

Audit Committee

Thursday 21 November 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 – Democratic Services - 13 November 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



RNID typetalk

Are you considering how your conversation today and the actions you propose to take, contribute towards making Somerset carbon neutral by 2030?

AGENDA

Item Audit Committee - 10.00 am Thursday 21 November 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 9 - 18)

The Committee is asked to confirm the minutes are accurate.

4 Public Question Time

The Chair 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 Progress Report and Sector Update (Pages 19 - 32)

To consider this report.

6 Value For Money Tracker update report (Pages 33 - 44)

To consider this report.

7 Internal Audit progress report (Pages 45 - 62)

To consider this report.

8 Partial Audits and Risk Management update report (Pages 63 - 92)

To consider these reports.

9 Partial Audit Update - Children in Care (Pages 93 - 98)

To consider this report.

10 Redmond Review - Call for views (Pages 99 - 146)

To consider this report.

11 Committee Future Workplan (Pages 147 - 150)

To consider this report

12 Any other urgent items of business

Item Audit Committee - 10.00 am Thursday 21 November 2019

The Chair may raise any items of urgent business.

This page is intentionally left blank

Guidance notes for the meeting

1. Inspection of Papers

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

2. Members' Code of Conduct requirements

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

3. Minutes of the Meeting

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

4. Public Question Time

If you wish to speak, please tell Neil Milne, the Committee's Administrator, by 5.00pm on Friday 15 November 2019.

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

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

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

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

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

5. Exclusion of Press & Public

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

6. Committee Rooms & Council Chamber and hearing aid users

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

7. Recording of meetings

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

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

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

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

8. Operating Principles for Audit Committee

Reports

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

Members

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

This page is intentionally left blank

AUDIT COMMITTEE

Minutes of a Meeting of the Audit Committee held in the Library Meeting Room, Taunton Library, on Thursday 19 September 2019 at 10.00 am

Present: 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

Other Members present: Cllr M Chilcott, Cllr P Clayton and Cllr M Keating

Apologies for absence:**145 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.

Councillor Leyshon declared a personal interest in respect of agenda item 5 as a member of the Local Government Pension Scheme.

Councillor Paul declared a personal interest as a member of Kingsbury Episcopi Parish Council.

146 Minutes from the previous meeting - Agenda Item 3

With the following change set out below the Committee agreed that the minutes of the last meeting were accurate, and the Chair signed them.

Page 3 bullet point 2 to read “and if the Council was not judged to be a ‘going concern’ those assets could be valued differently”.

147 Public Question Time - Agenda Item 4

The Chair noted that questions regarding agenda item 5, had been submitted by Mr Behan on behalf of UNITE Trade Union, these were noted in his absence and responses were provided by the Interim Director of Finance & Performance.

Question 1. It is stated in the “Qualified except for VFM conclusion” that:

“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.”

And:

“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.”

Are these “weaknesses in proper arrangements” being addressed in all services and not just Children’s Services (Risk Level Amber in the Children’s – MTFP (2019-22) Funding Assessment - Appendix A)?

In response to it was explained that the financial imperative work the council began in 2018/19 had made progress across all services: both addressing in year concerns raised and in developing a more robust approach in setting the budget for 2019/20. Those improvements would be continued in 2019/20 to ensure improved practises were fully embedded in the tighter financial control. The up-dated VFM tracker would also help ensure the on-going focus on continual improvement.

Question 2. Follow up of prior year VFM recommendations

In the partially addressed (Assessment - “P”) recommendation number 6 were “Issue and risk previously communicated” and the corresponding “Update on actions” it is stated:

“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, totalling £8.6 million against the original budgeted use of just £2.6 million more information should be disclosed going forward.

Conclusion

- 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.”

When is it anticipated the requirement (full compliance of the Central Government guidelines) for the use of capital flexibilities will be met?

In response it was noted that the Business cases for the use of capital receipts under flexibilities were completed in March 2019 and more will be developed for any future years use (if relevant) as part of the MTFP process (2020-23). Progress will be tracked through the up-dated VFM tracker and ultimately in the external auditors’ report in July 2020.

Question 3. Follow up of prior year VFM recommendations

In the partially addressed (Assessment - “P”) recommendation number 7 where “Issue and risk previously communicated” and the corresponding “Update on actions” it is stated:

“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.” And in the Conclusion:

“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.”

If “there is no statutory basis for having a negative earmarked DSG reserve” was, given “the already depleted financial position”, the submitted recovery plan realistic?

In response it was stated that the Council had submitted its deficit recovery plan to the Department for Education (DfE) as required in June 2019. The Council is awaiting a response from the DfE. To safeguard local authorities the DfE issued a joint statement with CIPFA specifically on the deficit DSG reserves position and concluded that “they do not expect or require any DSG deficits to be funded from a local authority’s general resources”.

148 **External Audit report** - Agenda Item 5

The Committee considered the Annual Audit Letter and summary and findings, and these were presented by the Lead External Auditor Mr Barber. The Annual Audit Letter summarised the key findings arising from the work carried out at Somerset County Council and the Pension Fund for the year ended 31 March 2019.

The Letter provided a commentary on the results of work to the Council and external stakeholders, and highlighted issues to draw to the attention of the public. In preparing the Letter, the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting' had been followed. It was noted that the Council had adhered to the requirement to publish the letter by the end of August, and it contained no new information over and above the information provided at the July meeting.

It was noted that materiality had been determined for the audit of the Council's financial statements to be £14.3 million, which was 1.75% of the Council's gross revenue expenditure. Materiality was determined for the audit of the Pension Fund's financial statements to be £21.8 million, which was 1% of the total net assets. The Committee was reminded that an unqualified opinion had

been given on the Council's and Pension Fund's financial statements on 31 July 2019. The final Audit fees, which included additional audit fees, were reported at £111,209.

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

- Opinion of the consistency statement for the pension fund audit had a November deadline, this would mark the end of the audit for 2018/19;
- Additional fees for separate work were noted and it was noted that as the fees have not been finalised, they were not included within the audit fees disclosure within the statement of accounts;
- It was noted that additional fees, arising for extra and/or unanticipated work, were a regular occurrence in other authorities;
- An additional report had been shared with the Council and this would be part of the Medium-Term Financial Plan for the next three years. A balanced position for month four was anticipated to be reported shortly;
- There was a brief discussion of the Council's reserve balance and this was reportedly at a similar level to those held at other Councils.

The Chair of the Committee congratulated the Finance and Audit teams for their hard work over the last year. The report was noted.

149 **Value For Money Tracker update** - Agenda Item 6

The Committee considered this report, that provided details of the additional assurance work completed by the External Auditors. It was stated that the report had concluded that both Children's and Adults Services, in partnership with the corporate finance team, had strong financial measures in place with robust mechanisms to manage and monitor spend, against the budget, and that the Council could deliver to the Medium-Term Financial Plan (MTFP).

It was noted that the budget was consistent with historical financial performance and reflective of the transformation activity over previous years and demonstrated the continued improved grasp of cost and demand. It was understood that there was greater risk against Children's Services, given the historical financial performance and reduction in spend required to deliver in line with the budget in 2019/20 and beyond. As a result of this risk, the budget against potential scenarios had been tested by the audit expert. It was reported that the corporate contingency would be sufficient to manage external placement overspends and a potential 3% increase in annual costs and there would be sufficient capacity within the budget to manage those risks and deliver to the MTFP.

The '2019/20 Revenue Budget Monitoring – Quarter 1 (month 3) Report' to Cabinet last August had indicated that the Council remained on budget with an overall projected balanced position for the Council with £6.1 million of the corporate contingency budget remaining unallocated. This provided 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 was set out in Appendix A.

Attention turned to Appendix B that provided the current position against each recommendation. There was reassurance regarding the improvement in the total level of general fund and earmarked reserves since last year, and it was noted that this had only gone so far in restoring the balance sheet to a position that provided resilience into the medium term. The low level of combined general fund balances and earmarked reserves still provided limited capacity to absorb any unexpected future financial pressure and this remained an area of concern.

An improved 'except for' VFM conclusion for 2018/19 was issued concluding that the Council had the arrangements in place to ensure VFM in the use of its resources with the exception of its arrangements for ensuring sustainable resource deployment. Members noted that the 'except for' rating recognised that there was still much to do within the Council to return it to a fully sustainable financial position and it remained important that continued effort was directed to ensuring the positive trajectory over the last 12 months continued.

It was noted that Appendix C provided the proposed update to the auditors report that once signed would need to be added to the published financial statements. This updated opinion referenced 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 had become clear that budget did not accurately reflect the Council's spending commitments and there had been a pressing need to deliver further savings. In order to address those issues, the Council had taken 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 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 the increase, these levels of reserves remained low in comparison to similar councils and provided limited capacity to absorb unexpected future financial pressures.

It was reported that having considered all the evidence from the initial VFM conclusion work which had been supplemented by the additional assurance set out in detail within report, there was satisfaction that sufficient progress had been made since the Adverse VFM conclusion in 2017/18 to conclude that the financial challenges facing the Council were no longer pervasive to the whole Council.

The VFM conclusion covered the whole of 2018/19 and it was noted 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. It was recognised the Council still needed to demonstrate it could set a realistic and achievable budget that it could deliver to. The Council were commended for the response to the Adverse conclusion last year and it was noted that 4 of the 7 recommendations made last year had been completed, with work continuing to fully address the remaining 3. In

response to a question it was confirmed that all Directors had contributed to developing the tracker.

The Committee accepted the 2017/18 tracker (including supporting tracker) and were content that any outstanding actions had been transferred to the new tracker. It was noted that the report which provided details of the auditors' additional work would be presented to each Scrutiny Committee in Autumn 2019.

150 Internal Audit update report - Agenda Item 7

The Committee considered this report by the Southwest Audit Partnership (SWAP) the Council's internal auditors. Internal Audit provided an independent and objective opinion on the Authority's control environment by evaluating its effectiveness.

There was a brief discussion regarding Appendix B of the report which provided an update on details of the individual audits. It was noted that in respect of last year's plan, that all planned audits had been delivered with one exception relating to some grant work that was being finalised.

Regarding the 2019/20 audit plan it was stated that a reasonable start had been made to this year's audit plan and most of the quarter 1 and 2 reviews scheduled were in now progress. A table in the report highlighted the percentage of audits at report stage as being ahead of the SWAP average, but slightly behind the average percentage of audits in progress. It was noted that the auditors were confident to deliver at least 90% of plan by year end.

There was a brief discussion of the report and it was noted that due to staff changes the upskilling of existing staff in SWAP had been undertaken to ensure staff could gain qualifications in internal audit. It was also noted that the audit findings regarding Risk Management and required improvements, had borne out what the Risk Manager had previously reported to the Committee. Identified improvements, as suggested by the Risk Manager, would ensure risk management was properly embedded and effective ownership of risk was in place across the Council.

The Chair noted that the first progress report of the year showed that a reasonable start to the 2019/20 internal audit had been made and the Committee accepted the report.

151 Partial Audits and Risk Management updates - Agenda Item 8

The Interim Finance Director introduced this report, noting the management of risk had a direct link to the Council's Business Plan, the Medium-Term Financial Plan, and formed an integral part of the Annual Governance Statement (AGS) and was a major component of the External Auditor's Value for Money Audit.

Attention turned to Appendix A which provided an update of the risk report for the Councils strategic risks with a commentary that included more information

on ORG0043 - Maintaining a balanced budget, and the new strategic risk ORG0052 - Significant disruption to services post 31 October regarding the UK's withdrawal from the European Union (known as Brexit).

It was noted that the Council had changed its approach to Brexit planning to reflect instructions from the Secretary of State and a small team of officers had been established to oversee this work. This included ensuring that in identified risk areas information was shared and reported and assurance was sought from services about their preparedness, including liaising with key external partners and stakeholders and regional and District Council colleagues. Based on known information available about 'Brexit' EU funding would cease, and if this was not replaced by Government funding, might pose a risk to some economic and social programmes of the Council and its partners. Interest rate and exchange rates changes might also impact on the affordability of the Council's capital programme and changes concerning the movement of people could lead to skills gaps in the Council, partner organisations and local businesses.

It was reported that Current priorities included preparing a shared Brexit risk assessment with the District Councils; organising a Somerset workshop for partners to consider health impacts and mitigations workshop; and developing a communications and engagement strategy. The current assessment of the risks from a 'No Deal' Brexit as identified in the spring were set out and categories included: Workforce; Supply Chain/Contractor; Legal and Regulatory; Finance; and Other/Service Specific. Concerns were expressed over the perceived reduction of risk regarding Brexit and further evidence was requested to provide assurance regarding mitigations work. It was also noted that briefings for all Members would be arranged and the current assessment was that the Senior Leadership Team were updated regularly to ensure work was on track.

