they don't understand or where they believe the format could be improved.

Assessment

- ✓ Action completed
- P Partially addressed
- X Not yet addressed

Follow up of prior year VFM recommendations

We made 7 recommendations as a result of our 2017/18 VFM conclusion work. We set out below progress against each of these recommendation.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	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.	<p>2018/19</p> <ul style="list-style-type: none"> The month 2 forecast for 2018/19 identified a forecast £12.1m overspend that required senior management to review the appropriateness of the budget. This resulted in a rebasing of the budget in September 2018 with significant adjustments to both Children's and Adult Services, although there was no overall impact on the net budget requirement. The budget set in February 2018 was clearly not fit for purpose and required significant reworking including the identification of an extra £12m in savings to address the overspend. In the early part of 2018/19 the Council was facing another significant overspend but unlike previous years it 'grasped the nettle' and took decisive action, taking the difficult decision to make additional in-year cuts to deliver the savings necessary to regain financial control. <p>2019/20</p> <ul style="list-style-type: none"> The 2019/20 budget has been extensively reviewed and is much more robust. The Council have set a more realistic and achievable budget including appropriate consideration of the latest available outturn projections in 2018/19. The budget includes all expected known cost pressures such as realistic allowances for pay awards, reasonable growth in the demand lead areas of Children's and Adult Services that were absent from previous budgets. Appropriate consideration was given to potential future income flows and the budget includes a contingency of £7.2 million to provide resilience. For Children's, where the greatest inherent risk remains, the Council have been working with Peopletoo Ltd to ensure appropriate challenge to assumptions as well as to look at service redesign. MTFP The process for producing the MTFP has been reviewed to ensure, as with the annual budget, that all known pressures and savings requirements are included, thus ensuring a realistic picture of what the future costs to the Council are. The MTFP has also be constructed in such as way as to reduce the requirement for support through contingency and to recognise the increasing costs of servicing debt and the costs associated with pay awards. The Council continues to hold a contingency within the annual budget to provide resilience during the year. The contingency for 2018/19 of £7.2 million reduces over the life of the MTFP to £4.1 million in 2021/22 and beyond. The additional work in this area by our auditor experts in August 2019 and as set out earlier in this report provide further assurances of the robustness of the budgets through to 2021/22 for both Children's and Adult Services recognising suggested actions have been made to further strengthening the financial resilience in these areas. <p>Conclusion</p> <p>Good progress has been made in improving the robustness of the annual budget setting process and MTFP. As set out in Appendix A of this report scope exists to refine arrangements in this area to further strengthen arrangements going forward.</p>

Assessment

- ✓ Action completed
- P Partially addressed
- X Not yet addressed
- TBC To be confirmed

Follow up of prior year VFM recommendations

We made 7 recommendations as a result of our 2017/18 VFM conclusion work. We set out below progress against each of these recommendation.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	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	<ul style="list-style-type: none"> • Our review of the revised budget for 2018/19 and the in-year revenue budget monitoring reports indicates greater consistency between these documents. We note that the 2018/19 financial year saw some large variations in adjustments to the projected outturn position throughout the year, particularly in the area of capital flexibilities and contributions to and from reserves. • The delivery of savings is a key element of the Council's Financial Imperative Programme. In the in-year revenue budget monitoring reports detail on the delivery of savings is now much more comprehensive. • Our attendance at a joint meeting of Cabinet and SLT indicated a good level of scrutiny and challenge to delivery, focusing on variances against plan and savings. Budgets and savings targets are now subject to increased scrutiny across the organisation, with savings being reported to members via Cabinet, the Audit Committee and Scrutiny meetings. During the critical mid part of 2018/19 SLT were receiving weekly updates (now fortnightly) and there is greater evidence of budget holders being held to account locally. This has been facilitated through the budget management face to face workshops aimed at improving understanding and accountability. • Delivery of savings in 2018/19 is much improved despite the September 2018 rebased budget introducing a further £12.1 million on in year savings (MTFP2). Overall delivery of savings in 2018/19 was 85%, made up of 72% of MTFP1 and 95% of MTFP2. • The Council has also taken the decision to report savings on a service level rather than on a thematic basis which in our view has facilitated challenge and holding budget holders to account for delivery. <p>Conclusion</p> <p>Good progress has been made in addressing this recommendation with the approach to the identification and delivery of savings much more robust.</p>

Assessment

- ✓ Action completed
- P Partially addressed
- X Not yet addressed

Follow up of prior year VFM recommendations

We made 7 recommendations as a result of our 2017/18 VFM conclusion work. We set out below progress against each of these recommendation.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>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.</p>	<ul style="list-style-type: none"> • Although we are not present at SLT or Cabinet our review of minutes indicate increased documentation around financial delivery and where appropriate challenge and any resulting agreed action. • The attendance, for example, of the Director of Childrens Services along with the then Interim Director of Finance at a Scrutiny for Policies and Place Committee to provide assurance first hand on improved financial control in Childrens Services provides further evidence of accountability. • We attended, as an observer, the December 2018 Cabinet and Senior Leadership Team meeting. We observed constructive challenge to the projections and assumptions both for the 2018/19 and the draft 2019/20 budget. <p>Conclusion</p> <p>Good progress has been made in addressing this recommendation with clear evidence of rigour in the challenge, at all levels of the organisation, of the budget position.</p>

Assessment

- ✓ Action completed
- P Partially addressed
- X Not yet addressed

Follow up of prior year VFM recommendations

We made 7 recommendations as a result of our 2017/18 VFM conclusion work. We set out below progress against each of these recommendation.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
P	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.	<ul style="list-style-type: none"> The 2018/19 revenue budget outturn report is much improved on the previous year. The report is very explicit about the iterative improvements in projected outturn during the year, provides good level of details on balances and reserves including transfers, the use of capital flexibilities, savings performance as well as forward looking narrative on the challenges ahead. We note that the report does, however, continue to record different levels of General Fund balances £16.366 million compared with the draft financial statements presented for audit £17.689 million. Further information on projected balances, reserves and outturn amongst others has been communicated via a number of forums including, for example, the presentation by the Interim Director of Finance to Closed Cabinet on 1 April 2019. <p>Conclusion</p> <p>Although good progress has been made in improving the year end financial reporting we remain very much of the view that the internal financial reporting should mirror the year end financial position reported in the financial statements.</p>
P	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	<ul style="list-style-type: none"> There has been more detail provided on the use of capital flexibilities in the in year financial monitoring reports supplemented with information on prior year projects in the 2018/19 revenue budget outturn report that included reference the business cases supporting them. However, there has yet to be consideration of outcomes against the planned projects that is a requirement of the guidelines. Given the significant increase in the actual application of capital flexibilities applied in 2018/19, totaling £8.6 million against the original budgeted use of just £2.6 million more information should be disclosed going forward. <p>Conclusion</p> <ul style="list-style-type: none"> Again, as in 2017/18, the Council have complied with the spirit of the flexibilities. Disclosures on the nature of transformation has improved but there is still work to be undertaken to ensure full compliance.

Assessment

- ✓ Action completed
- P Partially addressed
- X Not yet addressed

Follow up of prior year VFM recommendations

We made 7 recommendations as a result of our 2017/18 VFM conclusion work. We set out below progress against each of these recommendation.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
P	<p>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.</p>	<ul style="list-style-type: none"> The then S151 officer has provided in his Section 25 report a more detailed analysis of his view on the adequacy of reserves both in terms of general fund and importantly earmarked reserves. It highlighted that these were of an acceptable level given the Council's strategy to strengthen them into the medium term. Negative Earmarked reserves – The Council has reduced the number and the value of its negative earmarked reserves from £19.7 million at 31 March 2018 to £10.2 million at 31 March 2019. Its large negative earmarked reserve is the Dedicated Schools Grant (DSG) with a cumulative deficit of £6.7 million which is shown under earmarked reserves. CIPFA and the Department for Education have issued a joint statement on DSG for 2018/19. The statement confirms that there is no statutory basis for having a negative earmarked DSG reserve. The Council recognises this is something that is ultimately a further pressure on its financial health should the proposed recovery plan (submitted to the Department for Education in accordance with guidelines on 28 June 2019) not deliver. The statement also confirms the guidance in LAAP bulletin 99 Local Authority Reserves and Balances remains extant i.e. it "neither anticipates nor allows for a voluntary earmarked balance to be presented in a deficit position." We recommend the Council continue to work to remove all negative earmarked reserves including the DSG negative reserve within earmarked reserves. <p>Conclusion</p> <p>The Section 25 report from the then S151 officer this year is much improved.</p> <p>The Council has made good progress in reducing the value of its negative earmarked reserves but the increasing deficit against the DSG reserve remains a concern and places further pressure on the already depleted financial position.</p>

Assessment

- ✓ Action completed
- P Partially addressed
- X Not yet addressed

Draft Audit opinion

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOMERSET COUNTY COUNCIL (the "Authority")

Issue of audit opinion on the financial statements

In our audit report for the year ended 31 March 2019 issued on 31 July 2019 we reported that, in our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- had been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- had been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Issue of audit opinion on the pension fund financial statements

In our audit report for the year ended 31 March 2019 issued on 31 July 2019 we reported that, in our opinion the pension fund financial statements of Somerset Pension Fund:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2019 and of the amount and disposition at that date of the fund's assets and liabilities;
- had been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- had been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

In our report dated on 31 July 2019, we explained that we could not formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we had completed our work to give our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. We have now completed this work.

Qualified Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, except for the effects of the matter described in the basis for qualified conclusion section of our report, we are satisfied that, in all significant respects, the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Basis for qualified conclusion

In considering the Authority's arrangements for securing efficiency, economy and effectiveness in its use of resources we identified the following matters:

The Council made a small underspend against its 2018/19 revenue budget. However, this was only achieved following the implementation of emergency measures midway through the financial year, including:

- setting a new budget for children's services
- identifying and delivering additional savings.

The Council has increased its general fund and earmarked reserves from £23.7 million at 31 March 2018 to £44.2 million at 31 March 2019 (excluding school reserves). Despite this increase, these levels of reserves remain low in comparison to similar councils and provide limited capacity to absorb unexpected future financial pressures.

These matters are indicative of weaknesses in the Authority's arrangements for strategic financial planning. They are evidence of weaknesses in proper arrangements for sustainable resource deployment in planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

Draft Audit opinion

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Delay in certification of completion of the audit

In our report dated on 31 July 2019, we explained that we could not formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we had:

- Issued our report on the consistency of the pension fund financial statements included in the Pension Fund Annual Report of Somerset Pension Fund with the pension fund financial statements included in the Statement of Accounts. As the Authority has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements.
- Completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the year ended 31 March 2019. We have yet to complete this work. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Until we have completed this work, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Draft Audit opinion

[typed signature]

Peter Barber, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Bristol

[Date]

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Value for Money - Recommendations Tracker

Service Director: Sheila Collins, Interim Director of Finance

Lead Officer: Sheila Collins, Interim Director of Finance

Author: Sheila Collins, Interim Director of Finance

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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 their Audit Findings Report for 2017/18 financial year, Grant Thornton, our external auditors made a number of recommendations for improvement in areas such as budget monitoring and budget planning. These were turned into a tracker.
- 1.2. At each meeting since September 2018, this Committee has reviewed progress on this tracker so that they can take the necessary assurance that suitable progress was being made to address these recommendations.

At this meeting the external audit is now presenting their value for money conclusion for the financial year 2018/19. This includes an up-date on the recommendations from a year ago as well as new recommendations.

This report attaches the new tracker that continues previous recommendations where relevant and adds new ones. This will become the tracker that is reviewed at each meeting throughout 2018/19.

2. Issues for consideration

- 2.1. Members are asked to note the final comments of the 2017/18 tracker (including supporting tracker) and be content that any outstanding actions have been transferred to the new tracker. (see Appendix 1 to this report).
- 2.2. Members are asked to consider the new tracker document and to be satisfied that this covers the relevant areas for focus for the next period (i.e. up until the value for money conclusion for 2019/20 is known). (see Appendix 2 to this report).

Members to note that the report prepared following the additional external auditors work, will be presented to the relevant Scrutiny Meeting in autumn 2019.

3. Background

- 3.1.** In July 2018 the external auditor concluded that the Council did not have effective value for money arrangements in place for 2017/18 and that the financial challenges facing the Council were pervasive to the whole Council and reached an 'adverse' value for money conclusion, the worse conclusion that the Council could get.