Attention turned to the Partial Audit recommendations report, attached as Appendix B to the report, which highlighted the progress of individual partial audits through to completion. There were several partial audits that remained open after several years and Members were invited to suggest updates on audits for a future meeting to provide assurance that progress is being made that would enable the audit to be finalised.

There was a brief discussion concerning RG0043 'maintaining a balanced budget for 2019/20 and ensuring a sustainable MTFP budget' and it was noted that all the existing mitigating actions were now complete, with the development of a more robust MTFP 2019-21. This strategic risk had been updated to reflect the improved and changed risk position and monthly reports would continue throughout 2019/20 to ensure timely monitoring and reporting of any variances.

It was noted that each Strategic Risk was owned by a relevant SLT Director, who remained responsible for the reviewing their risks, in many cases in conjunction with the Risk Manager, and assuring themselves that the actions for mitigation were appropriate and delivering the expected outcome. It was suggested that partial audits to be considered at future meetings would be discussed during agenda item 10.

Regarding ORG0043, the Interim Finance Director reported that the £6.1m corporate contingency remained unallocated and services with forecast overspends, continued to develop and track management action to reduce those overspends. In addition, 98% of savings required in 2019/20 were reported as being on-track or delivered, however it was felt prudent that the 'current risk score' remained at the level of "very high".

Members sought and received assurance that the management actions, those work tasks required to mitigate each risk to an acceptable level, and compliance with the review process, continued to be adequate and in accordance with the Council's current risk management policy. The Committee accepted the report.

152 Debtor Management update report - Agenda Item 9

The Chair invited the Interim Finance Director to introduce this report that provided information on the recovery of outstanding debts (monies owed to the Council) and the current performance at the end of July 2019. It was reported that as at 31 July 2019 Services' total outstanding debt stood at £8.230m and this compared favourably with a figure of £14.175m, from 31 May 2019.

Members heard that the percentage of debts over 90 days at 31 July 2019 was 19.02%, which represented a decrease from 30 June which stood at 19.46%. Overall it was noted that the debt figures for 2019/2020 demonstrated that the amount of debt outstanding had reduced since the last report and had continued to reduce, and this included the number of large, older debts that remained relatively low. It was noted improvement had been aided by the reduction of debt outstanding from individuals in both number and value.

There was a brief discussion of the report and it was noted that although there were better processes in place with the NHS, those debts remained the biggest portion in terms of cost. Officers involved with debt recovery were doing the best to manage the outstanding debts and securing payment in an effective and efficient way.

The Chair reflected that it was pleasing to see that the total outstanding debt figures had reduced over the previous period (from £14m to just over £8m) and Officers were commended for their work to continue to reduce debt figures. The Committee noted the report.

153 Committee Future Workplan - Agenda Item 10

The Committee noted the report that listed future agenda items and reports for the next meeting on 21 November 2019, and the report was accepted.

It was suggested that further to the discussion during consideration of agenda item 8 'Partial Audits and Risk Management update' that SWAP 0026 – Education of Children looked after in care, be considered as a future partial audit update report.

154 Any other urgent items of business - Agenda Item 11

After ascertaining there were no other items of business, the Chair thanked all those present for attending and closed the meeting at 11.19am.

(The meeting ended at 11:19)

Chair of the Audit Committee

This page is intentionally left blank

Audit Progress Report and Sector Update

Somerset County Council and Pension Fund
Year ending 31 March 2020

November 2019



Contents

Section	Page
Introduction	3
Progress at November 2019	4
Audit Deliverables	5
Sector Update	6

Introduction



Peter Barber

Outgoing Engagement Lead

T 0117 305 7897
M 07880 456122
E peter.a.barber@uk.gt.com



Barrie Morris

Incoming Engagement Lead

T 0117 305 7708
M 07771 976684
E barrie.morris@uk.gt.com



David Johnson

Engagement Manager

T 0117 305 7727
M 07825 028 921
E david.a.johnson@uk.gt.com

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

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk.

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

Progress at November 2019

2018/19 Certificate

We gave an unqualified opinion on the Council's and Pension Fund's 2018/19 financial statements on 31 July 2019. We issued our except for VFM conclusion on the 19 September 2019 and issued our opinion on the consistency of the pension fund financial statements in the Pension Fund Annual Report with the financial statements on 4 November 2019.

This now completes our code audit responsibilities for 2018/19 and on the 4 November 2019 we issued our certificate confirming completion of the audit.

2019/20 Opinion planning

We will begin our planning for the 2019/20 audit in December and will issue a detailed audit plan for both the Council and Pension Fund, setting out our proposed approach to the 2019/20 financial statements.

We will begin our interim audit in January 2020. Our interim fieldwork includes:

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

We will report our work in the Audit Findings Reports and aim to give our opinions on the Council's and Pension Fund's Statement of Accounts by the statutory accounts publication date of 31 July 2020.

2019/20 Value for Money

The scope of our work Value for Money work for 2019/20 is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

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

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

Given the focus of our VFM work on financial resilience over the last few years and the 'except for' VFM conclusion issued in 2018/19 our work in this area will once again focus on this specific criteria.

Details of our initial risk assessment to determine our approach in this and other areas will be included in our Council Audit Plan.

We will report our work in the Audit Findings Report and aim to give our Value For Money Conclusion by the statutory accounts publication date of 31 July 2020.

Progress at November 2019

Other areas

Certification of claims and returns

We certify the Council's Teachers Pension claim in accordance with procedures agreed with the paying Department. The certification work for the 2018/19 is in progress and will be completed by the 30 November deadline. We will report our findings to the Audit Committee in our Certification Letter in January 2020.

Meetings

We met with Finance Officers on 8 November 2019 as part of our periodical liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Your officers attended our Financial Reporting Workshop in February, which helped to ensure that members of your Finance Team were up to date with the latest financial reporting requirements for local authority accounts.

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2019/20 is the second year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in 2018/19 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the "few improvements needed" (2A) rating means that additional audit work is required.

We are currently reviewing the impact of these changes on both the cost and timing of audits. We will discuss this with your Interim Director of Finance including any proposed variations to the Scale Fee set by PSAA Limited, before communicating fully with the Audit Committee.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

Audit Deliverables

2018/19 Deliverables	Planned Date	Status
<p>Audit Findings Report</p> <p>The Audit Findings Report containing of opinions was reported to the July Audit Committee. Our VFM conclusion was reported in a supplementary Audit Findings Report to the September Audit Committee.</p>	July + Sept 2019	Complete
<p>Auditors Report</p> <p>This is the opinion on your financial statements and annual governance statement.</p>	July 2019	Complete
<p>Annual Audit Letter</p> <p>This letter communicates the key issues arising from our work.</p>	August 2019	Complete
2019/20 Deliverables	Planned Date	Status
<p>Fee Letter</p> <p>Confirming the scale audit fee for both the Council and Pension Fund 2019/20.</p>	April 2019	Complete
<p>Accounts Audit Plan</p> <p>We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's and Pension Fund 2019-20 financial statements.</p>	January 2020	Not yet due
<p>Interim Audit Findings</p> <p>We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.</p>	March 2020	Not yet due
<p>Audit Findings Report</p> <p>The Audit Findings Report will be reported to the July Audit Committee.</p>	July 2020	Not yet due
<p>Auditors Report</p> <p>This is the opinion on your financial statement, annual governance statement and value for money conclusion.</p>	July 2020	Not yet due
<p>Annual Audit Letter</p> <p>This letter communicates the key issues arising from our work.</p>	August 2020	Not yet due

Sector Update

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

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

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

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

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

Public Sector

Local
government

CIPFA – CFO confidence survey

In July, the Chartered Institute of Public Finance and Accountancy (CIPFA) reported the results of their annual confidence survey.

The survey found that the majority of local government finance officers have lost confidence in their future financial positions over the last year.

Seventy per cent of respondents said they were either slightly less or much less confident in their financial position this year compared to 2018-19.

The survey also found that 68% said they were either slightly less or much less confident in their ability to deliver services in 2020-21. Sixty-two per cent expressed equal confidence in their financial position for 2019-20 as they had last year.

CIPFA found that the area of greatest pressure for top tier authorities was children's social care, with the number of authorities rating it as the biggest pressure rising by six percentage points.

For districts the greatest pressures were housing, cultural services and environmental services.

Rob Whiteman, CIPFA chief executive, said: "Local government is facing greater demand pressures than ever before, with particularly pressures in adults' and children's social care and housing. Local authorities also lack certainty about their future financial positions, so it's unsurprising to see confidence on the decline."

"We have repeatedly pointed out that local government is in need of a sustainable funding solution, but meeting this demand requires more than pennies and pounds. The sector as a whole must come together to address the challenges of effective service delivery."

CIPFA's survey received a total of 119 responses from authorities in the UK - 56 top tier authorities, 47 English districts, 12 Scottish authorities, and 4 Welsh authorities.



On the same theme, a Local Government Association (LGA) survey, also reported in July, found that almost two-thirds of councils believe cash for services like adult social care, child protection and preventing homelessness will dry up by 2024-25.

The survey got responses from 141 of the 339 LGA member councils in England and Wales.

It also found that 17% of councils were not confident of realising all of the savings they had identified this year (2019-20).

The LGA said that councils needed a guarantee they will have enough money to meet growing demand pressures in particular in adult social care, children's services, special educational needs, homelessness support and public health.



Financial confidence



Challenge question:

How confident over its' financial position is your Authority? Has this changed from previous years?

MHCLG – Independent probe into local government audit

In July, the then Communities secretary, James Brokenshire, announced the government is to examine local authority financial reporting and auditing.

At the CIPFA conference he told delegates the independent review will be headed up by Sir Tony Redmond, a former CIPFA president.

The government was “working towards improving its approach to local government oversight and support”, Brokenshire promised.

“A robust local audit system is absolutely pivotal to work on oversight, not just because it reinforces confidence in financial reporting but because it reinforces service delivery and, ultimately, our faith in local democracy,” he said.

“There are potentially far-reaching consequences when audits aren’t carried out properly and fail to detect significant problems.”

The review will look at the quality of local authority audits and whether they are highlighting when an organisation is in financial trouble early enough.

It will also look at whether the public has lost faith in auditors and whether the current audit arrangements for councils are still “fit for purpose”.

On the appointment of Redmond, CIPFA chief executive Rob Whiteman said: “Tony Redmond is uniquely placed to lead this vital review, which will be critical for determining future regulatory requirements.

“Local audit is crucial in providing assurance and accountability to the public, while helping to prevent financial and governance failure.”

He added: “This work will allow us to identify what is needed to make local audit as robust as possible, and how the audit function can meet the assurance needs, both now and in the future, of the sector as a whole.”

In the question and answer session following his speech, Brokenshire said he was not looking to bring back the Audit Commission, which appointed auditors to local bodies and was abolished in 2015. MHCLG note that auditing of local authorities was then taken over by the private, voluntary and not-for-profit sectors.

He explained he was “open minded”, but believed the Audit Commission was “of its time”.

Local authorities in England are responsible for 22% of total UK public sector expenditure so their accounts “must be of the highest level of transparency and quality”, the Ministry of Housing, Local Government and Communities said. The review will also look at how local authorities publish their annual accounts and if the financial reporting system is robust enough.

Redmond, who has also been a local authority treasurer and chief executive, is expected to report to the communities secretary with his initial recommendations in December 2019, with a final report published in March 2020. Redmond has also worked as a local government boundary commissioner and held the post of local government ombudsman.



National Audit Office – Code of Audit Practice

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfill their statutory responsibilities under the Local Audit and Accountability Act 2014. 'Relevant authorities' are set out in Schedule 2 of the Act and include local councils, fire authorities, police and NHS bodies.

Page 28 Local auditors must comply with the Code of Audit Practice.

Consultation – New Code of Audit Practice from 2020

Schedule 6 of the Act requires that the Code be reviewed, and revisions considered at least every five years. The current Code came into force on 1 April 2015, and the maximum five-year lifespan of the Code means it now needs to be reviewed and a new Code laid in Parliament in time for it to come in to force no later than 1 April 2020.

In order to determine what changes might be appropriate, the NAO is consulting on potential changes to the Code in two stages:

Stage 1 involves engagement with key stakeholders and public consultation on the issues that are considered to be relevant to the development of the Code.

This stage of the consultation is now closed. The NAO received a total of 41 responses to the consultation which included positive feedback on the two-stage approach to developing the Code that has been adopted. The NAO state that they have considered carefully the views of respondents in respect of the points drawn out from the [Issues paper](#) and this will inform the development of the draft Code. A summary of the responses received to the questions set out in the [Issues paper](#) can be found below.

[Local audit in England Code of Audit Practice – Consultation Response \(pdf – 256KB\)](#)

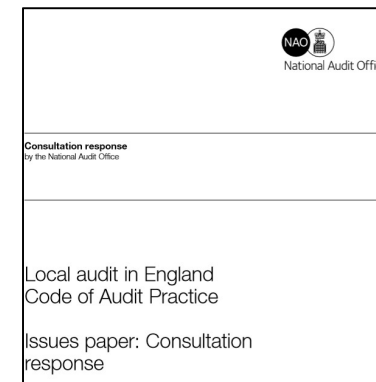
Stage 2 of the consultation involves consulting on the draft text of the new Code. To support stage 2, the NAO has published a consultation document, which highlights the key changes to each chapter of the draft Code. The most significant changes are in relation to the Value for Money arrangements. Rather than require auditors to focus on delivering an overall, binary, conclusion about whether or not proper arrangements were in place during the previous financial year, the draft Code requires auditors to issue a commentary on each of the criteria. This will allow auditors to tailor their commentaries to local circumstances. The Code proposes three specific criteria:

- Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

The consultation document and a copy of the draft Code can be found on the NAO website. The consultation is open until 22 November 2019. The new Code will apply from audits of local bodies' 2020-21 financial statements onwards.

Link to NAO webpage for the Code consultation:

<https://www.nao.org.uk/code-audit-practice/code-of-audit-practice-consultation/>



Local Government Association – Profit with a purpose – delivering social value through commercial activity

The Local Government Association (LGA) report 'Profit with a purpose' focuses on some of the practicalities of how councils can deliver social value through their commercial activity.

Through 'key questions' to ask, the guidance supports councils to face the challenge of how to undertake commercial activity and achieve greater value for the public purse in ways that better meet society's needs and outcomes for people and communities.

In addition, the publication features a number of short case studies highlighting some of the innovative commercial practice already achieving results for communities.

The LGA comments that the best approaches ensure the generation of social value is the primary factor driving commercial activity; from the initial decision to develop a commercial vision to how the approach is developed, and implemented, councils which are pulling ahead ensure social value is placed centre stage.

The guidance starts with an overview of what the LGA understands by 'profit with a purpose', the guidance explores different types of social value and the role of councils in driving social value alongside their commercial ambition.

The guidance then looks at how consideration and delivery of social value should be practically considered when deciding on whether to embark on commercial activity, the need for social value to be prioritised alongside financial return and the key questions councils should consider when embarking on a commercial initiative.

Following on from this, there are specific chapters on; embedding social value in governance of alternative service delivery vehicles, the role of procurement in contracting services that deliver social value and finally how to contract and performance manage social value through your service providers.

Each chapter outlines the factors that need to be considered and the 'key questions' councils should be asking themselves.

In addition, a number of short case studies are provided to highlight some of the innovative commercial practice already achieving results for communities.

The report can be downloaded from the LGA website:

<https://www.local.gov.uk/profit-purpose-delivering-social-value-through-commercial-activity>



Profit with a purpose

Delivering social value through commercial activity

Profit with a purpose



Challenge question:

If your Authority is looking at commercial activity, have you considered the LGA report?

Public Accounts Committee – Local Government Governance and Accountability

The Public Accounts Committee has found that the Government has not done enough to ensure that, at a time when local authority budgets are under extreme pressure, governance systems are improved.

The Ministry of Housing, Communities & Local Government (the Department) is responsible for: ensuring that this framework contains the right checks and balances, and changing the system if necessary. The Secretary of State also has powers to intervene in cases of perceived governance failure. The framework includes: officers with statutory powers and responsibilities; internal checks and balances such as audit committees and internal audit; and external checks and balances such as external audit and sector-led improvement overseen by the Local Government Association. These arrangements represent a significant reduction in the level of central oversight in recent years following the government's decision to abolish the Audit Commission and the Standards Board for England as part of a broader reform of local audit, inspection and reporting.

The Public Accounts Committee report summary notes “Local authorities have a good overall track record with governance arrangements generally robust across the sector, and there is evidence that local authority governance compares favourably to that of the health sector. However, this is not universal and in some authorities governance is under strain, as funding reduces and responsibilities and exposure to commercial pressures change. We are worried to hear about audit committees that do not provide sufficient assurance, ineffective internal audit, weak arrangements for the management of risk in local authorities’ commercial investments, and inadequate oversight and scrutiny. This is not acceptable in the more risky, complex and fast-moving environment in which local authorities now operate.

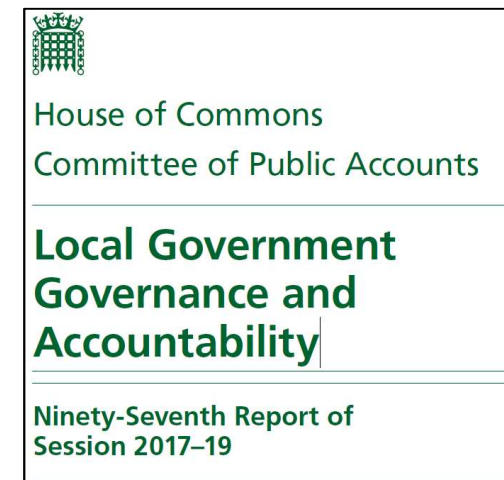
The Department has been reactive and ill-informed in its approach to oversight of the local governance system. However, the Department has now recognised that the network of bodies with responsibility for the local governance framework is fragmented and lacking the leadership needed to drive change. Encouragingly, the Department has now committed to enhancing its oversight role and producing a proactive work programme to deliver this change. We urge the Department to ensure that this activity leads to concrete actions and outcomes on a timely basis. When a local authority fails this has a significant impact on local people and the Department has a responsibility to work with local government to ensure that problems are caught early and that it can pinpoint at-risk councils. Since the abolition of the Audit Commission and other changes culminating in the Local Audit and Accountability Act 2014 there is no central assessment of value for the money, which means the Department's work is fundamental.”

The report makes five conclusions, with associated recommendations:

- 1) The Department is not yet providing effective leadership of the local governance system.
- 2) The Department does not know why some local authorities are raising concerns that external audit is not meeting their needs.
- 3) The Department lacks reliable information on key governance risks, or relies on weak sources of information, meaning it has no way of pinpointing the at-risk councils.
- 4) The Department's monitoring is not focused on long-term risks to council finances and therefore to services.
- 5) There is a complete lack of transparency over both the Department's informal interventions in local authorities with financial or governance problems and the results of its formal interventions.

The Government response is available on the website below:

<https://www.parliament.uk/documents/commons-committees/public-accounts/Gov-response-to-Public-Accounts-on-the-93-98-reports.pdf>



This page is intentionally left blank

Somerset County Council
Audit Committee – 21 November 2019

Value for Money Tracker

Service Director: Sheila Collins, Interim Finance Director

Lead Officer: Sheila Collins, Interim Finance Director

Author: Lizzie Watkin, Strategic Manager – Corporate and Deputy s151

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. 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.
- 1.3. At the September 2019 meeting the external auditor presented their value for money conclusion for the financial year 2018/19. Alongside that the up-dated tracker that continued previous recommendations where relevant and added new ones aimed at further strengthening financial resilience was shared. This report now up-dates on progress with this tracker in the last few weeks.

2. Issues for consideration

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

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.

- 3.2.** In September 2019 the external auditor issued their conclusion for 2018/19 as ‘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 committee at its meeting in September 2019 was presented with an updated VFM tracker that the Council will maintain through JCAD and report to each Audit committee meeting through 2019/20 to track progress.

- 3.3.** A few more significant areas of progress against the tracker actions and recommendations are reported within the following paragraphs.
- 3.4.** As part of the work that supported the external audit VFM conclusion for 2018/19 a review report was produced by Grant Thornton experts on demand led services funding, specifically Children’s and Adult services. These independent review reports have been presented to both Children’s and Adults Scrutiny meetings in October and November (respectively) alongside the VFM tracker.
- 3.5.** The MTFP process for 2020-23 has included a more rigorous approach including scenario planning, review and challenge sessions of all assumptions (pressures, service demands, savings, funding), the completion of a manager confidence assessment as well as broader stakeholder engagement sessions. Further engagements are planned ahead of the MTFPT setting full Council in Feb 2020.
- 3.6.** Continuous improvement is being made for financial reporting and the increased frequency of reporting continues through Cabinet, Policy and Place Scrutiny and Children’s Scrutiny meetings. Specifically that Capital report format has been refreshed for Quarter 2.

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 to the 2017/18 VFM conclusion made during 2018/19 by the council has been reflected in the latest external auditor’s improved 2018/19 VFM conclusion. Nonetheless, the report stresses that the level of improvement needed requires sustained focus during 2019/20 as well to continue and further embed improvements already made. Continued progress is required to ensure the improvements seen over the past year are maintained and financial resilience continues to improved throughout 2019/20 and future years.

6. Background papers

- 6.1.** External Auditor's Value for Money conclusion – September 2019 Audit Committee (Item 5a)
Value for Money tracker update report – September 2019 Audit Committee (Item 6)
<http://democracy.somerset.gov.uk/ieListDocuments.aspx?CId=160&MId=709&Ver=4>

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

This page is intentionally left blank

GT VFM Tracker 2019 2020

	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
	VFMY20011	<p>Risk Description: 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 &%'s population could be areas for more strategic analysis/ thinking.</p> <p>Cause:</p> <p>Consequence:</p>		<p>◦ Consider the value of benchmarking against similar authorities to inform forward planning and transformation</p> <p><i>In Progress (10% complete)</i></p>	<p>Mel Lock 17/11/2019 31/12/2019</p>	<p>Likelihood : Impact :</p> <p>0</p>	<p>Likelihood : Impact :</p>	<p>17/10/2019 Discussion held 16 October 2019 between Mel Lock and Sheila Collins - exploring the purchase of licences/benchmarking tool across the authority to support forward planning and transformation activity, and assist us in demand management</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
	VFMY20012 Risk Owner: Mel Lock Next Risk Review Date: 12/12/2019	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 Adult's Services <p><i>In Progress (30% complete)</i></p>	Mel Lock 12/12/2019 31/01/2020	Likelihood : Impact : 0	Likelihood : Impact :	<p>12/11/2019 The Adults Transformation Programme remains on track: milestones and benefits identified, and latest available national financial and performance benchmarking analysis is now being used to guide our transformation activity.</p> <p>Quarterly scrutiny and challenge continues to be provided by Professor John Bolton to the monthly Performance Improvement Meetings (Adult Services), in addition to some masterclass activity to support the service to develop and improve. At the 23 Oct PIMS, Professor Bolton led on a presentation outlining how to improve and better evidence the achievement of outcomes in Adult Social Care.</p>
	VFMY20008 Risk Owner: Julian Wooster Next Risk Review Date:	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:				Likelihood : Impact : 0	Likelihood : Impact :	<p>11/11/2019 The review is completed and ongoing arrangements are in place for an improvement partner.</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
	VFMY20010 Risk Owner: Julian Wooster Next Risk Review Date: 31/12/2019	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 31/12/2019 <i>31/01/2020</i>	Likelihood : Impact : 0	Likelihood : Impact :	
	VFMY20001 Risk Owner: Sheila Collins Next Risk Review Date: 15/01/2020	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 of non-delivery will be flagged. Cause: Consequence:		<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> 	Lizzie Watkin 15/01/2020 <i>31/03/2020</i> Lizzie Watkin 15/01/2020 <i>31/03/2020</i>	Likelihood : Impact : 0	Likelihood : Impact :	04/11/2019 Iterative improvements are continually made to financial reports to improve transparency and readability. Following Member feedback the summary variation table in the revenue monitoring report has been reviewed (month 4). At Quarter 2 (6 month report) trend charts for each service have been added to aid interpretation. Separately, the layout of the Capital monitoring report has been amended for Qtr2 and further improvements will be made following presentation to Cabinet later in November according to feedback.

	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
	VFMY20003 Risk Owner: Sheila Collins Next Risk Review Date: 15/01/2020	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. Cause: Consequence:		<ul style="list-style-type: none"> Continue the sharp 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> 	Vikki Hearn 15/01/2020 31/03/2020	Likelihood : Impact : 0	Likelihood : Impact :	04/11/2019 Progress on delivery of savings continues to be reported monthly to SLT and separately is shared with Cabinet informally and included in the monthly public Budget Monitoring reports.
	VFMY20004 Risk Owner: Sheila Collins Next Risk Review Date: 31/12/2019	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. Cause: Consequence:		<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> 	Scott Wooldridge 18/11/2019 31/03/2020 Sheila Collins 31/12/2019 31/03/2020	Likelihood : Impact : 0	Likelihood : Impact :	

	Risk Ref	Risk	Uncontrolled Risk	Action Required (In progress Only)	Control Owner Review Date Target Date	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
				<ul style="list-style-type: none"> 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</i> (30% complete) Ensure broader stakeholder engagement in financial position during MTFP (2020-23). Increase awareness of the council's financial position through stakeholder engagement at relevant stages of the MTFP process. <i>In Progress</i> (10% complete) 	Scott Wooldridge 18/11/2019 31/03/2020 Sheila Collins 31/12/2019 20/02/2020			
	VFMY20005	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. Cause: Consequence:		<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</i> (10% complete) 	Lizzie Watkin 15/01/2020 31/03/2020	Likelihood : Impact : 0	Likelihood : Impact :	04/11/2019 Budget monitoring reports now bring the narrative together for reserves and capital receipts flexibilities making it simpler to see the whole position. Tables and charts are also included to further aid interpretation.