Since July 2018 the previous tracker recommendations have been recorded in the council's risk management system, JCAD and a report presented to each audit committee meeting for Members to review to gain assurance that appropriate action was being taken.

- 3.2.** At the last Audit Committee in July 2019, the external auditor indicated that they were unable to conclude their VFM work for 2018/19 because they required more assurances over the embeddedness of the arrangements in respect of sustainable resource deployment. Specifically, in order to arrive at the appropriate VFM conclusion further work was required around the robustness of the Council's Medium Term Financial Plan (MTFP). The focus of this work being the deliverability of the Children Services and Adults Services budgets through to 2021/22.

The external auditors report sets out a summary of this additional work, which has now been completed and includes their final improved VFM conclusion: 'qualified except for'. This improved VFM conclusion reflects the positive response by the Council throughout 2018/19 but also highlights the remaining weaknesses:

Grant Thornton conclusion says:

"This 'except for' rating recognises that there is still much to do within the Council to return it to a fully sustainable financial position and it is critical that continued effort is directed to ensuring the positive trajectory over the last 12 months continues".

In response this report therefore presents an up-dated VFM tracker that the Council will maintain through JCAD and report to each Audit committee meeting through 2019/20 to track progress.

4. Consultations undertaken

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

The Council plans to ensure the Policy and Place Scrutiny Committee (in October) considers the external auditors additional report in detail.

5. Implications

- 5.1.** The positive response to the recommendations made for 2017/18 by the council has been reflected in the latest external auditor's improved VFM conclusion. Nonetheless, the report stresses that the level of improvement needed required sustained focus during 2018/19 as well to continue and further embed improvements already made. 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 26 July 2018.

External auditor's annual findings Report to Audit committee form the Audit Committee of 30 July 2019.

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

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**Risk Description: Failure to deliver supporting actions identified at July 2018 Audit Committee
Review and potentially close when next GT VFM assessment completed**

	Target Date for completion	Status	Action Ref	Description of the Action/control	Action/Mitigation Owner	% Complete
Status: Completed (1)						
		Completed	GTVFMS0001/002	Implement mandatory training programme for all budget holding managers & officers accountable for expenditure	Sheila Collins	100
Status: Implemented (1)						
	15/02/2019	Implemented	GTVFMS0001/005	Requested Grant Thornton support to highlight examples of best practice elsewhere in their experience that would support us	Sheila Collins	100
Status: Withdrawn (3)						
	31/12/2019	Withdrawn	GTVFMS0001/001	Lobby central government for a fairer financial deal for Somerset, both immediately and for the Fairer Funding Review.	Sheila Collins	70
	31/03/2020	Withdrawn	GTVFMS0001/004	Seek financial solutions that are transformational in nature as opposed to simple service reductions	Sheila Collins	50
	31/07/2019	Withdrawn	GTVFMS0001/003	Offer all-member training events on general and specific financial matters.	Sheila Collins	80

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Risk Report - 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
GT VFM Support Tracker Page 61	GTVFMS0001	<p>Risk Description: Failure to deliver supporting actions identified at July 2018 Audit Committee</p> <p>Review and potentially close when next GT VFM assessment completed.</p> <p>Cause:</p> <p>Consequence:</p>		Any outstanding actions have been carried forward to the new tracker		Likelihood : Impact : 0	Likelihood : Impact :	06/09/2019 The new VFM tracker developed for 2019/20 takes forward any of the actions remaining to be complete from this tracker and incorporates them. This new tracker will be taken to Audit Committee on 19 Sept 2019
	GTVFM0001	<p>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.</p> <p>Suggest review for completion when next VFM assessment is undertaken, even if further improvements are to be made.</p> <p>Cause:</p> <p>Consequence:</p>		Any outstanding actions have been carried forward to the new tracker		Likelihood : Impact : 0	Likelihood : Impact :	06/09/2019 External Audit VFM report for 2018/19 confirms that this action is complete. (see report to Audit Committee of 19 September 2019). however, there are further improvements that can be made and these are reflected in the new VFM tracker for 2019/20 and will be reviewed at each Audit Committee meeting going forwards

	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	<p>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.</p> <p>Consideration should be given to closing this action when the outcome of the GT VFM assessment is known.</p> <p>Cause:</p> <p>Consequence:</p>		Any outstanding actions have been carried forward to the new tracker		Likelihood : Impact : 0	Likelihood : Impact :	06/09/2019 The external auditors VFM report for 2018/19 confirms that this action is complete (see VFM report to Audit committee on 19 September 2019). However, there is always room to improve further and additional actions under this heading have been included in the new VFM tracker for 2019/20
	GTVFM0003	<p>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.</p> <p>It is suggested that this action is closed when the outcome of the next GT VFM assessment is known.</p>		Any outstanding actions have been carried forward to the new tracker		Likelihood : Impact : 0	Likelihood : Impact :	06/09/2019 The external auditor confirmed in his VFM report for 2018/19 that this action is complete (See VFM report to Audit Committee on 19 September 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
		<p>Cause:</p> <p>Consequence:</p>						
	<p>GTVFM0004</p> <p>Risk Owner: Sheila Collins</p> <p>Next Risk Review Date:</p>	<p>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.</p> <p>Cause:</p> <p>Consequence:</p>		Any outstanding actions have been carried forward to the new tracker		<p>Likelihood : Impact :</p> <p>0</p>	<p>Likelihood : Impact :</p>	06/09/2019 External auditor has confirmed that this action is complete (see his VFM conclusion report for Audit committee on 19 Sept 2019)
	<p>GTVFM0005</p> <p>Risk Owner: Sheila Collins</p> <p>Next Risk Review Date:</p>	<p>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.</p> <p>Cause:</p> <p>Consequence:</p>		Any outstanding actions have been carried forward to the new tracker		<p>Likelihood : Impact :</p> <p>0</p>	<p>Likelihood : Impact :</p>	06/09/2019 External auditors report on VFM for 2018/19 confirms that good progress has been made on this action. As well as continuing the improvements made during 2018/19, the auditor has proposed new actions and these have all been included in the new VFM tracker for 2018/19.

	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
	GTVFM0006 Risk Owner: Sheila Collins Next Risk Review Date:	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:		Any outstanding actions have been carried forward to the new tracker		Likelihood : Impact : 0	Likelihood : Impact :	06/09/2019 The external auditor has concluded that good progress has been made during 2018/19 on this action. However, the need to continue improving is stressed in his new report and the specific actions planned to achieve this have been added to the new VFM tracker for 2019/20.
	GTVFM0007 Risk Owner: Sheila Collins Next Risk Review Date:	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:		Any outstanding actions have been carried forward to the new tracker		Likelihood : Impact : 0	Likelihood : Impact :	06/09/2019 The external auditor confirms that good progress has been made during 2018/19 and his VFM conclusion for 2019/20 recommends further actions that are reflected in the new 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

Report Selection Criteria

Level 1 Code=GTVFM - ISNULL(Project Code) - Status Code=40

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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
VFMY20001	<p>Risk Description: 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 the 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 o non-delivery will be flagged.</p> <p>Cause:</p> <p>Consequence:</p>		<ul style="list-style-type: none"> ○ Continue the improved revenue and capital reporting to Officers and Members established during 2018/19. Continue improvements to the content and layout of information to improve accessibility and user friendliness. This improved reporting includes to SLT, Cabinet, Scrutiny Committees, Full Council. Ensure links between MTFP and in-year budget monitoring are reported as relevant. <i>In Progress (10% complete)</i> ○ Develop the next phase of budget holder training to increase further financial literacy Develop a follow-up programme to that initiated in 2018/19 to increase the financial awareness among staff of their financial responsibilities and ensure they have the right tools / knowledge to carry these out effectively. <i>In Progress (10% complete)</i> ○ Liase with External auditors and LGA link officers to learn from their experience of best practice This learning likely to range from how to simplify our Statements of Accounts, to effective governance, to effective budget reporting and planning <i>In Progress (10% complete)</i> 	<p>Lizzie Watkin 14/10/2019 31/03/2020</p> <p>Lizzie Watkin 10/10/2019 31/03/2020</p> <p>Sheila Collins 14/10/2019 31/03/2020</p>	Likelihood : Impact : 0	Likelihood : Impact :	

VFM Tracker

	<p>VFMY20002</p> <p>Risk Owner: Sheila Collins</p> <p>Next Risk Review Date: 14/10/2019</p>	<p>Risk Description: The Council should ensure that a robust MTFP is built for 2020-23, in particular ensuring that base budget for each service area are realistic and achievable, having regard to the previous year's performance. As part of this process, consideration should be given, if any, should be set aside for unexpected pressures versus direct service line allocation.</p> <p>Cause:</p> <p>Consequence:</p>		<ul style="list-style-type: none"> ○ Ensure a robust MTFP process for 2020-23 Up-date the MTFP process to strengthen stakeholder engagement, service ownership of service pressures and savings, assessment of level's of confidence, review of reserves strategy and policy and consideration of appropriateness of levels of corporate contingency <i>In Progress (10% complete)</i> ○ Continue to take opportunities to ensure Central Government departments are aware of Somerset CC's financial position Be actively involved in relevant government consultations (including Spending Round 2019, Comprehensive Spending Review, FFR, BRR, ASC Green Paper etc.) <i>In Progress (10% complete)</i> 	<p>Sheila Collins 14/10/2019 28/02/2020</p> <p>Sheila Collins 14/10/2019 31/03/2020</p>	<p>Likelihood : Impact :</p> <p>0</p>	<p>Likelihood : Impact :</p>	
	<p>VFMY20003</p> <p>Risk Owner: Sheila Collins</p> <p>Next Risk Review Date: 14/10/2019</p>	<p>Risk Description: 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.</p> <p>Cause:</p> <p>Consequence:</p>		<ul style="list-style-type: none"> ○ Continue the sharpe focus on tracking savings delivery introduced in 2018/19 Sustain the fortnightly reporting to SLT and the monthly inclusion in revenue budget monitoring report. <i>In Progress (10% complete)</i> 	<p>Vikki Hearn 14/10/2019 31/03/2020</p>	<p>Likelihood : Impact :</p> <p>0</p>	<p>Likelihood : Impact :</p>	

VFM Tracker

	<p>VFMY20004</p> <p>Risk Owner: Sheila Collins</p> <p>Next Risk Review Date: 14/10/2019</p>	<p>Risk Description: Committees and meetings responsible for monitoring financial delivery should explicitly minute the challenge and actions taken, where necessary. These should be followed up at the next meetings to ensure proposed action is having the desired effect and to inform what further action, if any, is necessary.</p> <p>Cause:</p> <p>Consequence:</p>		<ul style="list-style-type: none"> ○ Continue to maintain effective minutes of challenges / discussions on financial matters and review at the next meeting This includes keeping notes and minutes at officer and member meetings (including SLT, Cabinet, Scrutiny, Full Council, Audit Committee). notes should cover challenge and review and capture agreed actions. <i>In Progress (10% complete)</i> ○ Continue to ensure that financial papers are presented regularly to appropriate meetings This includes officer meetings (SLT, DMT's) and Members (Cabinet, Full Council, Scrutiny, Audit committee) <i>In Progress (10% complete)</i> ○ Continue to develop more effective scrutiny Consider the recommendations for improving the Scrutiny function from the Centre to Public Scrutiny report completed in Summer 2019. <i>In Progress (30% complete)</i> ○ Ensure broader stakeholder engagement in financial position during MTFP (2020-23). Increase awareness of the councils financial position through stakeholder engagement at relevant stages of the MTFP process. <i>In Progress (10% complete)</i> 	<p>Scott Wooldridge 14/10/2019 31/03/2020</p> <p>Sheila Collins 14/10/2019 31/03/2020</p> <p>Scott Wooldridge 10/10/2019 31/03/2020</p> <p>Sheila Collins 14/10/2019 20/02/2020</p>	<p>Likelihood : Impact :</p> <p>0</p>	<p>Likelihood : Impact :</p>	
	<p>VFMY20005</p> <p>Risk Owner: Sheila Collins</p> <p>Next Risk Review Date: 14/10/2019</p>	<p>Risk Description: 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.</p> <p>Cause:</p> <p>Consequence:</p>		<ul style="list-style-type: none"> ○ Continue to make improvements to reports to Committees (Cabinet, Full Council, Scrutiny) Seek regular feedback from Members on reports and take actions to improve understandability where helpful. <i>In Progress (10% complete)</i> 	<p>Lizzie Watkin 14/10/2019 31/03/2020</p>	<p>Likelihood : Impact :</p> <p>0</p>	<p>Likelihood : Impact :</p>	