	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
	VFMY20006 Risk Owner: Sheila Collins Next Risk Review Date: 15/01/2020	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. Cause: Consequence:		<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 (25% complete)</i> 	Jason Vaughan 18/11/2019 28/02/2020 Lizzie Watkin 15/01/2020 31/03/2020	Likelihood : Impact : 0	Likelihood : Impact :	04/11/2019 As the MTFP (2020-23) strategy develops business cases will be sought if capital receipts flexibilities are planned to be used. In the second half of 2019/20, in-year reporting will be included where capital receipts are being used.
	VFMY20007 Risk Owner: Sheila Collins Next Risk Review Date: 15/01/2020	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. Cause: Consequence:		<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> 	Sheila Collins 15/01/2020 28/02/2020 Sheila Collins 15/01/2020 25/11/2019 Lizzie Watkin 02/12/2019 28/02/2020	Likelihood : Impact : 0	Likelihood : Impact :	04/11/2019 formal report not required until February 2020 Full council budget report, although S151 will include their views in the December 2019 MTFP Strategy paper to Cabinet.

	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
	VFMY20009 Risk Owner: Sheila Collins Next Risk Review Date: 31/12/2019	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 <i>31/01/2020</i> Sheila Collins 31/01/2020 <i>29/11/2019</i>	Likelihood : Impact : 0	Likelihood : Impact :	12/11/2019 The Council is reviewing its strategic approach to securing care placements for children'



Somerset County Council

Report of Internal Audit Activity

Plan Progress 2019/20- November Update

Page 45

Agenda item 7

Contents

The contacts at SWAP in connection with this report are:

David Hill

Chief Executive

Tel: 01935 848540

david.hill@swapaudit.co.uk

Ian Baker

Executive Director

Tel: 01935 848540

ian.baker@swapaudit.co.uk

Lisa Fryer

Assistant Director

Tel: 01823 355299

lisa.fryer@swapaudit.co.uk



Summary:

Role of Internal Audit

Page 1



Control Assurance:

Internal Audit Work Programme

Page 2

Significant Corporate Risks

Page 3

Summary of Partial Opinions

Page 4



Plan Performance:

SWAP Performance

Page 5-6

Changes to the Plan / Conclusion

Page 7



Appendices:

Appendix A – Audit Framework Definitions

Page 8

Appendix B – Summary of Work Plan

Page 9 - 16

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

Supplier Resilience

This audit has found that current arrangements are not effective in ensuring that the risk of supplier failure is being adequately controlled. Currently there is not a consistent and co-ordinated approach to supplier resilience.

Though due diligence checks are completed prior to procurement, we found that these checks could not always be evidenced. There is a requirement for contract managers to monitor the financial standing of their suppliers once a contract has been awarded; we found these checks are not carried out consistently and some contract managers were unaware they were responsible for conducting such checks.

Of further concern is that Business Continuity Plans prepared by SCC service areas do not consistently outline who their key suppliers are, or what steps would need to be taken in the event one of these suppliers failed. It is unrealistic to expect detailed contingency plans to exist at service level for every contract, however such plans should be prepared for critical contracts.

The Commercial & Procurement service is currently drafting a new Contract Management Framework. This Framework will need to include enhanced guidance for contract managers.

Update 2019/20

SWAP Performance



SWAP Performance

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

Performance Target	SCC Performance	SWAP Performance
<p><u>Audit Plan – Percentage Progress</u> Final, Draft and Discussion In progress Not started</p>	<p>45% 30% 25%</p>	<p>30% 39% 31%</p>
<p><u>Audit Plan – Delivery</u> 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> Customer Satisfaction Questionnaire</p>	<p>98%</p>	<p>93%</p>

Update 2019/20 continued

SCC Performance

SCC Performance

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

Good progress can be demonstrated with the majority of quarter 1 and 2 audits now at the reporting stage and most quarter 3 audits now in progress.

As reported in the previous progress report the loss of SWAP's resource for the SCC IT audit plan has slowed delivery of IT audits. The engagement of specialist IT auditors on a consultancy basis is currently being investigated to cover the shortfall this year. A plan to upskill a number of SWAP staff to deliver IT audits as a longer term solution is also being agreed.

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

Good progress continues to be made and we are on track to deliver the internal audit plan.

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 =	↔	3 =	Comments
								Major		Minor	
								Recommendation			
1	2	3									
Opinion Based Audits											
ECI	Operational	Passenger Transport – Driver Records	1	Final	Reasonable	09/04/2019	3		1	2	Sufficient progress made to remove this audit from JCAD.
Procurement	Governance	Supplier Resilience	1	Final	Partial	16/04/2019	9		6	3	
Children’s services	Schools	School Expenditure	1	Final	Reasonable	16/05/2019	6		1	5	
Finance	Governance	Treasury Management	2	Final	Substantial	06/06/2019	0		0	0	
Human Resources	Governance	Use of Volunteers – DBS checks	2	Final	Reasonable	11/07/2019	7			7	
Finance	Governance	Payroll	2	Draft		26/06/2019					
Human Resources	Governance	Health and Wellbeing – Working Well Programme	1	Draft		09/05/2019					
ICT	ICT	ICT Strategy and Governance	1	Discussion document		11/04/2019					
Adult Services	Operational	Residential Homes – contracts	1	Discussion document		04/06/2019					
Finance	Governance	Cash Handling	3	Discussion Document		14/08/2019					
PMO	Governance	The Commissioning and Delivery of schools	1	In Progress		23/05/2019					Delays from change of scope request and sickness of key staff.

Page 55

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	1 =	↔	3 =	Comments
								Major		Minor	
								Recommendation			
1	2	3									
Performance	Governance	Service Planning	2	In Progress		27/06/19					
Adult Services	Operational	Mental Health – Financial Decision Making	2	In Progress		15/07/19					
Children Services	Operational	Early Years – Compliance with Code of Practice	2	In Progress		25/07/19					Visits undertaken during September/October.
Children's services	Operational	Somerset Virtual School	2	In Progress		26/07/19					Delays experienced in progressing this audit.
Children's Services	Operational	Children's Education, Health and Care Plans (EHCPs)	3	In Progress		20/08/19					
Children's Services	Operational	Dillington House – Financial and Business Planning	3	In Progress		08/10/19					Originally scheduled for Q1, moved back to Q3 to review updated business plan.
Adult Services	Operational	FAB Assessments	3	In Progress		01/11/19					
Public Health	Operational	Transfer of Public Health Nursing Services	3	In Progress		19/9/19					
Children's Services	Operational	Children's Services Budget Management	3	In Progress		4/11/19					
Children's Services	School	Schools - Pupil Premium Grant	3	In Progress		05/09/19					
Finance	Key Control	Debt Management	3	In Progress		02/10/19					
Human Resources	Governance	Career Development and Pathways	2	Not Started							Agreed with Director of HR to move back to Q4

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	1 = Major	↔	3 = Minor	Comments
								Recommendation			
								1	2	3	
ICT	ICT	Vulnerability Management	2	Not Started							
ICT	ICT	Disaster Recovery	3	Not Started							Initial Meeting scheduled in November
Information Management	Governance	Data Subject Access Requests (DSARs)	3	Not Started							Initial Meeting scheduled in November
Adult and Children's	Operational	Direct Payments (including follow-up)	4	Not Started							
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							

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	1 =	↔	3 =	Comments
								Major		Minor	
								Recommendation			
1	2	3									
ICT	ICT	Firewall Management	4	Not Started							
ICT	ICT	Agile ICT Audit Project Assurance	4	Not Started							
Finance	Key Control	MTFP	4	Not started							New
Follow Ups											
ICT	Follow-up	Software Asset Management	1	Final	n/a	12/04/19					Sufficient progress made to remove from JCAD
ICT	Follow-up	Hardware Asset Management	1	Final	n/a	12/04/19					Sufficient progress made to remove from JCAD
ICT	Follow-up	Active Directory	2	Final	n/a	02/07/19					Sufficient progress made to remove from JCAD
ICT	Follow-up	SAP – General IT Controls	2	Draft		01/08/19					
Children's Services	Follow-up	Team Around the School	3	In Progress		12/08/19					
	Follow-up	Healthy Organisation	3	In Progress		01/10/19					
Adult Services	Follow-up	Better Care Fund	2	Not Started							Delayed to allow time for recommendations to be implemented
Finance	Follow-up	Combatting Tax Evasion	3	Not Started							Delayed to allow time for recommendations to be implemented
Adult Services	Follow-up	Mental Health – Care Plans	3	Not Started							Agreed with Service to move back to Q4

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	1 = Major	↔	3 = Minor	Comments
								Recommendation			
								1	2	3	
Property Services	Follow-up	Premises Management Health and Safety	3	Not Started							
Grant Certification Work											
ECI	Grant	Growth Deal – J25 M5 at Henlade	1	Final	n/a	27/06/19					New
ECI	Grant	Local Transport Capital Funding (including Pothole Action)	2	Final	n/a	23/08/19					New
Children & Families	Grant	Troubled Families – Phase 2 Claims	1	In Progress		03/05/19					Certification of claims completed through the year.
ECI	Grant	BDUK Grant Certification	4	Not Started							New
Advisory Work											
ECI	Advisory	Concessionary Fares – Reimbursement Calculation	1	Final	n/a	12/04/19	5		4	1	New
Children's	Advisory	Children's Direct Payment case review	All	In Progress		23/07/19					Service request.
All	Advisory	Organisational redesign	All	Not started							Advisory time to be used as projects develop.

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	1 = Major	↔	3 = Minor	Comments
								Recommendation			
								1	2	3	
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.
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.
Procurement	Governance	Corporate Contract Management	3	Removed							The new will not be finalised in time for a useful audit to be conducted. Deferred until Q1 2020-21 and days allocated to new grant audits.
Schools											
Education & Skills	School	School Expenditure Bowlsh Infants	Q1	Final	Reasonable	03/06/19	4	0	1	3	
Education & Skills	School	School Expenditure Keinton Mandeville Primary	Q1	Final	Reasonable	03/06/19	6	0	1	5	
Education & Skills	School	School Expenditure Long Sutton Primary	Q1	Final	Reasonable	03/06/19	6	0	1	5	
Education & Skills	School	School Expenditure Lydeard St Lawrence Primary	Q1	Final	Reasonable	03/06/19	4	0	1	3	

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	School Expenditure Misterton First	Q1	Final	Partial	03/06/19	6	0	2	4	
Education & Skills	School	School Expenditure St Andrews Junior	Q1	Final	Reasonable	03/06/19	6	0	1	5	
Education & Skills	School	School Expenditure St Louis Primary	Q1	Final	Partial	03/06/19	9	0	4	5	
Education & Skills	School	School Expenditure Wookey Primary	Q1	Final	Reasonable	03/06/19	6	0	1	5	
Education & Skills	School	E-Safety Follow-Up Elmwood School	Q1	Final	n/a	03/06/19					Sufficient progress made to now conclude as Reasonable
Education & Skills	School	Financial Governance Follow-Up Wadham School	Q1	Final	n/a	03/06/19					Sufficient progress made to now conclude as Reasonable
Education & Skills	School	Financial Governance Follow-Up Winsham Primary	Q1	Final	n/a	03/06/19					
Education & Skills	School	Tor School SFVS Follow-Up	Q1	Final	n/a	03/06/19					
Education & Skills	School	Bishop Henderson Primary SFVS Follow-Up	Q1	Final	n/a	03/06/19					
Education & Skills	School	Pupil Premium - Ilchester Primary	Q3	In Progress		01/10/19					
Education & Skills	School	Pupil Premium - Rockwell Green	Q3	In Progress		01/10/19					
Education & Skills	School	Pupil Premium - Frome, Christchurch	Q3	In Progress		01/10/19					

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	Pupil Premium - Yeovil, Birchfield	Q3	In Progress		01/10/19					
Education & Skills	School	Pupil Premium - Avalon	Q3	In Progress		01/10/19					
Education & Skills	School	Pupil Premium - Taunton, Holway Park	Q3	In Progress		01/10/19					
Education & Skills	School	Pupil Premium - Meare	Q3	In Progress		01/10/19					
Education & Skills	School	Pupil Premium - St Cuthbert's C of E	Q3	In Progress		01/10/19					

Somerset County CouncilAudit Committee – 21 November 2019

Risk Management: Update

Lead Officer: Sheila Collins, Interim Director of Finance

Author: Pam Pursley, Strategic Risk Manager, Finance

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
 - 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 current strategic risk report, including risk **ORG0043 - Maintaining a balanced budget for 2019/20 and ensuring a sustainable MTFP** is attached as **Appendix A**.
- 2.2.** The Internal Audit Partial Recommendations report is attached as **Appendix B**. Further details of the current position concerning these audits can be found from Point 3.3 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 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** – 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 latest review completed by the Interim Director of Finance on 4 November 2019 stated; *“Quarter 2 revenue report will go to Cabinet on 13 Nov 2019 and confirms that £6.1m of the corporate contingency remains unallocated half-way through the year. If this remains unallocated at the end of the year, these funds will help build the Council's financial resilience further. That decision will be taken later in the year. Where services are reporting adverse variations, the mitigating management actions that are in place are included in the budget monitoring report”.*

The 'current risk score' remains at the current level of “very high” (4x4(16)).

- 3.3. Appendix B** is the Internal Audits partial recommendations report. This report highlights the progress of individual partial audits through to completion. Performance is currently in line with last year and overall considered satisfactory.

- 3.4.** 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.

6. Background papers

- 6.1.** Appendix A and B

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

This page is intentionally left blank

Strategic Risk Report - Somerset County Council (SLT)

Risk Ref	Risk	Uncontrolled Risk	Action Required (In progress Only)	Control Owner Review Date Target Date	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
ORG0043 Risk Owner: Sheila Collins Next Risk Review Date: 15/01/2020	<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; padding: 2px;">25</p> <p>Red - V. High Risk</p>	<ul style="list-style-type: none"> o 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> o 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 levels have been completed by budgets holders. A review of funding streams has been undertaken and are in line with the 2019 Spending Round <i>In Progress (80% complete)</i> 	<p>Claire Griffiths 31/12/2019 31/03/2020</p> <p>Jason Vaughan 29/11/2019</p>	<p>Likelihood :4 Impact :4</p> <p style="background-color: red; color: white; text-align: center; padding: 2px;">16</p> <p>Red - V. High Risk</p>	<p>Likelihood :4 Impact :4</p> <p style="background-color: red; color: white; text-align: center; padding: 2px;">16</p> <p>Red - V. High Risk</p>	<p>04/11/2019 Quarter 2 revenue report will go to Cabinet on 13 Nov 2019 and confirms that £6.1m of the corporate contingency remains unallocated half-way through the year. If this remains unallocated at the end of the year, these funds will help build the Council's financial resilience further. That decision will be taken later in the year. Where services are reporting adverse variations, the mitigating management actions that are in place are included in the budget monitoring report.</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"> ◦ 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. All the tighter financial controls remain in place after 6 months and are ensuring transparency throughout financial controls. <i>In Progress (60% complete)</i> ◦ 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 Standupforcare campaign and has lobbied for additional funding prior to the Comprehensive Spending Review. <i>In Progress (50% complete)</i> 	<p>Lizzie Watkin 30/12/2019</p> <p>Jason Vaughan 23/11/2019</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>ORG0011</p> <p>Risk Owner: Chris Squire</p> <p>Next Risk Review Date: 02/11/2019</p>	<p>Risk Description: Strategic Risk 2017: 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. Consultation ended on 20/09/19. Changes to be in place by 31 December 19. New buildings on line by 1st April 2020. <i>In Progress (75% complete)</i></p>	<p>Heidi Boyle 27/12/2019 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>02/10/2019</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: 29/02/2020	Risk Description: Strategic Risk 2017: 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			Likelihood :3 Impact :5 15 Amber - High Risk	Likelihood :3 Impact :5 15 Amber - High Risk	11/11/2019 The annual conversation with Ofsted took place in September 2019. In respect of Children's Social Care Ofsted said that Somerset felt more confident as an organisation. Whilst practice is improving there are still some inconsistencies. The SEND Inspection is still awaited.
	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:	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

	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
		Results in inconsistent, inefficient and ineffective commissioning across the organisation.						
	ORG0007	<p>Risk Description: Strategic Risk 2019 update: Business Continuity: Service interruptions are not planned for and are therefore unmitigated</p> <p>Cause: Managers do not plan effectively to mitigate business continuity disruptions to the delivery of SCC services.</p> <p>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 failure, supply chain disruptions, unpredictable unfunded burdens or other external factors could lead to interruptions to service delivery.</p>	<p>Likelihood :3 Impact :5</p> <p>15</p> <p>Amber - High Risk</p>	<p>o Annual Corporate Business Continuity Exercise Hold a table-top exercise in spring 2019 to test the SCC Corporate Business Continuity Plan and the supporting service level plans. Invite SCC services and district councils to participate. Build on the lessons identified in Ex Viral Crisis (March 2017) and Exercise Long Reach (April 2018). 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></p>	<p>Jacob Forgham 25/12/2019 30/03/2020</p>	<p>Likelihood :3 Impact :4</p> <p>12</p> <p>Yellow - Medium Risk</p>	<p>Likelihood :3 Impact :4</p> <p>12</p> <p>Yellow - Medium Risk</p>	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
				<p>◦ Mobile telecoms review Review 08/01/2019 - D Littlewood: I have spoken with procurement around multi-network SIM cards, that can roam between networks if one network carrier goes down. These are expensive at present under our current contract, but we are looking to reduce cost as part of the Mobile telecoms review which is still underway. Review: 19/10/2019 - SIMs on other networks are now available to purchase by business units (at a cost to each area of the business.) Personal mobile phones can now run teams for communications in the even of the SCC network being unavailable, and SCC phones have the option to run WIFI calling in the even of a failure of the 3g or 4g Network. Future work around UC strategy will move SCC to cloud PBX technology and this will provide resilience by using a telecoms provider and the Microsoft cloud to make calls. This will be available on SCC and personal phones.</p> <p>There is also an option for parts of the business to move some of its SIM cards over to an existing Vodafone contract, so half of the service is with EE, and half with Vodafone, but again, reducing the number of phones on each contract, increases the cost of the calls and data, so we are working with procurement on the best approach between cost and continuity.</p> <p>In the short term, we have now released Outlook and access to Somerset County Council mailboxes, to personal devices, so if individuals are on other networks, they</p>	Dave Littlewood 31/03/2020 31/03/2020			

	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>could still access email and have contact (as proven in the outage of the EE network a few weeks ago) <i>In Progress</i> (90% complete)</p> <ul style="list-style-type: none"> Annual corporate guidance and templates update or after activation of the corporate business continuity plan. <i>In Progress</i> (10% complete) Ensure all service level business continuity plans are updated annually. <i>In Progress</i> (10% complete) Plan for no-deal Brexit impacts using the framework of the corporate BC plan <i>In Progress</i> (80% complete) 	<p>Jacob Forgham 25/12/2019</p> <p>Jacob Forgham 25/12/2019</p> <p>Nicola Dawson 14/01/2020 31/10/2019</p>			
	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>Likelihood :5 Impact :4</p> <p style="text-align: center;">20</p> <p>Red - V. High Risk</p>	<ul style="list-style-type: none"> 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 21/02/2020 31/03/2020</p>	<p>Likelihood :3 Impact :4</p> <p style="text-align: center;">12</p> <p>Yellow - Medium Risk</p>	<p>Likelihood :3 Impact :4</p> <p style="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
		<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>						
Page 74	<p>ORG0052</p> <p>Risk Owner: Patrick Flaherty</p> <p>Next Risk Review Date: 17/10/2019</p>	<p>Risk Description: Strategic Risk 2019: 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.</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>			<p>Likelihood :4 Impact :3</p> <p style="background-color: yellow; text-align: center;">12</p> <p>Yellow - Medium Risk</p>	<p>Likelihood :3 Impact :3</p> <p style="background-color: yellow; text-align: center;">9</p> <p>Yellow - Medium Risk</p>	10/09/2019

	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
		* Disruption to supplies, increased demands for service, price increases and potential loss of income						
Page 75	ORG0024 Risk Owner: Simon Clifford 2 Next Risk Review Date: 07/11/2019	<p>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.</p> <p>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.</p> <p>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.</p>	<p>Likelihood :4 Impact :4</p> <p>16</p> <p>Red - V. High Risk</p>	<p>o 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 (90% complete)</i></p>	<p>Simon Clifford 2 16/03/2020 31/03/2020</p>	<p>Likelihood :3 Impact :4</p> <p>12</p> <p>Yellow - Medium Risk</p>	<p>Likelihood :3 Impact :3</p> <p>9</p> <p>Yellow - Medium Risk</p>	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	<p>Risk Description: Strategic Risk 2017: Safeguarding Adults: We fail to deliver our statutory safeguarding activity in relation to adults</p> <p>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</p> <p>Consequence: leading to increased audit inspections, personal litigation claims, adverse publicity for the council and possible financial penalties</p>	<p>Likelihood :3 Impact :5</p> <p style="text-align: center;">15</p> <p>Amber - High Risk</p>	<p>◦ Improve adult safeguarding conversion rates to ensure team time is spent most effectively on those requiring support</p> <p><i>In Progress (80% complete)</i></p>	<p>Niki Shaw 30/11/2019 31/10/2019</p>	<p>Likelihood :2 Impact :5</p> <p style="text-align: center;">10</p> <p>Green - Low Risk</p>	<p>Likelihood :2 Impact :5</p> <p style="text-align: center;">10</p> <p>Green - Low Risk</p>	<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 been 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
	ORG0001	<p>Risk Description: Strategic Risk 2017: Civil Emergencies: A major civil emergency results in loss of life and major disruption to services</p> <p>Cause: we do not adequately plan for civil emergencies including the testing of plans and prioritisation of our resources,</p> <p>Consequence: impact on Somerset County Council's reputation and standing locally and Nationally</p>	<p>Likelihood :4 Impact :5</p> <p style="text-align: center;">20</p> <p>Red - V. High Risk</p>	<ul style="list-style-type: none"> ◦ Deliver annual emergency training programme SLACCP training and exercise strategy sets three objectives: delivery of a consistent training & exercising programme for strategic, tactical and operational roles identified within the corporate response & recovery arrangements; delivery of a specific training & exercising programme for roles pre-defined within incident, risk or capability related plans; and provision of guidance material to support both the generic and specific training and exercising programmes. During 2019/20, the focus will be on rolling out more e-learning packages via the new CCU Hub and developing webinars. Workshops and seminars will also be delivered. <i>In Progress (10% complete)</i> ◦ Update the Joint Corporate Emergency Response & Recovery Plan Carry out an update of the generic emergency response and recovery plan for the five Somerset local authorities. <i>In Progress (10% complete)</i> ◦ SLACCP Resilience Board meetings Bring the five Somerset local authorities together three times during 2019/20 to identify resilience issues, assess levels of emergency preparedness and to monitor the delivery of the SLACCP work programme. Meetings are scheduled for June and September 2019 and February 2020. <i>In Progress (10% complete)</i> 	<p>Jacob Forgham 25/12/2019 31/03/2020</p> <p>Jacob Forgham 25/12/2019 31/03/2020</p> <p>Jacob Forgham 25/12/2019 02/03/2020</p>	<p>Likelihood :2 Impact :5</p> <p style="text-align: center;">10</p> <p>Green - Low Risk</p>	<p>Likelihood :2 Impact :5</p> <p style="text-align: center;">10</p> <p>Green - Low Risk</p>	18/09/2019 Update on actions chased. P Hewitt 18/09/19

	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
				<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> 	Jacob Forgham 25/12/2019 31/03/2020			
Page 79	ORG0042	<p>Risk Description: Strategic Risk 2017: 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>	Likelihood :4 Impact :4 <div style="background-color: red; color: white; text-align: center; width: 20px; margin: 5px auto;">16</div> Red - V. High Risk			Likelihood :3 Impact :3 <div style="background-color: yellow; text-align: center; width: 20px; margin: 5px auto;">9</div> Yellow - Medium Risk	Likelihood :3 Impact :3 <div style="background-color: yellow; text-align: center; width: 20px; margin: 5px auto;">9</div> Yellow - Medium Risk	02/10/2019 Considerable work has been done to look at succession planning in key areas, This includes the continued development of our apprenticeship frameworks, with 12 social worker degree apprenticeships starting in October, and the start of the social worker degree programme at Yeovil College. We continue work in ECI on succession planning and workforce profiling, with good engagement from the management team.

Report Selection Criteria

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

This page is intentionally left blank



Somerset County Council

Internal Audit Governance Board Update Report

End October 2019

Page 81

Summary of Audit Work 2019/20

Performance Year to Date

Performance Measure	Current Performance	Last Year's Performance
Report stage (Final, Draft and Discussion)	45%	40%
In Progress	30%	37%
Yet to Start	25%	23%
Customer Satisfaction Questionnaire Scores	98%	94%

Performance is currently in line with last year and overall considered satisfactory. There have however been instances where audits have taken considerably longer than planned to complete. This has related to both progressing audit work and finalising reports, with multiple reminders from audit staff and myself necessary.

Significant Corporate Risks

Review/Risks	Auditors Assessment
<u>Objective:</u> <u>Risk:</u>	None reported in the year so far.