VFM Tracker

	<p>VFMY20006</p> <p>Risk Owner: Sheila Collins</p> <p>Next Risk Review Date: 10/10/2019</p>	<p>Risk Description: Capital receipts flexibilities: ensure all identified projects are included in the MTFP process accompanied by business cases that are approved prior to the financial year along with achievement against prior year projects. In-year reporting should up-date for any changes including newly identified projects or those projects that are delayed or unlikely to deliver.</p> <p>Cause:</p> <p>Consequence:</p>		<ul style="list-style-type: none"> ○ Ensure full compliance with capital flexibilities Ensure report on the improvements as a result of transformation funded through capital receipts. Ensure any business cases for use of capital receipts included in MTFP (2020-23) as relevant. <i>In Progress (10% complete)</i> ○ Continue reporting of use of capital receipts through budget monitoring <i>In Progress (10% complete)</i> 	<p>Jason Vaughan 18/11/2019 28/02/2020</p> <p>Lizzie Watkin 10/10/2019 31/03/2020</p>	<p>Likelihood : Impact :</p> <p>0</p>	<p>Likelihood : Impact :</p>	
Page 70	<p>VFMY20007</p> <p>Risk Owner: Sheila Collins</p> <p>Next Risk Review Date: 14/10/2019</p>	<p>Risk Description: The S151 Officer to articulate clearly in her / his report under Section 25 of the LG Act 2003 on the adequacy of reserves and balances, their view on the adequacy of both the General Fund and other reserves (earmarked), along with any proposed action to strengthen going forward. As part of this process, consideration should also be given to the appropriateness of holding negative reserves.</p> <p>Cause:</p> <p>Consequence:</p>		<ul style="list-style-type: none"> ○ Develop a strategy to eliminate negative reserves as part of the MTFP (2020-23) process. Ensure plans are built into the MTFP (2020-23) to eliminate any legacy negative reserves. <i>In Progress (10% complete)</i> ○ Review approach for drawn down on reserves to ensure tighter control <i>In Progress (10% complete)</i> ○ work closely with Schools Forum to progress the DSG deficit recovery plan <i>In Progress (10% complete)</i> 	<p>Sheila Collins 14/10/2019 28/02/2020</p> <p>Sheila Collins 14/10/2019 25/11/2019</p> <p>Lizzie Watkin 14/10/2019 28/02/2020</p>	<p>Likelihood : Impact :</p> <p>0</p>	<p>Likelihood : Impact :</p>	

VFM Tracker

	VFMY20008 Risk Owner: Julian Wooster Next Risk Review Date: 06/10/2019	Risk Description: Whilst there is positive benefit to an Improvement Partner, Council Officer ownership and accountability for savings and demand management will be vital and should be considered Cause: Consequence:		<ul style="list-style-type: none"> ○ Implement the enhance budget management arrangements across all management levels in Children's Services <i>In Progress (30% complete)</i> ○ Review the effectiveness of Children's Transformation arrangements <i>In Progress (10% complete)</i> 	Julian Wooster 14/10/2019 31/01/2020 Julian Wooster 14/10/2019 31/01/2020	Likelihood : Impact : 0	Likelihood : Impact :	
Page 71	VFMY20009 Risk Owner: Sheila Collins Next Risk Review Date: 14/10/2019	Risk Description: In the context of the MTFP, ensure there is better understanding and analysis of highest risk pressures. Work on volatile cohort financial risk would give better direction to both transformation and financial management activity. Cause: Consequence:		<ul style="list-style-type: none"> ○ Review MTFP process to ensure effective challenge and evidencing of pressures and savings before adding to MTFP <i>In Progress (30% complete)</i> ○ Consider the value of benchmarking against similar authorities to inform forward planning and transformation <i>In Progress (10% complete)</i> 	Sheila Collins 14/10/2019 31/01/2020 Sheila Collins 14/10/2019 29/11/2019	Likelihood : Impact : 0	Likelihood : Impact :	
	VFMY20010 Risk Owner: Julian Wooster Next Risk Review Date: 14/10/2019	Risk Description: More work is needed on placement sufficiency (i.e. markets) to ensure the councils gets best VFM in the context of dramatic increases (nationally) in the cost of placements Cause: Consequence:		<ul style="list-style-type: none"> ○ Review the strategic approach to the care market incorporating regional and national initiatives <i>In Progress (10% complete)</i> 	Julian Wooster 14/10/2019 31/01/2020	Likelihood : Impact : 0	Likelihood : Impact :	

VFM Tracker

	VFMY20011 Risk Owner: Mel Lock Next Risk Review Date: 06/10/2019	Risk Description: Demand for ASC is still rising nationally, and the service could improve their modelling for future activity. Younger Adults with complex needs as well as a growing over 65's population could be areas for more strategic analysis/ thinking. Cause: Consequence:		<ul style="list-style-type: none"> ○ Consider the value of benchmarking against similar authorities to inform forward planning and transformation <i>In Progress (10% complete)</i> 	Mel Lock 14/10/2019 31/12/2019	Likelihood : Impact : 0	Likelihood : Impact :	
Page 72	VFMY20012 Risk Owner: Mel Lock Next Risk Review Date: 06/10/2019	Risk Description: There is opportunity for the service to think further ahead in terms of service innovation and improvement of outcomes for SCC residents Cause: Consequence:		<ul style="list-style-type: none"> ○ To explore opportunities provided by Government initiatives to further transform Children's Services <i>In Progress (10% complete)</i> ○ ASC transformation programme is the vehicle to deliver change This delivery of the change is monitored through the Performance improvement board that has external scrutiny on a quarterly basis <i>In Progress (10% complete)</i> 	Julian Wooster 14/10/2019 31/01/2020 Mel Lock 14/10/2019 14/10/2019	Likelihood : Impact : 0	Likelihood : Impact :	

Report Selection Criteria

Status Flag=ACTIVE - Ref like VFMY*



Somerset County Council

Report of Internal Audit Activity

Plan Progress 2019/20- September Update

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Agenda item 7

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 SWAP Internal Audit Partnership Limited. SWAP is a Local Authority controlled Company. SWAP has adopted and works to the Standards of the Chartered 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 28th March 2019.

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 3, with 1 being areas of major concern to 3, findings that require attention.



Internal Audit Work programme

The schedule provided at Appendix B contains a list of all audits as agreed in the Annual Audit Plan 2019/20. It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

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

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

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

Summary of Audit Work 2019/20

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 three 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'.

Review/Risks	Auditors Assessment
None have been reported during the period	N/A

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 Governance of Premises Health and Safety

The audit assessed existing health and safety governance and monitoring arrangements covering statutory inspections, risk assessments and accident reporting for premises.

The Health, Safety and Wellbeing Steering Group (HSWSG) has a key role in monitoring compliance. The overall governance framework however was found to be incomplete. A review is now needed to improve accountability and responsibility by establishing a clear line of reporting from responsible officers, services, HSWSG and then up to corporate management.

The other main area of weakness is in relation to the data used for monitoring performance. A key recommendation agreed was for corporate targets to be defined for health and safety premises management compliance. The reports used to monitor compliance also need to be reviewed to ensure they cover all main health and safety risks. In addition, the current format of reports should be revised for easy identification of non-compliance, and to allow targeted escalation.

The above weaknesses mean it is currently more difficult to identify, then escalate and resolve promptly instances of non-compliance. This is therefore increasing premises health and safety risks to the Council. A corporate landlord approach is currently being implemented, which will result in the centralised management of the property estate and this provides a good opportunity to make the improvements needed.

2018/19 Risk Management

This review has identified a series of significant weaknesses to be addressed in order to ensure organisational risk management is effective. The Risk Management Strategy, Policy and Process is significantly overdue for review and must be revised to make sure it reflects and supports new corporate priorities and structures. It must also be updated to provide clear routes of escalation for risks, and definitions for all types of risk.

More onus needs to be placed on risk owners to ensure that risks recorded in the corporate risk register, held on JCAD Core (JCAD), are regularly reviewed.

We also discovered that though risk assessment is required for key decisions, risks identified through this process are not consistently added to JCAD, meaning they are not captured and therefore there is reduced assurance that they are being managed.

Also of concern is a lack of risk management training currently available to officers. Though all staff effectively have risk management responsibilities, these are not referenced in the corporate induction training. There is no mandatory requirement for service managers, strategic managers or directors to undertake risk management training, though these officers will have responsibility for taking decisions that will either incur or limit risk exposure at a corporate level.



SWAP performance is subject to regular monitoring review by both the Board and at Member meetings. The respective performance results for Somerset County Council and other SWAP partners, using data to the end of August 2019 is as follows:

Performance Target	SCC Performance	SWAP Performance
<p><u>Audit Plan – Percentage Progress</u></p> <p>Final, Draft and Discussion</p> <p>In progress</p> <p>Not started</p>	<p>28%</p> <p>28%</p> <p>44%</p>	<p>20%</p> <p>40%</p> <p>40%</p>
<p><u>Audit Plan – Delivery</u></p> <p>On course to deliver at least 90% of plan by year end</p>	<p>Yes</p>	<p>Yes</p>
<p><u>Quality of Audit Work</u></p> <p>Customer Satisfaction Questionnaire</p>	<p>98%</p>	<p>98%</p>

Update 2019/20 continued

SCC Performance

SCC Performance

Please refer to Appendix B for detail of the individual audits.

2018/19

In relation to last year's plan, we are pleased to report that all planned audits have been delivered with one exception relating to some grant work that we are in the process of finalising.

2019/20

We have also made a reasonable start to this year's audit plan and the majority of quarter 1 and 2 reviews scheduled are in now progress.

The table on the previous page shows the progress percentage as being ahead of the SWAP average for audits at report stage, but slightly behind the average for the percentage of audits in progress. The completion of outstanding 2018/19 work, particularly during quarter one, explains the position reported.

However, we remain on course to deliver at least 90% of plan by year end.

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

- 10 final reports
- 9 draft report

In addition, 8 school theme visits have taken place so far this year and 3 school follow-up audits have been completed.

Plan Performance 2019/20

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



Approved Changes to the Plan

There have also been additions to the plan of an advisory or investigative nature and these have been resourced by audits that have been deferred. Approval was obtained from SCC ahead of making changes to the plan.



Conclusion

Reasonable progress has been made with the majority of audits scheduled for quarters one and two underway. However, with the loss of SWAP's resource for the SCC IT audit plan, we anticipate that progress will now slow in this area, until a replacement auditor is recruited.

SWAP have also agreed a revised approach to resourcing IT reviews, that will involve the upskilling of staff in the SCC team to deliver the non-technical aspects of this audit work.

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	
In addition to the corporate risk assessment it is important that management know how important the recommendation is to their service. Each recommendation has been given a priority rating at service level with the following definitions:	
Priority 1	Findings that are fundamental to the integrity of the service’s business processes and require the immediate attention of management.
Priority 2	Important findings that need to be resolved by management.
Priority 3	Finding that requires attention.