Summary of Audit Work 2019/20

Partial Opinion Reports

Supplier Resilience

This audit has found that current arrangements are not effective in ensuring that the risk of supplier failure is being adequately controlled. Currently there is not a consistent and co-ordinated approach to supplier resilience.

Though due diligence checks are completed prior to procurement, we found that these checks could not always be evidenced. There is a requirement for contract managers to monitor the financial standing of their suppliers once a contract has been awarded; we found these checks are not carried out consistently and some contract managers were unaware they were responsible for conducting such checks.

Of further concern is that Business Continuity Plans prepared by SCC service areas do not consistently outline who their key suppliers are, or what steps would need to be taken in the event one of these suppliers failed. It is unrealistic to expect detailed contingency plans to exist at service level for every contract, however such plans should be prepared for critical contracts.

The Commercial & Procurement service is currently drafting a new Contract Management Framework. This Framework will need to include enhanced guidance for contract managers.

Summary of Follow-up Work

A follow-up audit takes place to confirm that actions have been implemented as agreed for all Partial Opinion audits and where there is evidence of this, the audit is removed from JCAD.

A summary of the outcomes of follow-up work finalised is shown below. For detail of the follow-up audits refer to Appendix 2.

Follow-up Outcomes	In Month	Year to Date
Removed from JCAD	0	3
Remaining on JCAD	0	0
Total	0	3

Changes to the Plan

There have also been additions to the plan to accommodate higher level risks or to carry out advisory work that has been requested. These have been resourced by audits that have been deferred. For further detail refer to Appendix 2. No changes have been made since the last progress report.

Other

The auditor responsible for IT has recently left and this will have a short-term effect on planned IT audit delivery. To help maintain service delivery in the short-term using an IT audit contractor is currently under investigation.

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	
Opinion Based Audits											
ECI	Operational	Passenger Transport – Driver Records	1	Final	Reasonable	09/04/2019	3		1	2	Sufficient Progress made to remove this audit from JCAD.
Procurement	Governance	Supplier Resilience	1	Final	Partial	16/04/2019	9		6	3	
Children's services	Schools	School Expenditure	1	Final	Reasonable	16/05/2019	6		1	5	
Finance	Governance	Treasury Management	2	Final	Substantial	06/06/2019	0		0	0	
Human Resources	Governance	Use of Volunteers – DBS checks	2	Final	Reasonable	11/07/2019	7		0	7	
Finance	Governance	Payroll	2	Draft		26/06/2019					
Human Resources	Governance	Health and Wellbeing – Working Well Programme	1	Draft		09/05/2019					
ICT	ICT	ICT Strategy and Governance	1	Discussion document		11/04/2019					
Adult Services	Operational	Residential Homes – contracts	1	Discussion document		04/06/2019					
Finance	Governance	Cash Handling	3	Discussion Document		14/08/2019					
PMO	Governance	The Commissioning and Delivery of schools	1	In Progress		23/05/2019					Delays from change of scope request and sickness of key staff.

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	1 =	↔	3 =	Comments
								Major		Minor	
								Recommendation			
1	2	3									
Performance	Governance	Service Planning	2	In Progress		27/06/19					
Adult Services	Operational	Mental Health – Financial Decision Making	2	In Progress		15/07/19					
Children Services	Operational	Early Years – Compliance with Code of Practice	2	In Progress		25/07/19					Visits undertaken during September/October.
Children's services	Operational	Somerset Virtual School	2	In Progress		26/07/19					Delays experienced in progressing this audit.
Children's Services	Operational	Children's Education, Health and Care Plans (EHCPs)	3	In Progress		20/08/19					
Children's Services	Operational	Dillington House – Financial and Business Planning	3	In Progress		08/10/19					Originally scheduled for Q1, moved back to Q3 to review updated business plan.
Adult Services	Operational	FAB Assessments	3	In Progress		01/11/19					
Public Health	Operational	Transfer of Public Health Nursing Services	3	In Progress		19/9/19					
Children's Services	Operational	Children's Services Budget Management	3	In Progress		4/11/19					
Children's Services	School	Schools - Pupil Premium Grant	3	In Progress		05/09/19					
Finance	Key Control	Debt Management	3	In Progress		02/10/19					
Human Resources	Governance	Career Development and Pathways	2	Not Started							Agreed with Director of HR to move back to Q4

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	1 = Major	↔	3 = Minor	Comments
								Recommendation			
								1	2	3	
ICT	ICT	Vulnerability Management	2	Not Started							
ICT	ICT	Disaster Recovery	3	Not Started							Initial Meeting scheduled in November
Information Management	Governance	Data Subject Access Requests (DSARs)	3	Not Started							Initial Meeting scheduled in November
Adult and Children's	Operational	Direct Payments (including follow-up)	4	Not Started							
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							

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	1 = Major	↔	3 = Minor	Comments
								Recommendation			
								1	2	3	
ICT	ICT	Firewall Management	4	Not Started							
ICT	ICT	Agile ICT Audit Project Assurance	4	Not Started							
Finance	Key Control	MTFP	4	Not started							New
Follow Ups											
ICT	Follow-up	Software Asset Management	1	Final	n/a	12/04/2019					Sufficient progress made to remove from JCAD
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
Children's Services	Follow-up	Team Around the School	3	In Progress		12/08/19					
	Follow-up	Healthy Organisation	3	In Progress		01/10/19					
Adult Services	Follow-up	Better Care Fund	2	Not Started							Delayed to allow time for recommendations to be implemented
Finance	Follow-up	Combatting Tax Evasion	3	Not Started							Delayed to allow time for recommendations to be implemented

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	1 = Major	↔	3 = Minor	Comments
								Recommendation			
								1	2	3	
Adult Services	Follow-up	Mental Health – Care Plans	3	Not Started							Agreed with Service to move back to Q4
Property Services	Follow-up	Premises Management Health and Safety	3	Not Started							
Grant Certification Work											
ECl	Grant	Growth Deal – J25 M5 at Henlade	1	Final	n/a	27/06/19					New
ECl	Grant	Local Transport Capital Funding (including Pothole Action)	2	Final	n/a	23/08/19					New
Children & Families	Grant	Troubled Families – Phase 2 Claims	1	In Progress		03/05/19					Certification of claims completed through the year.
ECl	Grant	BDUK Grant Certification	4	Not Started							New
Advisory Work											
ECl	Advisory	Concessionary Fares – Reimbursement Calculation	1	Final	n/a	12/04/19	5		4	1	New
Children's	Advisory	Children's Direct Payment case review	All	In Progress		23/07/19					Service request.
All	Advisory	Organisational redesign	All	Not started							Advisory time to be used as projects develop.
Audits Deferred/Removed from the Plan											

Service	Audit Type	Audit Name	Qtr	Status	Opinion	Start Date	No of Rec	1 = Major	↔	3 = Minor	Comments
								Recommendation			
								1	2	3	
Commissioning	Governance	The Commissioning Gateway	1	Removed							To form part of the scope of the corporate contract management audit. Days reallocated to grant work.
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.
Procurement	Governance	Corporate Contract Management	3	Removed							Deferred until 2020/21 to allow time for new corporate approach to embed. Replaced with MTFP audit.

This page is intentionally left blank

Audit Committee - 21 November 2019

Partial Audit Update – Education of Children in Care

Cabinet Member(s): Cllr Frances Nicholson – Cabinet Member for Children and Families

Lead Officer: Emily Walters, Virtual Headteacher for Children Looked After and SEND

Author: Emily Walters, Virtual Headteacher for Children Looked After and SEND

Summary	<p>As part of the 2017-18 internal audit plan a review has been undertaken to assess the implementation of recommendations made in the Education of Children Looked After (CLA) non-opinion review carried out in 2016-17.</p> <p>All local authorities have a duty under the Children Act 1989 to safeguard and promote the welfare of children in their care. This includes a duty to promote the promotion of educational achievement for looked after children, regardless of where they live or are educated.</p> <p>The Virtual School Head is primarily responsible for ensuring that there are effective systems in place to maintain an overview of all children on the Virtual School roll, their attainment and any actions that must be taken to facilitate improvement.</p> <p>The role of a Virtual School is to provide additional support for looked after children in mainstream schools or specialist provision through the collaboration of professionals such as social workers, foster carers and designated teachers, as well as the Virtual School itself. The Virtual School aims to support the education of CLA's by providing support to designated teachers and other professionals, monitoring the completion and quality of Personal Education Plans, arranging relevant training and development opportunities for staff, providing CLA's with one-to-one support and becoming involved in cases where there are attendance issues or there is a risk of exclusion.</p> <p>This report sets out:</p> <ul style="list-style-type: none"> • Current arrangements for the Virtual School and Learning Support Team • Progress towards the priority actions identified in
----------------	--

	the 2017-2018 Report
Context	<p>This report and updated outcomes related to the period of the academic year 2017-2018. Shortly after this period the Virtual School Head left her role and Emily Walters picked up the interim leadership of the service. She was appointed to the substantive Headteacher post in May of 2019 and a restructure of the service was undertaken.</p> <p>The Virtual School is now called the Virtual School and Learning Support Team, and comprises a team of advisory teachers and learning mentors, under the leadership of a Virtual School Head and two full time equivalent Deputy Heads, one with a SEND focus and the other with a CLA focus.</p> <p>The review of activities below reflects the current situation and gives context around the progress towards meeting these outcomes.</p>
Review activity	<p>Finding 1:</p> <p>1. Educational outcomes for Children Looked After are reduced because agencies do not liaise effectively and do not have a clear understanding of their roles. Medium</p> <p>1.3a Proposed Outcome: Priority 4</p> <p>We recommend that the Operations Manager - Children Looked After works with the Virtual School to develop standard induction materials relating to the Virtual School. These should be used during all inductions for professionals working with CLA.</p> <p>Previous documentation is no longer relevant due to the development of the new service. Ongoing liaison between Head of Service for CLA and Head of Virtual School ensures that new processes are agreed and shared.</p> <p>1.3b Proposed Outcome: Priority 4</p> <p>We recommend that the Operations Manager - Children</p>

	<p>Looked After ensures that all social workers in the Child Looked After team complete the Promoting Successful Education for CLA training course and that completion of the course is made mandatory.</p> <p>This was available each term through the Virtual School team for Social workers and foster carers. Take up was variable and we are therefore working with Social Care Ops Managers to find an approach which is more accessible and practical to all social workers. This will also include a SEND input from the Statutory SEND team.</p> <p>Foster Carer training remains in place and continues to run twice a year. The document called 'Expectations of a CLA social worker' document was agreed by the previous Ops Manager and VSH. A revised document in line with the new service is currently under review with VS management team and CLA Ops managers.</p>
	<p>1.4a Proposed Priority 4 Outcome:</p> <p>We recommend that the Operations Manager - Resources and the Operations Manager - Children Looked After reminds officers of the need to ensure placement plans are fully completed. Placement planning meetings should be held prior to placement wherever possible and should clearly record any steps carers must take to support the education of children in their care.</p> <p>This remains an ongoing area of work with the placements planning team. There is now a joint funded staff member working in the placements team – this ensures improved communication between SEND, placements, and VS. Monthly meetings in place with VSH, Strategic manager for placements, and Head of Service for CLA.</p>
	<p>1.5a Proposed Priority 3 Outcome:</p> <p>We recommend that the Strategic Commissioner - Vulnerable Children ensures that all IPAs completed for CLA in external placements have a fully completed 'Enjoy and Achieve' section.</p> <p>We would welcome this development and ensure that enjoyment and achievement is as the heart of our newly</p>

developed PEP documents. This objective is not yet embedded and a dip sample audit is needed to track progress and assess current situation.

1.7a Proposed **Priority 3**
Outcome:

We recommend that the Virtual School Head Teacher ensures that an up to date list of designated teachers is always available to the Virtual School.

Complete and in place

1.10a Proposed **Priority 3**
Outcome:

We recommend that the Virtual School Head Teacher ensures that overdue PEP paperwork is promptly followed up.

For September 2019 the PEP process and document has been completely revised and therefore we anticipate a 'settling in' period. However there is now a clear escalation process which is now embedded. The admin team of the Virtual School now owns this process and escalation of non-submitted PEPs includes social workers, team managers, IROs, Head teachers, and ultimately Chairs of Governors. Funding is also linked to the timely submission of a completed and high quality PEP.

1.13a Proposed **Priority 3**
Outcome:

We recommend that the Virtual School Head Teacher reminds the SEN team of the need for the Virtual School to be notified and involved in school moves for all CLA with ECHPs.

Inclusion Somerset now has permanent strategic managers for Statutory SEND, Access and Additional Learning Needs, SEND Advisory Services, and Virtual School with regular meetings. In addition, the alignment of the Learning Support Team, SENIT and Virtual School has further strengthened the links between services. A secondment has been agreed for a member of the Statutory SEND Team to sit within the Virtual School to facilitate and support understanding of the EHCP process for CLA.