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	1 = Major	↔	3 = Minor	Comments
								Recommendation			
								1	2	3	
Previous Year – 2018/19											
Property Services	Governance	Governance of Premises Health and Safety	4	Final	Partial	17/01/2019					
Governance	Governance	Risk Management	2	Final	Partial	28/01/2019					
Adult Services	Operational	Management of Blue Badges	4	Final	Reasonable	11/03/2019					
Adults	Operational	Discovery Contract Management	4	Final	Reasonable	29/01/2019					
ECl	Operational	Broadband Delivery UK audit certification	4	In progress	n/a	14/03/2019					Two out of four signed off.
Opinion Based Audits											
ECl	Operational	Passenger Transport – Driver Records	1	Final	Reasonable	09/04/2019	3		1	2	Sufficient Progress made to remove this audit from JCAD.
ICT	ICT	ICT Strategy and Governance	1	Discussion document		11/04/2019					
Procurement	Governance	Supplier Resilience	1	Discussion document		16/04/2019					
Children's services	Schools	School Expenditure	1	Discussion document		16/05/2019					School visits during the summer term.
Finance	Governance	Payroll	2	Discussion Document		26/06/2019					

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	1 = Major	↔	3 = Minor	Comments
								Recommendation			
								1	2	3	
Human Resources	Governance	Health and Wellbeing – Working Well Programme	1	In Progress		09/05/2019					
Adult Services	Operational	Residential Homes – contracts	1	In Progress		04/06/2019					
Finance	Governance	Treasury Management	2	In Progress		06/06/2019					
Performance	Governance	Service Planning	2	In Progress		27/06/2019					
Adult Services	Operational	Mental Health – Financial Decision Making	2	In Progress		15/07/2019					
Human Resources	Governance	Use of Volunteers – DBS checks	2	In Progress		11/07/2019					
PMO	Governance	The Commissioning and Delivery of schools	1	In Progress		23/05/2019					Initial meeting held, then SLT request to focus on commissioning has delayed start of the fieldwork.
Children Services	Operational	Early Years – Compliance with Code of Practice	2	In Progress		25/07/2019					Visits to be scheduled for September/October.
Children's services	Operational	Somerset Virtual School	2	In Progress		26/07/2019					
Finance	Governance	Cash Handling	3	In Progress		14/08/2019					
Children's Services	Operational	Children's Education, Health and Care Plans (EHCPs)	3	In Progress		20/08/2019					

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	1 =	↔	3 =	Comments
								Major		Minor	
								Recommendation			
1	2	3									
Human Resources	Governance	Career Development and Pathways	2	Not Started							Agreed with Director of HR to move back to Q4
ICT	ICT	Vulnerability Management	2	Not Started							
Children's Services	Operational	Dillington House – Financial and Business Planning Review	3	Not Started							Originally scheduled for Q1, moved back to Q3 to enable review of updated business plan.
Adult Services	Operational	FAB Assessments	3	Not Started							Initial Meeting held 06/08
Public Health	Operational	Transfer of Public Health Nursing Services	3	Not Started							Initial Meeting held 02/09
ICT	ICT	Disaster Recovery	3	Not Started							
Children's Services	Operational	Children's Services Budget Management	3	Not Started							Initial Meeting to be held 01/10
Children's Services	School	Schools - Pupil Premium Grant	3	Not Started							Initial Meeting held 05/09
Procurement	Governance	Corporate Contract Management	3	Not Started							
Information Management	Governance	Data Subject Access Requests (DSARs)	3	Not Started							
Finance	Key Control	Debt Management	3	Not Started							
Adult and Children's	Operational	Direct Payments (including follow-up)	4	Not Started							

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	1 = Major	↔	3 = Minor	Comments
								Recommendation			
								1	2	3	
Children's Services	Operational	Independent Placements - Financial Controls & Contract Management	4	Not Started							
Performance	Governance	Value for Money Strategy and Reporting	4	Not Started							
Finance	Key Control	Creditors	4	Not Started							
Children's Services	School	Schools - Unofficial Funds	4	Not Started							
Libraries	Operational	Community Library Partnerships	4	Not Started							
PMO	Governance	Project Management - Use of Project Mobilisation Toolkit	4	Not Started							
Adult Services	Operational	Adults - Workforce Planning	4	Not Started							
ICT	ICT	Cloud Service Management	4	Not Started							
ICT	ICT	Firewall Management	4	Not Started							
ICT	ICT	Agile ICT Audit Project Assurance	4	Not Started							
Follow Ups											
ICT	Follow-up	Software Asset Management	1	Final	n/a	12/04/2019					Sufficient progress made to remove from JCAD

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	1 = Major	↔	3 = Minor	Comments
								Recommendation			
								1	2	3	
ICT	Follow-up	Hardware Asset Management	1	Final	n/a	12/04/2019					Sufficient progress made to remove from JCAD
ICT	Follow-up	Active Directory	2	Final	n/a	02/07/2019					Sufficient progress made to remove from JCAD
ICT	Follow-up	SAP – General IT Controls	2	In Progress							
Adult Services	Follow-up	Better Care Fund	2	Not Started							Initial Meeting 05/09
Human Resources	Follow-up	Role of the Somerset Manager	2	Not Started							Agreed with Director of HR to move back to Q3
Children's Services	Follow-up	Team Around the School	3	Not Started							
Adult Services	Follow-up	Mental Health – Care Plans	3	Not Started							Agreed with Service to move back to Q4
Adult Services	Follow-up	Placements – Financial Related Controls	3	Not Started							
Adult Services	Follow-up	Placements – Financial Related Controls	3	Not Started							
Finance	Follow-up	Combatting Tax Evasion	3	Not Started							
	Follow-up	Healthy Organisation	3	Not Started							
Property Services	Follow-up	Premises Management Health and Safety	3	Not Started							

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	1 = Major	↔	3 = Minor	Comments
								Recommendation			
								1	2	3	
Grant Certification Work											
ECI	Grant	Growth Deal – J25 M5 at Henlade	1	Final	n/a	27/06/2019					New
Children & Families	Grant	Troubled Families – Phase 2 Claims	1	In Progress		03/05/2019					Certification of claims completed through the year.
ECI	Grant	Local Transport Capital Funding (including Pothole Action)	2	In Progress		23/08/2019					
ECI	Grant	BDUK Grant Certification	4	Not Started							
Advisory Work											
ECI	Advisory	Concessionary Fares – Reimbursement Calculation	1	Draft	n/a	01/04/2019					
All	Advisory	Organisational redesign	All	Not started							Advisory time to be used as projects develop.
Children's	Advisory	Children's Direct Payment case review	All	In Progress	23/07/19						Service request.
Audits Deferred/Removed from the Plan											
Commissioning	Governance	The Commissioning Gateway	1	Removed							Audit work will be part of the scope of the corporate contract management audit. Day reallocated to grant work required.

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	1 = Major	↔	3 = Minor	Comments
								Recommendation			
								1	2	3	
Children's services	Operational	SEN Data Management	1	Removed							Removed from plan due to lack of client response.
Human Resources	Operational	Apprenticeship Scheme	4	Removed							Deferred to 2020/21 to release days for Concessionary Fares work.
Schools											
Education & Skills	School	School Expenditure Bowlsh Infants	Q1	Draft	Reasonable	03/06/19	4	0	1	3	
Education & Skills	School	School Expenditure Keinton Mandeville Primary	Q1	Draft	Reasonable	03/06/19	6	0	1	5	
Education & Skills	School	School Expenditure Long Sutton Primary	Q1	Draft	Reasonable	03/06/19	6	0	1	5	
Education & Skills	School	School Expenditure Lydeard St Lawrence Primary	Q1	Draft	Reasonable	03/06/19	4	0	1	3	
Education & Skills	School	School Expenditure Misterton First	Q1	Draft	Partial	03/06/19	6	0	2	4	
Education & Skills	School	School Expenditure St Andrews Junior	Q1	Draft	Reasonable	03/06/19	6	0	1	5	
Education & Skills	School	School Expenditure St Louis Primary	Q1	Draft	Partial	03/06/19	9	0	4	5	
Education & Skills	School	School Expenditure Wookey Primary	Q1	Draft	Reasonable	03/06/19	6	0	1	5	
Education & Skills	School	E-Safety Follow-Up Elmwood School	Q1	Final	n/a						Sufficient progress made to now conclude as Reasonable

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	1 = Major	↔	3 = Minor	Comments
								Recommendation			
								1	2	3	
Education & Skills	School	Financial Governance Follow-Up Wadham School	Q1	Final	n/a						Sufficient progress made to now conclude as Reasonable
Education & Skills	School	Financial Governance Follow-Up Winsham Primary	Q1	Final	n/a						Sufficient progress made to now conclude as Reasonable

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Somerset County CouncilAudit Committee – 19 September 2019

Risk Management Update

Lead Officer: Sheila Collins, Interim Director of Finance

Author: Pam Pursley, Strategic Risk Manager,

Contact Details: 01823 359062, ppursley@somerset.gov.uk

Cabinet Member: Cllr Mandy Chilcott

Division and Local Member: All

1. Summary / link to the County Plan

- 1.1.** The management of risk has a direct link to the Council's Business Plan, the Medium-Term Financial Plan, forms an integral part of the Annual Governance Statement (AGS) and is a major component of the External Auditor's Value for Money Audit. Risk management is an essential component of good corporate governance.
- 1.2.** This report contains the latest information, obtained from our risk management system JCAD for;
 - the Strategic risks including **ORG0043** sustainable budget
 - Update on the current position on the management of Brexit impacts and the newly created strategic risk **ORG0052** for the impacts of the UK leaving the European Union
 - current information relating to the progress of the SWAP partial audit recommendations.
- 1.3.** Audit Committee members need to be assured that the management actions (those work tasks required to mitigate the risk to an acceptable level) and compliance with the review process, are sufficient, in accordance with the current Council's risk management policy.

2. Items for consideration

- 2.1.** The updated risk report for the Councils strategic risks is attached as **Appendix A** along with the most recent commentary for the committee to consider, this includes **ORG0043 - Maintaining a balanced budget for 2019/20**.
- 2.2.** At their meeting on 13th August, the Senior Leadership Team (SLT) discussed and identified the new strategic risk **ORG0052 - Significant disruption to services post 31st October when the UK leaves the European Union**. The risk owner is identified as Patrick Flaherty.
- 2.3.** The Internal Audit Partial Recommendations report is attached as **Appendix B**. Further details of the current position concerning these audits can be

found at Point 3.6 below.

3. Background

- 3.1.** Strategic risk management is the process of identifying, quantifying, and mitigating any risk that affects or is inherent in an organization's business strategy, strategic objectives, and strategy execution.

The benefits of effective strategic risk management are

1. greater likelihood of achieving strategic objectives;
2. more systematic decision-making leading to better quality decisions;
3. improved allocation of resources.

- 3.2. ORG0043** – Throughout 2018/19 this sustainable budget risk was described as: "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. The existing mitigating actions are all now complete, with the development of a more robust MTFP 2019-21

- 3.3.** Moving into 2019/20 this strategic risk was up-dated to reflect the improved and changed risk position in relation to maintaining a balanced budget for 2019/20 and ensuring a sustainable MTFP:
"There is a risk to the council's long-term sustainability if there are significant in-year service overspends, and or if the council suffers significant loss of funding in future years its ability to prepare a robust and sustainable MTFP for 2020/21 onwards may be impacted"

The review by the Interim Finance Director for the Quarter 1 budget monitoring report for 2019/20 to Cabinet (14 August 2019) confirmed that a balanced budget forecast end of year position was being sustained. Alongside this £6.1m of the corporate contingency remains unallocated and services with forecast overspends, continue to develop and track management action to reduce these. In addition, 98% of savings required in 2019/20 are reported as either on-track or delivered. Monthly reports will continue throughout 2019/20 to ensure timely monitoring and reporting of any variances. The 'current risk score' remains at the level of "very high" (4x4(16)).

- 3.4. Brexit Update:** SLT has agreed a change to SCC's approach to Brexit planning following instructions to local authorities from the Secretary of State for MHCLG. Michele Cusack is SCC's Brexit Lead, supported by a small Brexit Team consisting of Nicola Dawson, Pam Pursley and Andrew Hedges in place from 1st September. The role of the Brexit Team includes sharing information and reporting; seeking assurance from services about their preparedness, liaison with key external partners and stakeholders. The Team is working very closely with Regional and District colleagues. Current priorities include preparing a shared Brexit risk assessment with the Districts; organising a Somerset local authorities and health impacts and mitigations

workshop on 11th September and developing a communications and engagement strategy.

The Civil Contingencies Unit and the Strategic Risk Manager worked with Strategic Managers earlier this year to identify risks and update Service business continuity plans to insure they are kept up to date. A regular check will be carried out with senior managers to ensure any changes to a services capability are identified and assessed early.

- 3.5.** The current assessment of the risks from a 'No Deal' Brexit as identified in the spring are;

Risk Category	Assessment (March 2019)
Workforce	Low
Supply Chain / contractor	Low
Legal & regulatory	Medium
Finance	Medium
Other / service specific	Medium

- 3.6.** **ORG0052** – the risk is described as “Significant disruption to services post 31st October when the UK leaves the European Union”.

Cause: The current uncertainty into the detail of the UK withdrawal agreement may cause disruption to suppliers, increased demands for service, price increases and potential loss of income and with insufficient time to plan mitigation especially where Government guidance is not provided or provided very late.

Consequence: Based on the documentation received so far Brexit will result in the loss of EU funding which, if not replaced by Central Government, may pose a risk to the economic and social programmes of the Council and its partners.

Interest rates and exchange rates may be affected by the withdrawal process impacting on the affordability of the Council’s capital programme. Restrictions on the free movement of people could lead to skills gaps in the Council, our partner organisations and local businesses.

The current score is assessed as “medium” (4x3(12)).

- 3.7.** **Appendix B** is the Internal Audits partial recommendations report. This report highlights the progress of individual partial audits through to completion. There are several partial audits that remain open after several years. Audit committee may wish to request the relevant manager attend a future committee to provide assurance that progress is being made that will enable the audit to be finalised.

4. Consultations undertaken

- 4.1.** Each Strategic Risk is owned by the relevant SLT Director, who are responsible for the 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.

5. Implications

- 5.1.** How successful we are in dealing with the risks we face can also have a major impact on the achievement of our business outcomes and the delivery of services.

Strategic Risk Report - Somerset County Council (SLT)

Appendix A

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: Sheila Collins Next Risk Review Date: 14/10/2019	<p>Risk Description: Strategic Risk Update 2019: Maintaining a balanced budget for 2019/20 and ensuring a sustainable MTFP.</p> <p>There is a risk to the council's long term sustainability if there are significant in-year service overspends, and or if the council suffers significant loss of funding in future years its ability to prepare a robust and sustainable MTFP for 2020/21 onwards may be impacted.</p> <p>Cause: Because reserves remain at low levels and the Council has a statutory duty to deliver services where demographic pressures remain high and volatile, and because significant savings remain to be delivered the Council:</p> <p>1) is dependent on the Government clarifying the future of Local Government funding to enable effective longer-term planning, 2) must have a robust MTFP (2020-23) process that engages stakeholders.</p> <p>Consequence: A balanced budget has been set for 2019/20 and the level of reserves improved during 2018/19. However, there remains a risk of service overspends due to demographic pressures and / or the non-delivery of savings in 2019/20. On-going Local Government funding uncertainty means the Council can only</p>	<p>Likelihood :5 Impact :5</p> <p style="background-color: red; color: white; text-align: center;">25</p> <p>Red - V. High Risk</p>	<ul style="list-style-type: none"> ◦ Head of Procurement is developing a business case to improve contract spend tracking across services Presentation to SLT April 2019 outlining key issues and options for resolution. Work to take this forward, for example contract management module of SAP to be utilised, will be incorporated in to MTFP working group led by Sheila Collins <i>In Progress (20% complete)</i> ◦ Robust MTFP process Budget timetable has been developed and weekly meeting to monitor process have been set up. 3 All member briefing have been arranged and other stakeholder engagement planned. Budget scenarios have been developed and Best, worse and Predicted Case for the MTFP has been developed. Budget Challenge sessions have taken place during August to review cost pressures and unachievable savings. Expenditure confidence forms have been sent to all budgets holders. SLT away day on 17 September will review the overall position and agree the process for balancing the budget. <i>In Progress (70% complete)</i> ◦ Controls as in 2018/19 focus on high risk budget management To ensure new tighter financial controls are embedded in financial practices across the council the same rigour to controlling spend that was in place in 2018/19 (ie 10 point plan, savings tracker, financial reporting to Members etc), will be maintained throughout 2019/20. <i>In Progress (60% complete)</i> 	<p>Claire Griffiths 31/10/2019 31/10/2019</p> <p>Jason Vaughan 03/10/2019</p> <p>Lizzie Watkin 30/09/2019</p>	<p>Likelihood :4 Impact :4</p> <p style="background-color: red; color: white; text-align: center;">16</p> <p>Red - V. High Risk</p>	<p>Likelihood :4 Impact :4</p> <p style="background-color: red; color: white; text-align: center;">16</p> <p>Red - V. High Risk</p>	<p>06/09/2019 Qtr 1 budget monitoring report to Cabinet (14 August 2019) confirmed that a balanced budget forecast end of year position was being sustained. Alongside this £6.1m of the corporate contingency remains unallocated and services with (all be they relatively small) forecast overspends, continue to develop and track management action to reduce these. In addition 98% of savings required in 2019/20 are reported as either on-track or delivered. Monthly reports will continue throughout 2019/20 to ensure timely monitoring and reporting of any variances.</p>

	Risk Ref	Risk	Uncontrolled Risk	Action Required (In progress Only)	Control Owner Review Date Target Date	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
		develop its MTFP (2020-23) on sensible assumptions, rather than known funding allocations		<ul style="list-style-type: none"> ◦ Lobbying / horizon scanning Council proactively responding to Government consultations to make the case for improved funding for Somerset. This has included responding to the two technical consultations on the governments proposed Business Rates Retention Review and Fair funding Review proposals (these were only high level technical consultations at this stage) (February 2019 ; and submitting views to the Governments Spending Review Inquiry (April 2019). Council is part of the Stand up for care campaign and has lobbied for additional funding prior to the Comprehensive Spending Review. <i>In Progress</i> (50% complete) 	Jason Vaughan 29/09/2019			

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
ORG0011 Risk Owner: Chris Squire Next Risk Review Date: 05/10/2019	<p>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</p> <p>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</p> <p>Consequence: 1. Death or serious harm ("dangerous occurrence" (defined by legislation)) to a service user, pupil, member of the public or a member of staff; 2. Criminal prosecution and enforcement action under H&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</p>	<p>Likelihood :5 Impact :5</p> <p style="background-color: red; color: white; text-align: center; padding: 2px;">25</p> <p>Red - V. High Risk</p>	<p>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. 18/12/18 - Staff Instructions created on One Note, Policies being reviewed at regular workshops, training plan in place. 18/03/19 structure change in County Hall team and vacancies in areas. intend to have staff instructions complete by 31/08/19 <i>In Progress (75% complete)</i></p>	<p>Heidi Boyle 24/09/2019 31/12/2019</p>	<p>Likelihood :3 Impact :5</p> <p style="background-color: orange; text-align: center; padding: 2px;">15</p> <p>Amber - High Risk</p>	<p>Likelihood :3 Impact :5</p> <p style="background-color: orange; text-align: center; padding: 2px;">15</p> <p>Amber - High Risk</p>	<p>05/09/2019 Methods to ensure safe environments range from providing premise managers, head teachers and governors with training on the statutory duties. This includes submitting Legionella, Asbestos, Safety Glazing, Radon, Fire Risk Update, Food Hygiene, Premise Risk Assessment.</p> <p>Training is provided on all the above topics to all Premises Managers by the CHSU. The CHSU also provide hands on Fire training for all Fire Wardens with a compulsory online fire awareness training available for all staff regardless of status via TLC.</p> <p>Incident Reports are monitored and controlled with reports submitted to the relevant service area Steering Group with the HSWSG seeing a full overview of all incidents. Any lessons learnt are passed to all service areas.</p> <p>Fire Risk Assessments are undertaken on all SCC premises and reviewed on a rolling programme every 3 – 5 years or when any building/alterations take place. Time line is based on the activities/occupation within each building e.g. Larger buildings and large complex</p>

	Risk Ref	Risk	Uncontrolled Risk	Action Required (In progress Only)	Control Owner Review Date Target Date	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
								<p>undertaken more frequently than one building/room premise. Likewise sleeping accommodation is more frequent than non-sleeping accommodation.</p> <p>H&S audit are undertaken on a 3 yearly cycle for any safety failings/noncompliance currently by CHSU.</p> <p>SWAP undertake various H&S audits and submit reports which are transferred onto Org 11, Recent audits revolved around Governance arrangements in Premise, Lone Working. Working Groups have been established to action the SWAP recommendations.</p> <p>Further external websites such as the HSE and professional organisation are monitored to ensure that managers/staff are aware of any changes. This is then displayed on the CHSU Internet page as exemplified by the recent Lanyard possible strangulation when involved in a car incident and air bags get activated.</p> <p>Work on ensuring there is consistency of approach for Lone Working arrangements is progressing</p>

	Risk Ref	Risk	Uncontrolled Risk	Action Required (In progress Only)	Control Owner Review Date Target Date	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
	ORG0009 Risk Owner: Julian Wooster Next Risk Review Date: 31/10/2019	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 through lack of provision of service. 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	<ul style="list-style-type: none"> 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 Extract from Closing Statement Year 3: Somerset Children and Young People's Plan 2016 - 2019 was a focused improvement plan. It identified seven improvement areas to drive change further and faster. And we are immensely proud of some of the huge improvements that have been made over the course of the Plan, including our improved OFSTED judgement. We have consulted with practitioners and families, children and young people to evaluate the success of the plan. Main themes arising are better community working, better partnership work and clearer direction and leadership. In a survey of practitioners, we learned that 73% of multi-agency staff surveyed felt that partnership working has 'improved a lot'. <i>In Progress</i> 	Adrienne Parry 18/09/2019 30/12/2019	Likelihood :3 Impact :5 15 Amber - High Risk	Likelihood :3 Impact :5 15 Amber - High Risk	31/07/2019 Please refer to the closing statement of the Children and Young People's Plan 2016-19. In summary: Somerset Children and Young People's Plan 2016 - 2019 was a focused improvement plan. It identified seven improvement areas to drive change further and faster. And we are immensely proud of some of the huge improvements that have been made over the course of the Plan, including our improved OFSTED judgement. We have consulted with practitioners and families, children and young people to evaluate the success of the plan. Main themes arising are better community working, better partnership work and clearer direction and leadership. In a survey of practitioners, we learned that 73% of multi-agency staff surveyed felt that partnership working has 'improved a lot'.

	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: 13/11/2019	Risk Description: Strategic Risk 2019: Commissioning across SCC: Failure to adopt and follow the principles contained with the Commissioning Vision and Operation Model, to understand links and opportunities across the system (internally and externally) and to commission effectively Across the organisation. Cause: Commissioning Teams and those with responsibility for commissioning have different approaches across the organisation. Some commissioners lack the skills to commission effectively. Consequence: Results in inconsistent, inefficient and ineffective commissioning across the organisation.	Likelihood :5 Impact :5 25 Red - V. High Risk			Likelihood :3 Impact :4 12 Yellow - Medium Risk	Likelihood :3 Impact :4 12 Yellow - Medium Risk	13/08/2019 There are no actions for this risk. These need to be added by the strategic manager for commissioning development. However she is currently on secondment. P Hewitt 13/08/19
	ORG0007 Risk Owner: Michele Cusack Next Risk Review Date: 09/12/2019	Risk Description: Strategic Risk 2019 update: Business Continuity: Service interruptions are not planned for and are therefore unmitigated Cause: Managers do not plan effectively to mitigate business continuity disruptions to the delivery of SCC services. Consequence: Impacts on service users ranging from inconvenience to serious harm and death; potential for additional unplanned costs for SCC and reputational damage. loss of staff, premises, IT, utilities, contract	Likelihood :3 Impact :5 15 Amber - High Risk	<ul style="list-style-type: none"> 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). This has been overtaken by events. Intention now is to use the no-deal Brexit planning as this year's corporate test and to hold a workshop later in the year to evaluate the effectiveness of the planning and to capture lessons. <i>In Progress (30% complete)</i> 	Nicola Dawson 01/10/2019 <i>30/09/2019</i>	Likelihood :3 Impact :4 12 Yellow - Medium Risk	Likelihood :3 Impact :4 12 Yellow - Medium Risk	09/09/2019

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
			<ul style="list-style-type: none"> Plan for no-deal Brexit impacts using corporate BC plan <i>In Progress</i> (10% complete) 	Nicola Dawson 28/09/2019 30/09/2019			
ORG0032	<p>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.</p> <p>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.</p> <p>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.</p>	<p>Likelihood :5 Impact :4</p> <p style="background-color: red; color: white; text-align: center; padding: 2px;">20</p> <p>Red - V. High Risk</p>	<ul style="list-style-type: none"> 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 <i>In Progress</i> 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. <i>In Progress</i> 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 <i>In Progress</i> 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 <i>In Progress</i> (40% complete) 	<p>Rebecca Martin 15/09/2019 01/04/2019</p> <p>Rebecca Martin 15/09/2019 31/12/2019</p> <p>Rebecca Martin 15/09/2019 31/12/2019</p> <p>Rebecca Martin 21/02/2020 31/03/2020</p>	<p>Likelihood :3 Impact :4</p> <p style="background-color: yellow; text-align: center;">12</p> <p>Yellow - Medium Risk</p>	<p>Likelihood :3 Impact :4</p> <p style="background-color: yellow; text-align: center;">12</p> <p>Yellow - Medium Risk</p>	01/07/2019 risk mitigation continues through improved firewalls and postponement of Cloud Migration.