Recommendations	<p>The outcomes identified above will now been re-visited in light of the changes to the service.</p> <ul style="list-style-type: none">• Continued liaison between CSC, VS and SEND at strategic as well as operational level• Review of the induction materials in light of the new service• Evaluation following the implementation of the reviewed training arrangements on 'Promoting Successful Education for CLA'• Commissioner for independent placements links with the VS team on the IPAs and the focus on 'enjoy and achieve'• The joint funded post in the placements team is a focus for the audit which is currently ongoing so this should feed into the outcomes described above
------------------------	---

This page is intentionally left blank

Somerset County Council

Audit Committee – 21 November 2019

Redmond review – call for views

Service Director: Sheila Collins, Interim Finance Director

Lead Officer: Sheila Collins, Interim Finance Director

Author: Lizzie Watkin, Strategic Manager – Corporate and Deputy s151

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.** On the 17 September 2019 a review, led by the former President of the Chartered Institute of Public Finance Sir Tony Redmond, was launched to examine the effectiveness of local authority financial reporting and the audit regime.
- 1.2.** The review also looks at how councils publish their annual accounts and if the financial reporting system is sufficiently transparent to be held to account.
- 1.3.** The review closes on 20 December 2019 with an expected final report due from Sir Tony Redmond in the first half of 2020.

2. Issues for consideration

- 2.1.** Members are asked to consider and comment on the arrangements in place to support financial reporting in Somerset. An officer response will be submitted by Somerset County Council to provide information and evidence on the aspects of the review.

3. Background

- 3.1.** On the 17 September 2019 a review, led by the former President of the Chartered Institute of Public Finance Sir Tony Redmond, was launched to examine the effectiveness of local authority financial reporting and the audit regime (**attached as Appendix A**). This review of financial reporting and external audit follows the full implementation of the Local Audit and Accountability Act of 2014 and the responsibilities for local authority audits and how they are conducted is set down within that Act.
- 3.2.** The 2014 Act gave effect to manifesto commitments to abolish the Audit Commission and its centralised performance and inspection regimes and put in place a new localised audit regime, refocussing local accountability on improved transparency. Now the Act has been fully implemented, the government is required to review its effectiveness. This review will meet the Ministry of Housing, Communities and Local Government's commitment to undertake a post implementation review of the audit framework and financial reporting elements of the Act.

3.3. Local authorities in England are responsible for 22% of total UK public sector expenditure and it is vitally important that readers of the accounts can effectively scrutinise public stewardship of public funds and that annual accounts and financial reporting system is sufficient transparency so that it can be held to account.

3.4. When launched Sir Tony Redmond commented:

“This call for evidence is a key part of my review of the effectiveness of audit in local authorities and the transparency of their financial reporting.

“I will look to test the assurance processes in place with regard to value for money arrangements together with the financial resilience in local councils.

“I am keen to hear from practitioners as well as the audit community and will consider all information as I formulate my report to the Secretary of State.”

3.5. This call for views invites views, information and evidence on, in particular:

- definitions of audit and its users
- the expectation gap
- audit and wider assurance
- the governance framework
- audit product and quality
- auditor reporting
- how local authorities respond to audit findings
- the financial reporting framework

The call for views is aimed at anyone with a direct or indirect interest in local authority audit and financial reporting.

3.6. A total of 43 questions are included within the review document. Officers are keen to provide views, information and evidence with a focus on how the accounts could provide greater assurance to locally elected members along with local taxpayers and service users. It will also include how the accounts and audit process might be developed to better meet users’ needs and serve the interest of other stakeholders and the wider public interest alongside other financial and non financial reporting requirements. The response will recognise the increasing complexity of local government financial reporting requirements and the increasing pressure within the audit process.

4. Consultations undertaken

- 4.1** This is a comprehensive, far reaching national independent review that seeks views on the topic and encourages practitioners who work in the local government sector, the audit community, representative bodies and other relevant or interested parties, to submit their response to an open set of questions.

Officers hold regular meetings with the external auditor, where robust planning and progress against plans are monitored and the topics included within the review form a key part of the discussions.

5. Implications

- 5.1** The Financial Reporting Council's expectations have changed recently:
- with an increased focus on improved financial reporting from organisations;
 - an expectation for auditors to demonstrate increased scepticism and challenge;
 - an expectation for auditors to undertake additional and more robust testing.

These expectations are alongside reducing audit fees, and shorter statutory deadlines for the completion of the annual audit (moving from 30 Sept to 31 July wef 2017/18 accounting period). Collectively, the above has created additional pressure and is no longer considered sustainable.

- 5.2** However, by way of assurance, we continue to seek improvements and continue to work closely with external auditors on all aspects of the review throughout 2019/20 and into future years.

6. Background papers

- 6.1** Independent review into the arrangements in place to support the transparency and quality of local authority financial reporting and external audit in England: call for views:
<http://democracy.somerset.gov.uk/ieListDocuments.aspx?CIId=160&MIId=709&Ver=4>

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

This page is intentionally left blank

Independent review into the arrangements in place to support the transparency and quality of local authority financial reporting and external audit in England

Call for Views

Launch Date: 17 September 2019

Respond By: 22 November 2019

Contents

Foreword	3
Review Objectives	4
Executive Summary	5
Part 1: Strategic Call for Views	
Chapter 1: Definitions of audit and users of the accounts	9
Chapter 2: The Expectation Gap	12
Part 2: Technical Call for Views	
Chapter 3: Audit and Wider Assurance	16
Chapter 4: The Governance Framework for the Audit System	18
Chapter 5: Audit Product and Quality	22
Chapter 6: Auditor Reporting	27
Chapter 7: The Framework for Responding to Audit Findings	31
Chapter 8: The Financial Reporting Framework	33
Chapter 9: Other Issues	37
Appendix 1: About this Call for Views	40
Appendix 2: Independent review into the arrangements in place to support the transparency and quality of local authority financial reporting and external audit in England	42

Foreword

I am pleased to have been asked to undertake this review of the effectiveness of audit in local authorities together with an assessment of the transparency of financial reporting delivered to users of annual reports and accounts.

This call for evidence is a key part of the review in determining whether the requirements of the Local Audit and Accountability Act 2014 are being fulfilled. I will look to test the assurance processes in place with regard to the value for money arrangements together with financial resilience in local councils.

I will talk to practitioners who work in this sector alongside the audit community and it would be beneficial to the review for this call for evidence to include as much factual analysis and hard data as is possible to illustrate the outcomes of current audit and financial reporting arrangements.

All information supplied to the Review will be considered carefully before formulating the final report for submission to the Secretary of State. Your contributions will be much valued and thank you for taking the time to participate in this exercise.

Tony Redmond

A handwritten signature in black ink that reads "Tony Redmond". The signature is written in a cursive style and is positioned above a faint, light-colored horizontal line.

Review Objectives

1. The Review will examine the existing purpose, scope and quality of statutory audits of local authorities in England and the supporting regulatory framework in order to determine:
 - Whether the audit and related regulatory framework for local authorities in England is operating in line with the policy intent set out in the Act and the related impact assessment;
 - Whether the reforms have improved the effectiveness of the control and governance framework along with the transparency of financial information presented by councils;
 - Whether the current statutory framework for local authority financial reporting supports the transparent disclosure of financial performance and enables users of the accounts to hold local authorities to account; and
 - To make recommendations on how far the process, products and framework may need to improve and evolve to meet the needs of local residents and local taxpayers, and the wider public interest.

Executive Summary

Introduction

1. The Review is calling for views and information on the quality and effectiveness of the audit of local authorities in England. The definition of local authority comprises councils, including parish councils, Police and Crime Commissioners, Fire and Rescue Authorities, Independent Drainage Boards and Parks Authorities. It does not include Clinical Commissioning Groups or NHS Trusts. The Review would like your views, supported by evidence where possible, on the extent to which local authority accounts and the local authority audit process allows users of those accounts to hold local authorities to account for their use of resources. The Review would also like your views on how local authority accounts and audit process might be developed to better meet users' needs and serve the interests of other stakeholders and the wider public interest.
2. In providing responses, consideration should be given to both the accounts production and audit *processes*, to the accounts and audit *product* and to the *governance framework* for local authority audit. The Review is mindful that whilst all these elements are linked, there are distinct issues of quality and effectiveness. These are explored in the main body of this document.
3. **By audit, the Review means the external audit of the statutory accounts and the related work that supports the opinions provided in the external audit report published with a set of financial statements.** It does not include internal audit work or other forms of assurance, other than where these interact with the external audit process. These interactions are discussed in the technical Call for Views.
4. **By financial reporting, the Review means the statutory accounts, produced after each year end, that are subject to external audit.** It does not include the financial statistics that all local authorities are required to prepare for central government or any other financial reports or data that a local authority uses as part of its financial planning and budget monitoring processes.
5. Views are particularly sought on how the accounts and audit of local authorities could be improved to provide greater assurance to locally elected members along with local taxpayers and service users.
6. This call for evidence forms two parts, which respondents can complete as they see fit. These are:
 - a. **Strategic Call for Views** focussing on what the users of the accounts expect from the local authority accounts production and audit process.
 - b. **Technical Call for Views** which, in addition to the matters covered in the Strategic Call for Evidence, asks for views on the detailed statutory and professional frameworks underpinning the audit and financial reporting framework.

Relevance to other areas of reform

7. This Review is primarily interested in the local authority financial reporting and audit product, along with the governance and regulatory framework for the audits of local authorities. Other areas that the Government is looking at include competition in the audit market for FTSE250 companies, the quality of Companies Act audits and the role of the regulator for those auditing listed companies. These areas are being addressed through respectively, the CMA Audit Markets Study¹, the independent review of the Financial Reporting Council² and Sir Donald Brydon's review of audit quality³.
8. Nevertheless, this Review recognises that the findings from these separate areas of reform and enquiry have considerable relevance to the quality of the local authority audit and financial reporting processes and product along with the governance framework for local authority audit. In particular the independent review of the FRC has made specific recommendations to address issues with the governance framework for local authority audit. This Call for Views specifically invites input on some of the matters that these Reviews and investigations have highlighted.

Scope of this Call for Views

Part 1: Strategic Call for Views

9. Chapter 1 (*Definitions of audit and its users*) provides an overview of local authority audit in the local government sector and what it is supposed to deliver. It considers developments over time that have shaped the local authority audit processes and product and explores potential users of the accounts.
10. Chapter 2 (*The expectation gap*) compares the requirements of local authority audit, including the opinion on the systems in place for economy, effectiveness and efficiency of service delivery in statute and in international standards with what is currently expected of audit by elected representatives and other stakeholders.

Part 2: Technical Call for Views

11. Chapter 3 (*Audit and wider assurance*) looks at the role of audit within the wider context of the assurance that local authorities are expected to provide to elected representatives, central government and other stakeholders regarding the use of resources and key risks. It seeks views on whether external auditors should make greater use of the work of internal auditors and whether there should be a role for auditors in assessing other statutory reports that local authorities are required to produce.
12. Chapter 4 (*The governance framework*) looks at the governance framework for local authority audit. It explores whether the fragmented nature of the framework is detrimental to the quality of the audit process and product and whether the current regulatory framework drives particular and possibly sub-optimal behaviours by auditors. It asks for views on the Recommendation made by the Independent Review of the Financial Reporting Council that the regulator for local authority audit should ideally be a separate body that has (or could develop) a deeper expertise in the local audit world.