	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
				<ul style="list-style-type: none"> 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 <i>In Progress (70% complete)</i> 	Rebecca Martin 21/11/2019 29/02/2020			
	ORG0052	<p>Risk Description: Significant disruption to services post 31st October if the UK leaves the European Union because of a "No Deal Brexit"</p> <p>Cause: The current uncertainty into the detail of the UK withdrawal agreement and with insufficient time to plan mitigation especially where Government guidance is not provided or provided very late.</p> <p>Consequence: Based on the documentation received so far, consequences are likely to be; * The loss of EU funding which, if not replaced by Central Government, may pose a risk to the economic and social programmes of the Council and its partners. * Interest rates and exchange rates may be affected by the withdrawal process impacting on the affordability of the Council's capital programme. * Restrictions on the free movement of people could lead to skills gaps in the Council, our partner organisations and local businesses. * Disruption to supplies, increased demands for service, price increases and potential loss of income</p>	Likelihood :5 Impact :5 <div style="background-color: red; color: white; text-align: center; padding: 2px;">25</div> Red - V. High Risk	<ul style="list-style-type: none"> Workshop with Districts / partners - 11 September 2019 <i>In Progress (50% complete)</i> SCC Brexit Team identified and commence 2 September 2019 <i>In Progress (90% complete)</i> Councils Brexit Lead Officer identified <i>In Progress (99% complete)</i> 	Nicola Dawson 21/09/2019 Michele Cusack 03/10/2019 Michele Cusack 03/10/2019	Likelihood :4 Impact :3 <div style="background-color: yellow; text-align: center; padding: 2px;">12</div> Yellow - Medium Risk	Likelihood :3 Impact :3 <div style="background-color: yellow; text-align: center; padding: 2px;">9</div> Yellow - Medium Risk	

	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: 07/11/2019	Risk Description: Strategic Risk 2019: Market management and development: Failure to effectively monitor and manage our markets (and supply chains) to ensure we optimise value for money, income generation opportunities and protect ourselves against unsustainable suppliers / supply chains. Cause: Lack of coordination across the organisation in terms of our commercial and market development activity. There is limited understanding and shared learning of supplier strengths and weaknesses, or around concerns with our markets. There is also a lack of control over our principle supply chains. Consequence: Loss of customer confidence and trust in the Council, impacting on the reputation of the council. Lack of supplier confidence, restricting our ability to deliver front line services.	Likelihood :4 Impact :4 16 Red - V. High Risk	<ul style="list-style-type: none"> 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. Directorates now adapting to new approach. <i>In Progress</i> (90% complete)	Simon Clifford 2 18/09/2019 <i>31/03/2020</i>	Likelihood :3 Impact :4 12 Yellow - Medium Risk	Likelihood :3 Impact :3 9 Yellow - Medium Risk	07/05/2019 Risk has been updated and reviewed.

	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
	ORG0022 Risk Owner: Simon Clifford 2 Next Risk Review Date: 19/02/2020	<p>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.</p> <p>Cause: Delayed implementation of ATP, lack of a Disaster Recovery Plan along with an out of date Corporate Business Continuity Plan. County Hall remains a single point of failure for some elements of connectivity</p> <p>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.</p>	<p>Likelihood :3 Impact :5</p> <p style="background-color: orange; color: white; text-align: center; padding: 2px;">15</p> <p>Amber - High Risk</p>	<p>o Increase awareness & understanding 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</p> <p>14/01/2019: ICT have looked at a number of open source products and are talking with Health partnership about the products they use to hold Phishing campaigns. I've asked the IG team to investigate manual process and training that other organisations use in order to inform and train users of the risks. <i>In Progress (50% complete)</i></p>	Dave Littlewood 19/02/2020	<p>Likelihood :3 Impact :4</p> <p style="background-color: yellow; text-align: center; padding: 2px;">12</p> <p>Yellow - Medium Risk</p>	<p>Likelihood :3 Impact :3</p> <p style="background-color: yellow; text-align: center; padding: 2px;">9</p> <p>Yellow - Medium Risk</p>	19/08/2019 risk will need to be reviewed early in 2020 as we restart the Cloud migration. until then risk remains constant.

	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: Mel Lock Next Risk Review Date: 15/11/2019	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	<ul style="list-style-type: none"> ◦ Improve adult safeguarding conversion rates to ensure team time is spent most effectively on those requiring support <p><i>In Progress (80% complete)</i></p>	Niki Shaw 31/10/2019 31/10/2019	Likelihood :2 Impact :5 10 Amber - High Risk	Likelihood :2 Impact :5 10 Amber - High Risk	<p>15/08/2019 The Adults Safeguarding Service continues to perform well in relation to timeliness and outcomes. The proportion of pathway decisions taken within the target 2 working days has ben consistently delivered and the service is also performing well in ensuring the completion of enquiries within the target 60 days.</p> <p>The 2018/19 Safeguarding Adults Collection (SAC National Return) revealed that in 97% of concluded enquiries the risk had been removed or reduced. Where this was not the case this was usually where the person was assessed as having capacity, for example, to chose to remain in contact with the alleged abuser. We await comparative national data later in the autumn.</p> <p>Work is taking place to support and educate local providers to better assess a safeguarding concern from a quality concern, to enhance the conversion rate figure and ensure only appropriate concerns are reaching the safeguarding service for action.</p>

	Risk Ref	Risk	Uncontrolled Risk	Action Required (In progress Only)	Control Owner Review Date Target Date	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
				<ul style="list-style-type: none"> ◦ Promote community resilience Promote community resilience: under the Somerset Prepared banner, inform and support residents and communities to be aware of risks and to be prepared. Activities include warning and informing projects, updates to the Somerset Prepared website and a Somerset Prepared Community Resilience Conference in October. <i>In Progress (10% complete)</i> 	Nicola Dawson 11/09/2019 31/03/2020			
	ORG0042	<p>Risk Description: Strategic Risk 2015: HR: The risk of not having the employee capacity to deliver and support delivery of core front line services</p> <p>Cause: Combination of austerity measures and market forces in being able to attract & retain suitably qualified people to work for the Council</p> <p>Consequence: Reduced levels of service activity, more reliance on existing employees and possible issues with consistency on quality.</p>	<p>Likelihood :4 Impact :4</p> <p style="text-align: center;">16</p> <p>Red - V. High Risk</p>			<p>Likelihood :3 Impact :3</p> <p style="text-align: center;">9</p> <p>Yellow - Medium Risk</p>	<p>Likelihood :3 Impact :3</p> <p style="text-align: center;">9</p> <p>Yellow - Medium Risk</p>	<p>02/07/2019 Workforce numbers continue to be monitored using the corporate HR dashboard and at Children's and Adults' Services Workforce Boards. A workforce board for ECI has also been set-up, with the first meeting on 1st July 2019. A succession planning & talent management tool is being developed and tested in ECI, to mitigate against future workforce capacity and capability risks.</p>

Monitoring of Partial Assurance Priority Findings - 2018/19 Audit Plan

compiled: 05/09/2019
 Audit Committee - 19/09/2019
 Appendix B

	Risk Ref	Audit Title	History	Follow-up	Owner	JCAD Review Date	Date presented to Audit Committee	Update 2018/19
	SWAP0001	Adults - Direct Payments	Report Issued: 2015/16 Re-Audit: 2019/20	Follow-up: 2016/17 & 2017/18 Follow-up 19/20.	James Sangster	04/12/2019	01/02/2015	
	SWAP0009	SCC Children's Independent placement Financial Controls 16-17 - Audit	Report Issued: 2016/17	Date of audit follow-up: Q1 17/18 & Q1 18/19 - in progress Awaiting final response from SWAP: scheduled for Q4 2019	Julian Wooster	31/03/2020	23/11/2017	
	SWAP0023	Passenger Transport - Audit	Original Report Issued: 2015 Full Re-Audit commencing: 2019/20	Follow-ups: Two completed with work outstanding Follow-up Q1 19/20.	John Perrett	16/10/2019	Oct-15	
	SWAP0026	Education of Children Looked After in Care - Audit	Report issued: 20 March 2017 Audit re-performed in 2017/18 - partial (non opinion previously)	Follow-up: 18/19, not all recommendations in place and referred to Claire Winter.	Claire Winter	30/09/2019		
	SWAP0032	SCC Corporate Debt Management - Audit	Report Issued: 2016/17 September 2018 Re-test of Audit: Q3 2018	Follow-up: 2017 & 2018 - still partial Final report 20/03/2019 Further audit scheduled in 19/20.	Sheila Collins	11/09/2019		
	SWAP0044	Mental Health Social Care 2017-18 - Audit	Report issued: 11 April 2018	Date of Follow-up by SWAP: Q3 2018/19 - deferred until 2019/20 due to system changes	Stephen Chandler	30/09/2019	26/07/2018	
	SWAP0045	Data Subject Access Requests - Audit	Report issued: 25 August 2017 date presented to Audit Committee: 27/06/2017 Date of Follow-up by SWAP: Q1 2018/19 - deferred until 2019/20 by Officer request	Increase in referrals to Information Commissioners Office and further risk of penalties. Reaudit in 19/20	Rebecca Martin	26/09/2019		
JCAD Review Due	SWAP0046	Payment Card Industry Data Security Standard Compliance - Audit	Report issued: 21 December 2017	Date of Follow-Up audit by SWAP: Q2 2018/19 - still not compliant Will be part of the Healthy Organisation follow-up 2019	Andrew Kennell	30/08/2019		1 recommendation overdue review
	SWAP0054	SAP ICT Controls 2017-18 - Audit	Report Issues: 6 June 2018	Date of Follow-up by SWAP: 2019/20	Andrew Kennell	28/06/2019		
	SWAP0058	Children's Direct Payments - Final Report - Audit	Original Audit: 2017 Report Issued 8 March 2018 & 25th March 2019	Date of Follow-up: 2019/20	Claire Winter	30/09/2019	19/11/2018	
	SWAP0060	Role of the Somerset Manager 2018-19 - Audit	Date Report Issued: 14/05/2018	Follow-up: 2019/20	Chris Squire	06/09/2019	20/06/2019	

	Risk Ref	Audit Title	History	Follow-up	Owner	JCAD Review Date	Date presented to Audit Committee	Update 2018/19
	SWAP0061	Contract Management of Children's Independent Placements 2017/18 - Audit	Date Report Issued: 28/09/2018	Follow-up: 2019/20	Louise Palmer	02/11/2019	22/11/2018	
	SWAP0062	Adults - Financial Management of Care Placements 2017/18. At request of service scope then extended: Adults Placements - Financial & Operational Controls 2018/19 - Final report - Audit	Report issued: 30 January 2019. Financial controls only were partial.	Date of follow-up by SWAP: 2019/20 Follow-up: 2018	James Sangster	04/12/2019	03/05/2019	
	SWAP0063	Health and Safety - Premises Management of Corporate Properties 2018/19 - Final report - Audit	Original audit 16/17. Follow-up 17/18 reviewed implementation of corporate recommendations and results were satisfactory. 18/19 reviewed individual establishments and partial opinion again awarded.	Follow-up: 2019/20	Claire Lovett	28/11/2019	28/11/2019	3 recommendations overdue review
	SWAP0064	Better Care Fund - Audit	Report issued: 2016/17 plan Final Report issued: 25/9/2017	Report Follow Up: 2019/20	Tim Baverstock	31/10/2019		
	SWAP0065	Dillington House Financial Controls Review, Final Report - Audit	Issue Date: 27/07/2017. Follow-up 2018/19 - recommendations in progress	Report Follow Up: 2019/20 to focus on Business Planning.	Ian Rowswell	31/03/2020		
JCAD Review Due	SWAP0066	Lone Working Arrangements - Final Audit Report	Report Issued: 28 May 2019 Presented to Audit Committee:	Follow-up report: Q1 2020/21 Report Closed:	Chris Squire	26/08/2019		
	SWAP0067	Corporate Property Maintenance - Schools 2018/19. Final Report	Original Report Issued: 12 June 2015. - Full audit in 2018/19 plan Report issued: 30 May 2019 Presented to Audit Committee: This audit supersedes the 2015 audit - Structural Failure of School Buildings (SWAP0020)	Follow-up: 2015/16 most recommendations still in progress - Further follow-up delayed to allow embedding of contract Date of Follow-up by SWAP:	John Cooper	30/10/2019		
	SWAP0068	Risk Management	Report Issued: 31/07/2019	Follow-up:	Pam Pursley	04/11/2019		
	SWAP0069	Governance of Premises Health & Safety 2018/19 - Final Report	Report issued: 13/08/2019		Graham Holmes	05/12/2019		

Debtor Management update report

Service Director: Sheila Collins, Interim Finance Director

Lead Officer: Sheila Collins, Interim Finance Director

Author: Lizzie Watkin, Strategic Manager – Chief Accountant

Contact Details: scollins@somerset.gov.uk

Cabinet Member: Cllr Mandy Chilcott, Cabinet Member for Resources

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 July 2019.

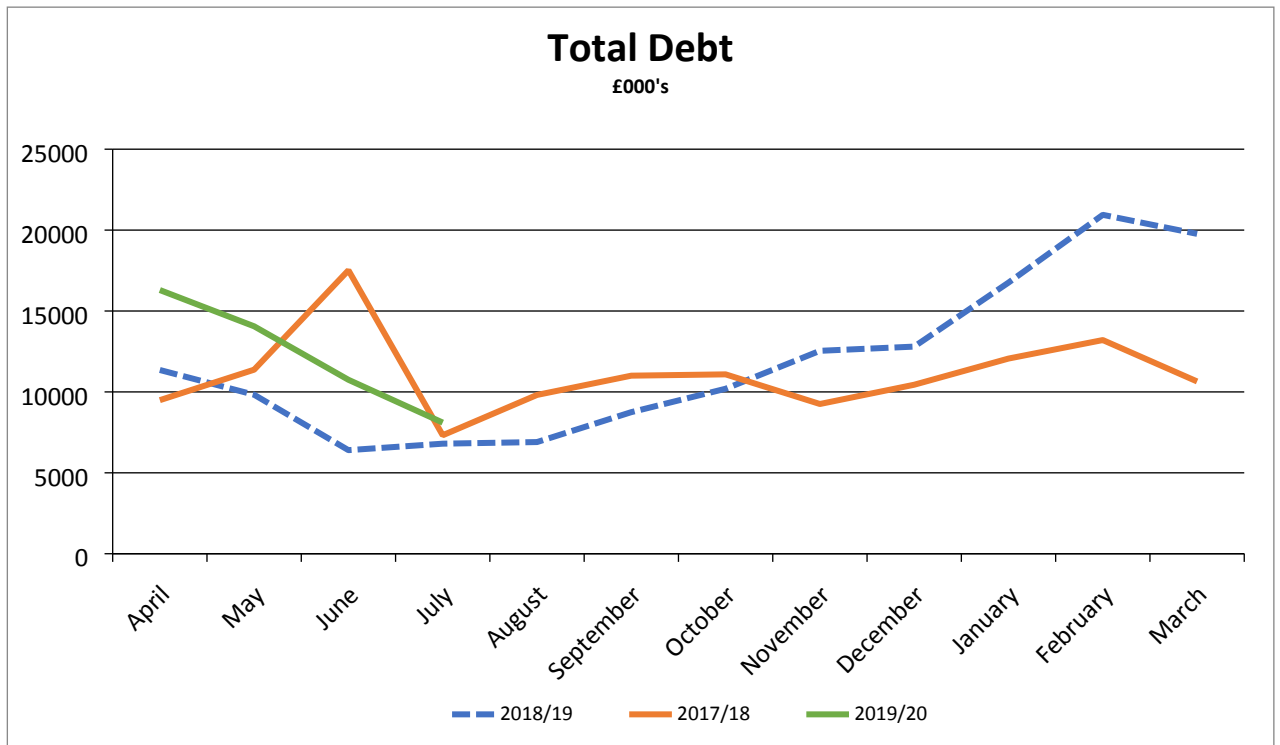
3. Background

3.1. Headline figures as at 31 July 2019

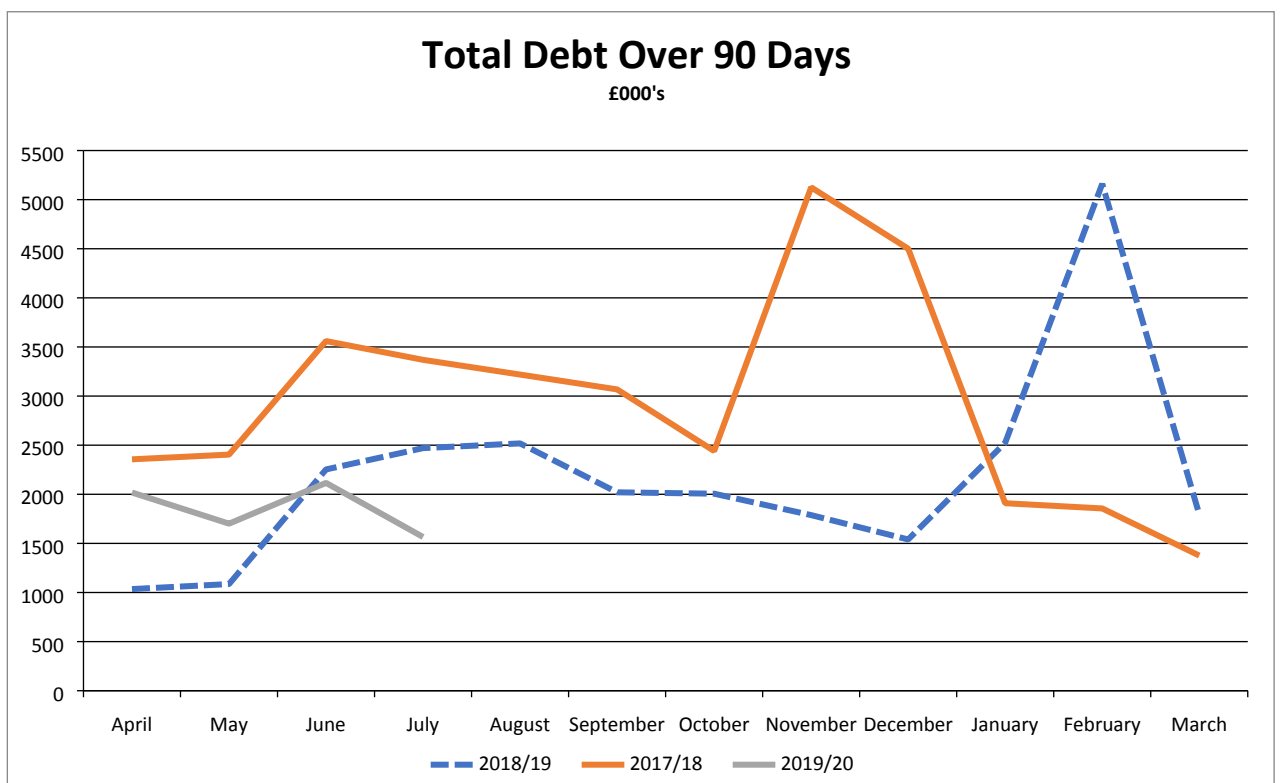
Services’ total outstanding debt reported on the Accounts Receivable system stood at **£8.230m** as at 31 July 2019. This compares with a figure of £6.801m as at 31 July 2018, and £14.175m, which was the 31st May 2019 figure in the last report to Audit Committee.

The percentage of debts over 90 days as at 31 July 2019 was **19.02%**, which represents a decrease on 30 June which stood at 19.46%. However this is an increase on 31 May 2019 figure of 12.10%, which was in the last report to Audit Committee.

The graph below shows the total debt outstanding over the last 3 years. The debt figures for 2019/2020 (the green line) shows that the amount of debt outstanding has reduced since the last report to Audit Committee and has continued to reduce.

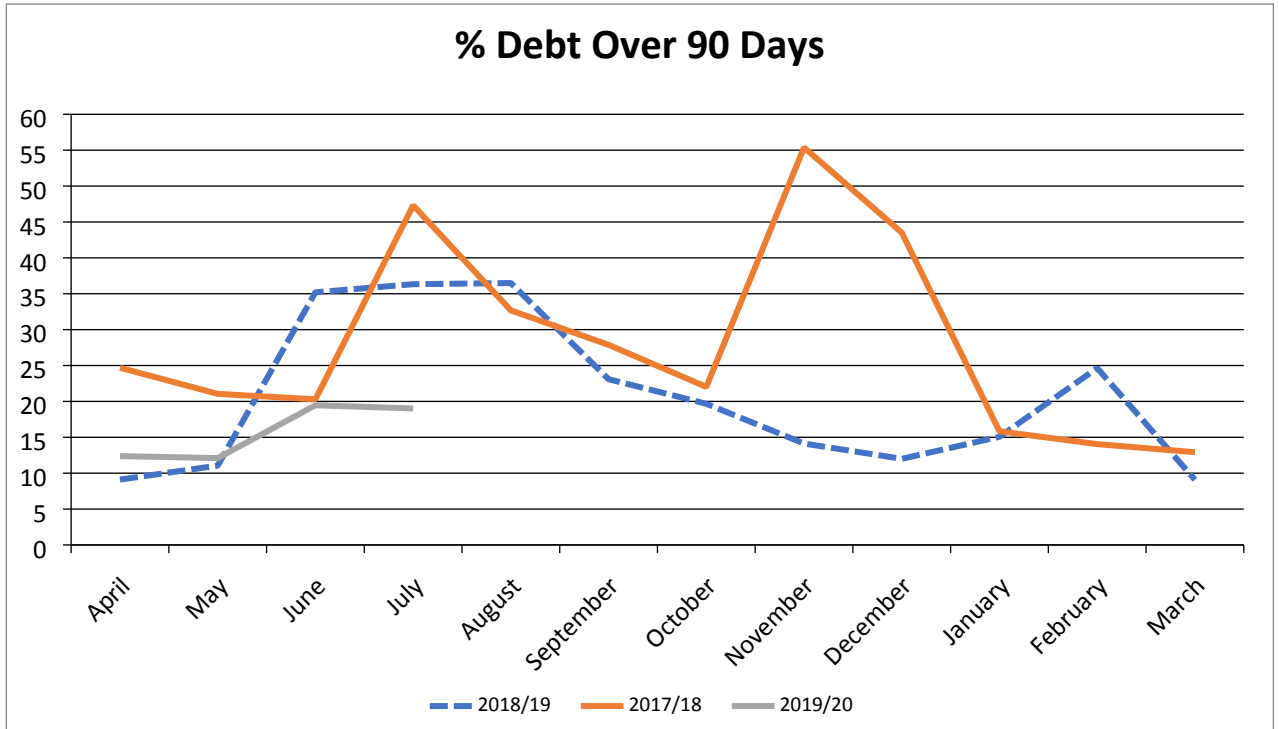


The graphs below show that the total debt over 90 days has reduced over the previous period, from £1.701m at the end of May 2019, with a small peak in July of £2.116m then reducing again to £1.565m at the end of July 2019. This still shows a reduction in debt over 90 days from the same time last year. This debt continues to be closely monitored due to the increased risk of not being able to recover the debts.

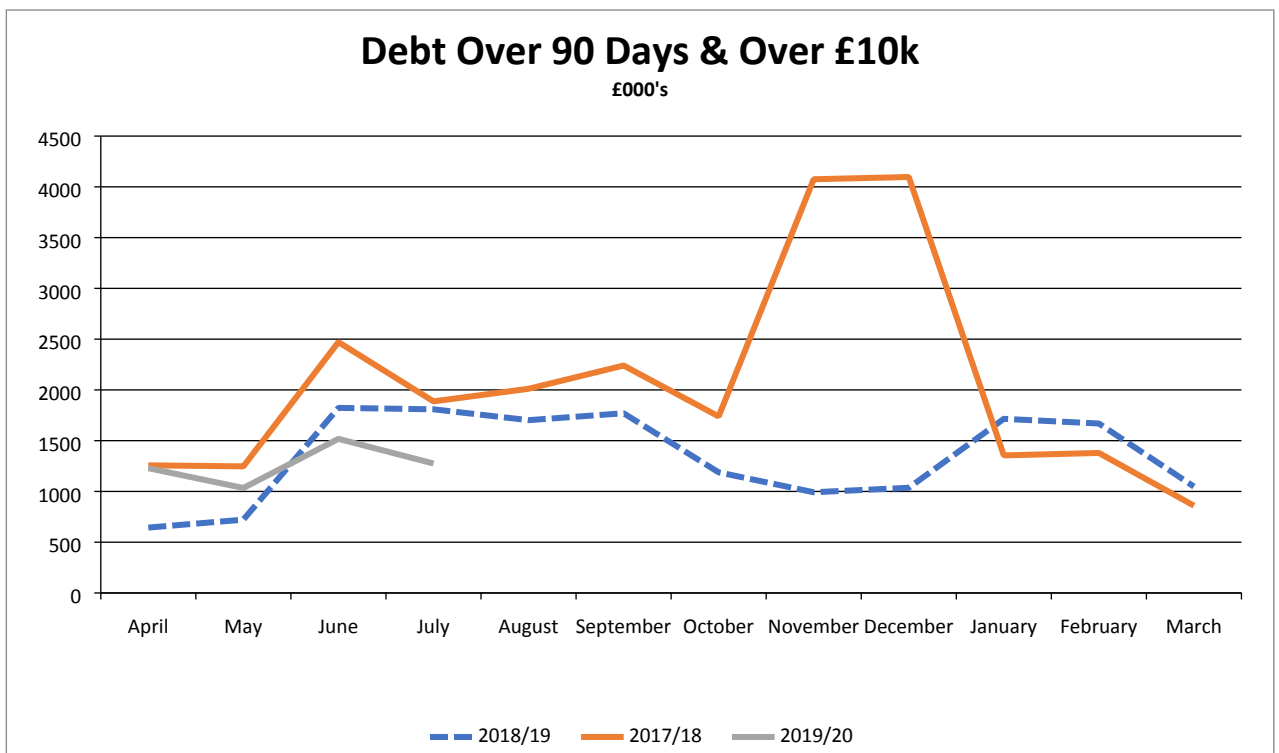


The total level of debt has decreased which affects the percentage of debts over 90 days. This results in an increase in the percentage of total debt over 90 days, which sits at **19.02%**, at the end of the period, above the 15% figure (established when Somerset

was part of a local authority benchmarking club on debt), which is generally taken to be the sign of strong performance, and was previously agreed with Audit Committee as the local target.



A further test is to consider debts over 90 days and over £10,000, which are higher risk in that they are both aged and significant. This shows a small increase since the last report to Audit Committee, however the debt values are still lower at this point compared to the previous two years recorded on this graph.

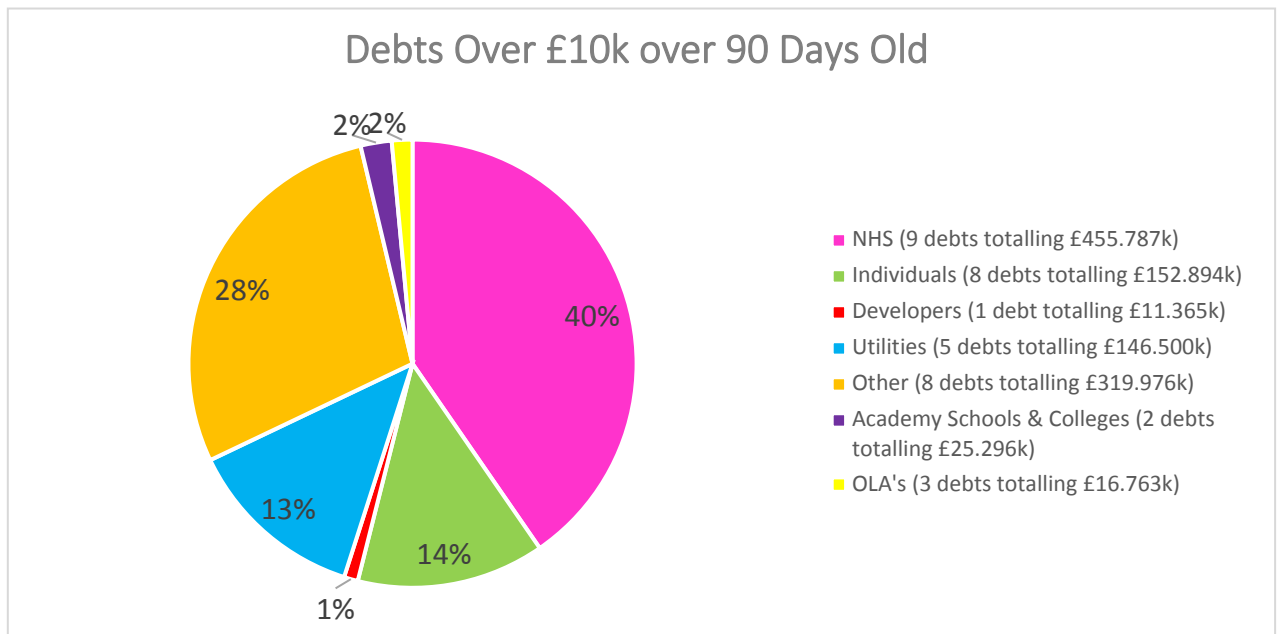


3.2. Breakdown of larger debt figures

There was a total of **36 debts** that are both over 90 days old and over £10,000 in value as at the end of July 2019. The number of large, older debts has remained relatively low in recent months, the figure was as high as 94 prior to the launch of the Income Code of Practice in November 2017.

The breakdown of these debts is similar compared with May 2019, with NHS debts remaining the largest both in terms of numbers and in terms of value. Many of these are complex, sometimes involving the estates of deceased former care receivers. NHS debts remain well below levels experienced at times during last year, when they were often in excess of £1m. Members will recall that there are improved processes in place with the NHS, with a portal between us to ensure that the debt information reaches the right person to speed up payment.

The other significant improvement has been reduction of debt outstanding from individuals in both number and value.



Members can be assured that all these debts are being pursued appropriately.

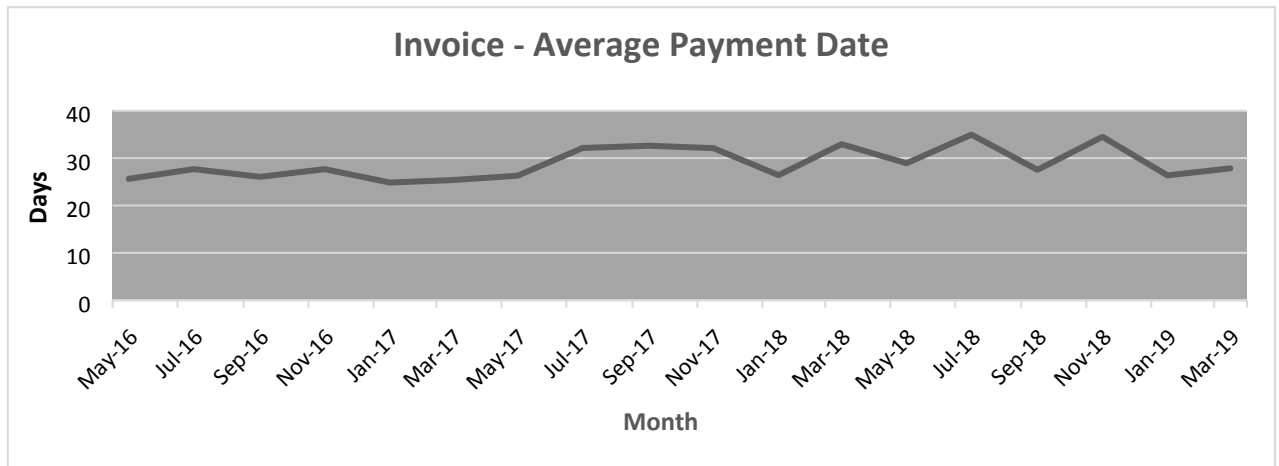
A review of the smaller value of debts over 90 days old reveals that the types of debt remain consistent with previous analyses – provision of care, utilities (such as New Roads and Street Works), transport provision, library charges and services provided, (such as Scientific Services), some Property charges.

The Legal Debt Recovery Officers are still confident 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. 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 2019 (N.B. this a snapshot position on a month by month basis and not cumulative).

March's figure is 27.84 days. This figure has hovered around the 30 days mark since the worst position was reported in August 2017.



Members are reminded that, we have a strong record of debt recovery.

3.4. Recent Accounts Receivable audit from SWAP

SWAP finalised its 2018/2019 Accounts Receivable audit in March 2019. This offered only Partial Assurance which is disappointing given that the Income Code of Practice had been in force for over a year, and that Accounts Receivable staff have provided significant training to Debt Chasers, often tailored to specific services' needs.

Despite this, the auditor does not consider any of the recommendations made to be highest priority.

As a result, the Income Code of Practice has been "re-launched" with some minor amendments. This re-launch has been supported by a significant number of mandatory training sessions for all Debt Chasers, emphasising that the Code is mandatory and an escalation route for ongoing non-compliance lies directly to the Strategic Manager – Corporate and Deputy s151 and on to the Interim Finance Director. During the training sessions held in May and June 2019, a total of 58 Debt Chasers were seen and response has been very positive.

The Legal Debt Recovery Officers alongside the Accounts Receivable team continue to help support areas of non-compliance across all aspects of Debt Management with more consistent, pro-active intervention on a quarterly basis for areas of non-compliance.

The partial audit report will be brought back to the Audit Committee as part of the Partial Audits assurance process, and the next Audit is due to start in October 2019 and progress will be reported to this committee as part of future Debt Management performance reports.

4. Consultations undertaken

- 4.1 Debt management is considered regularly at the Finance Management Team meetings. Debt is also regularly reported to Cabinet as part of Budget Monitoring.

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.

Somerset County Council

Audit Committee - 19 September 2019

Forward Work Plan

Service Director: Sheila Collins, Interim Director of Finance

Lead Officer: Sheila Collins, Interim Director of Finance

Author: Sheila Collins, Interim Director of Finance

Contact Details: sdcollins@somerset.gov.uk

Cabinet Member: Cllr Mandy Chilcott, Cabinet Member for Resources

Division and Local Member: All

1. Summary/link to the County Plan

- 1.1. Members have asked that we review forthcoming items coming to Audit Committee, and 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.

2. Issues for consideration

- 2.1. Members are asked to note the outline agendas for the 21 November 2019 and 30 January 2020 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 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 review in order to secure 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 will continue to bring Partial Assurance audits to the Audit Committee regularly, to ensure that they are responded to promptly. Elsewhere on this agenda is a schedule of current partial audits and members may wish to discuss and agree which are considered in more detail at the September Audit Committee meeting.

- 3.2. The 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. Members have indicated that they wish to see this tracker at every Audit Committee meeting.

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: Audit Committee Work Programme

Future Agenda Items	Notes
21 November 2019	
Internal Audit Progress Report	The regular progress report from SWAP on the completion of the 2018/2019 Internal Audit Plan, highlighting any high risks that have arisen from individual audits undertaken
External Audit Progress Report	To have an update on the external audit timetable and audit work undertaken, and any initial findings
Partial Audit and Risk	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
Value for Money Tracker	The consider the new VFM tracker (relevance to be determined post 2018/19 external audit assessment).
Work Plan	To consider future agenda items
30 January 2020	
Internal Audit Progress Report	The regular progress report from SWAP on the completion of the 2018/2019 Internal Audit Plan, highlighting any high risks that have arisen from individual audits undertaken
Anti-Fraud & Corruption Report	SCC have ownership of the policies; Lisa to advise re: individual investigations during the year
External Audit Progress Report	To have an update on the external audit timetable and audit work undertaken, and any initial findings <i>January meeting - includes setting out the audit plan for the year ahead</i>
Partial Audit and Risk	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
Value for Money Tracker	The consider the new VFM tracker (relevance to be determined post 2018/19 external audit assessment).
Debt Management	To report on the performance in terms of collecting monies owed to the County Council
Work Plan	To consider future agenda items

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