¹ <https://www.gov.uk/cma-cases/statutory-audit-market-study>

² [Independent Review of the FRC](#)

³ [Brydon Review - Audit](#)

13. Chapter 5 (*Audit product and quality*) looks at the local authority specific elements of audit quality. It asks for views on whether the auditors of local authorities have sufficient understanding of the business to focus on the right risks for both the financial audit and value for money opinions. It questions whether the definition of the 'going concern' assumption used for private sector audits is appropriate for local authorities.
14. Chapter 6 (*Auditor Reporting*) looks at statutory and non-statutory audit reports. For local authorities this includes Public Interest Reports, Statutory Recommendations and Advisory Notices, as well as the audit certificate and audit completion report that are common to the public and private sector. It explores whether auditor reporting is timely and whether the structure and format of reports is conducive to communicating useful information to stakeholders.
15. Chapter 7 (*How local authorities respond to audit findings*) looks at the steps that local authorities take to respond to audit qualifications, statutory recommendations and other audit findings. It explores whether local authorities are taking action to address audit findings and whether changes to the governance framework would enable elected members to hold the executive to account for doing so in a more effective manner.
16. Chapter 8 (*The financial reporting framework*) looks at the specific characteristics of the local authority financial reporting framework. It explores the impact that the difference between the basis on which the balanced budget is calculated and the basis on which financial results are reported has on the transparency of local authority financial reporting; on whether the statutory adjustments to get from one basis to the other drives peculiar and possibly sub-optimal behaviours by local authorities. It asks what statutory and non-statutory measures could be taken to improve the transparency and usefulness of local authority accounts.
17. Chapter 9 (*Other issues*) looks briefly at a number of other matters related to the quality and effectiveness of local authority audit. These include group accounts, outsourcing, and inspection and objection powers. It also covers matters relevant to smaller authorities.
18. A list of questions is provided at the end of each chapter. It is not necessary for respondents to answer every question, should they wish to focus on a specific area of interest to them. Equally respondents are free to comment on any other issues arising from this document and provide supplementary evidence if they wish to. Supplementary information submitted that is not directly relevant to any of the questions will be considered, provided that it is relevant.
19. This call for views closes on 22 November at 5pm. Responses should be submitted to Redmond.Review@communities.gov.uk

Part 1: Strategic Call for Views

Chapter 1: Definitions of audit and users of the accounts

Audit

1. The audit framework for the annual financial statements produced by local authorities is based on and to a large extent is consistent with the framework for the audit of financial statements produced by listed companies.
2. The audit of financial statements in the UK has been shaped by developments in company law and in the auditing standards set in the UK by the accountancy professional bodies, the Auditing Practices Board established in 1991 and (since 2004) the Financial Reporting Council (“FRC”). The standards that UK auditors are required to follow are adapted from those set by the International Auditing and Assurance Standards Board and comprise a mixture of guiding principles and specific processes and procedures that an audit must include.
3. The interpretation of this statutory and standards-based regime has also been influenced by a number of landmark legal cases over time. Company law does not explicitly define the meaning or purpose of audit, nor for whose benefit it is undertaken. The absence of clear statutory objectives has left scope for the courts to play a significant role in determining auditors’ responsibility, the manner in which they are discharged and to who they owe a duty of care. This is as true for local authority audit as it is for the audit of companies.
4. Local authority audit differs from the audit of companies in two main ways:
 - a. There is an additional audit opinion. Commonly known as the **Value for Money opinion (“vfm opinion”)**, auditors are actually required to provide an **opinion on the adequacy of systems in place to support the economy, effectiveness and efficiency in its use of resources**. Whilst auditing standards provide a framework within which an audit of financial statements must be conducted, they do not apply to the audit work supporting the ‘vfm opinion’. Instead, the Statutory Code of Audit Practice (“the Audit Code”) produced by the National Audit Office (“NAO”) on behalf of the Comptroller and Auditor General, provides limited guidance on the work auditors need to undertake on these systems.
 - b. **The financial audit opinion will always report that all local authorities are a going concern**. Auditors are required to test and report on the ‘going concern assumption – i.e. whether an entity will continue to exist for the following twelve months. If an entity is not a going concern assets and liabilities are valued on a different basis and the auditor modifies their financial audit opinion. As local authorities have a continuing responsibility to deliver statutory services, irrespective of whether there is sufficient money to do so, the accounts will always meet the going concern test. This means that the assurance that an auditor gives on going concern is meaningless when assessing a local authority’s financial resilience.

Users of the accounts

5. Defining the users of local authority accounts is difficult. Auditing standards define the users of the accounts for a private sector entity as: “– existing and potential investors, lenders and other creditors”⁴. Other stakeholders who will have an interest in private

⁴ International Accounting Standards Board *Conceptual Framework for Financial Reporting* – para. 1.5

sector accounts are suppliers, customers, regulators and ratings agencies. All of these stakeholders can be expected to have a reasonable level of financial literacy and familiarity with the format and content of financial statements and annual reports. In addition, they are largely interested in similar information.

6. This does not necessarily hold true in the local authority sector. Auditing standards suggest: “In the case of a public sector entity, legislators and regulators are often the primary users of its financial statements.”⁵ The Chartered Institute of Public Finance and Accountancy (“CIPFA”) currently defines the primary users of local authority financial statements as “service recipients and their representatives and resource providers and their representatives”.⁶
7. This definition in and of itself is open to considerable interpretation. Service recipients and their representatives is presumably intended to mean local residents and their locally elected representatives, but could also include Members of Parliament, the media, financial advisors, and lobby and special interest groups. Resource providers and their representatives is presumably intended to mean central Government but could also include tax payers (both Council Tax and non-Domestic Rates) and their representative groups and other funding organisations.
8. There also needs to be an acknowledgement that other user groups exist. These include but are not limited to existing and potential lenders, credit ratings agencies, trade unions, statisticians, analysts, academics and think tanks with an interest in local government. Local authorities are increasingly delivering core services through more complicated and innovative organisational structures, so it would be reasonable to expect the range of users of accounts to increase.
9. This policy poses a particular challenge in ensuring that audited financial information presented by local authorities is focussed on the needs of the key users of accounts. Different stakeholder groups will be interested in different information, have differing expectations of whether a particular transaction is material, will have differing expectations of the audit process and will have differing levels of financial literacy.
10. What is also different between local authority accounts and company accounts is the absence of an analyst community. In the private sector, market analysts review the annual accounts and other financial information published by listed companies and provide a summarised view of what this means for the financial health and future prospects of that company. No such community exists in the local authority sector, which means that users of accounts have less help in interpreting what the financial information means.

Q1. Who, in your opinion, are the primary users of/main audience for local authority accounts?

Q2. Who are the other users of local authority accounts? Are any of these other users of accounts particularly important?

Q3. What level of financial literacy/familiarity with accounts and audit is it reasonable to expect the primary users of accounts to have and what implications does this have

⁵ <https://www.ifac.org/system/files/downloads/a018-2010-iaasb-handbook-isa-320.pdf> – para. A2

⁶ CIPFA *Statutory Code of LA Accounting Practice 2019-20* – para. 2.1.2.6

for the information presented in accounts and/or the information that should be subject to external audit?

Q4. Does the external audit process cover the right things given the interests of the primary users of the accounts/is the scope of the opinions wide enough?

Q5. Is the going concern opinion meaningful when assessing local authority resilience? If not, what should replace it?

Chapter 2: The Expectation Gap

1. The term 'expectation gap' has generally been used to characterise a perceived difference between what users of the financial statements and other stakeholders expect from an audit and what an audit is required to deliver under the statutory framework and appropriate professional standards.
2. In the local authority sector examples of audit expectations that are not matched (or not matched fully) by the corresponding statutory and regulatory framework include:
 - a. An expectation that the audit will provide an opinion on the value for money of service delivery;
 - b. An expectation that the audit will provide assurance over the effectiveness of service delivery;
 - c. An expectation that the audit will provide assurance over the financial resilience of the authority;
 - d. An expectation that the auditor will have actively sought out any evidence of fraud;
 - e. An expectation that the auditor will have confirmed that specific grant income has been spent solely on the purposes for which it was intended; and
 - f. An expectation that the audit opinion covers all of the financial and non-financial information included in the annual report and accounts.
3. The key decisions in relation to the future prospects of a local authority are taken by elected members and statutory officers (rather than by auditors). Responsibility for establishing an appropriate and effective system of control is split between three officers, each of whom have a specific area of responsibility set out in statute, as follows:
 - a. **Head of Paid Service** (typically the Chief Executive or Managing Director): overall responsibility for the management and co-ordination of employees of the authority to enable efficient and effective discharge of statutory responsibilities.
 - b. **Chief Finance Officer** (typically the Finance Director or Borough Treasurer): proper administration of financial affairs, including ensuring the authority has sufficient reserves to manage financial risks. The Chief Finance Officer also has personal responsibility for issuing a statutory warning notice to full council or equivalent if it looks like there is insufficient resource to meet future expenditure. This is known as a "Section 114 Notice".
 - c. **Monitoring Officer** (typically the Borough Solicitor or Head of Law and Democracy): maintaining the constitution and ensuring the lawfulness and fairness of decision making.
4. In some authorities, responsibility for service delivery is further diffused. In upper and single tier authorities, the **Director of Adult Services** and **Director of Childrens' Services** have responsibility for the efficiency and effectiveness of service delivery in their areas of responsibility. In Police and Crime Commissioners and Fire and Rescue Authorities, the elected representatives oversee service delivery which is the responsibility of the **Chief Constable** and **Chief Fire Officer** respectively.
5. Where a local authority suffers financial or service failure, this is the responsibility of elected representatives and statutory officers. An unmodified audit report and vfm opinion is not a guarantee that a local authority is in robust financial health or that it is delivering effective and efficient services. Nor does the scope of the vfm opinion

specifically require an auditor to form a view on the financial resilience of a local authority. However, an effective audit may help avert a failure through providing an early and public warning that highlights significant risks.

6. In addition, where senior external audit staff have an ongoing informal relationship with statutory officers and elected representatives that enables them to provide real-time constructive challenge, this may support local authorities in delivering more efficient and effective outcomes.
7. Auditors of local authorities have statutory powers that provide them with a number of mechanisms that allow them to sound an early warning. Some of these can be used outside the normal financial audit cycle. Details of these powers and their use is discussed in **Chapter 6**.
8. Auditors of local authorities also have a duty to investigate objections raised by electors. Electors have the right to inspect accounts and underlying records for a 30 day period that must include the first ten working days in June and if they have concerns to raise an objection with the auditor. The auditor is required to consider whether to investigate and formally respond to objections after due consideration of the significance of the subject matter vis a vis the time and resource required to investigate. This could give rise to a further expectation gap, where electors expect that an auditor will investigate any matter they choose to raise at any time.
9. Perceptions of audit coverage or lack of audit coverage of new activities that are growing in popularity in the sector, for example, commercial property purchases, joint arrangements and wholly owned commercial subsidiaries also contribute to the lack of clarity about what auditors do and what they should be doing.
10. Finally, there are a number of factors common to all local authority external audit engagements that could add to the expectation gap. Key amongst these are:
 - a. **Fraud** – external auditors are required to consider the risk of material fraud when conducting a financial audit but are not required or expected to develop procedures to identify all instances of fraud or irregularity.
 - b. **Performance information** – external audit does not give any assurance over performance information. If performance information is reported in the same document as the audited financial statements, the auditor is required to read that information to ensure that it is not inconsistent with the financial statements (if relevant) and what they know about the local authority, but not to do any additional work to test its accuracy or reasonableness.
 - c. **Future prospects** – an audit is backwards looking and an external auditor is not currently required to assess forward financial plans or strategies.
11. A variant on the expectation gap argument is that it is actually an audit quality gap, that auditors of local authorities have some or all of inadequate sector knowledge, inadequate skills, inadequate resources or inadequate systems to fulfil their statutory responsibilities. Audit quality is discussed in more detail in **Chapter 5**.
12. These various potential gaps can be categorised into three main areas:
 - a. **Knowledge gap** – do users of accounts understand what the statutory framework requires auditors of local authorities to do?

- b. **Evolution gap** - is there a difference between what users of accounts expect auditors to do and what they are responsible for doing?
- c. **Quality gap** – do external auditors do the things that they are supposed to do to with and appropriate degree of knowledge, skill and rigour?

Q6. In your opinion, what should an external audit of a set of local authority financial statements cover?

Q7. In your opinion, what should the scope of the external auditor's value for money opinion be?

Q8. What is your view on the scope of an external audit engagement as described in Chapters 1 and 2 of this Cal for Views? If it is different from your expectations, does this have implications for the reliance you place on external audit work?

Q9. Should the external audit engagement be extended? If so, which additional areas/matters are most important for external auditors to look at? What would be the cost implications of extending the engagement to the areas/matters you consider to be most important be?

Part 2: Technical Call for Views

Chapter 3: Audit and Wider Assurance

1. Assurance is commonly defined as a process leading to a statement which provides stakeholders with confidence that outcomes will be achieved.
2. Most taxpayers, residents and other stakeholders expect elected representatives and statutory officers to be truthful in their communications regarding service delivery outcomes and the financial resilience of their local authority. They are also likely to want assurance that funds have been spent appropriately and effectively to support delivery of statutory outcomes and local policy priorities. In the local government sector this seems to mean different things to different stakeholders.
3. The MHCLG Accounting Officer's System Statement for Local Government includes external audit as part of the governance framework but does not use the external audit process to gain assurance over its effectiveness. Instead it lists a wide range of financial and non-financial data that "is considered and analysed in the Department to provide indications of which local authorities or groups of authorities are at highest risk of financial distress, service failure or other inability to meet statutory duties."⁷
4. It is an interesting question whether such assurance should be delivered through a statutory audit or through some other assurance mechanism. This question is more complicated for local authorities than for other types of entities for a number of reasons.
5. Firstly, local authorities are required to produce a number of statutory reports that set out key financial strategies and plans, that must be approved by full council, but which do not form part of the annual report and accounts document. These include but are not limited to the Balanced Budget Report, the Chief Finance Officer's Report accompanying the budget (also known as a "Section 25 Report"), the Mid-Term Financial Strategy, the Capital Strategy, the Investments Strategy and the Minimum Revenue Provision Strategy. The balanced budget calculation is set by primary legislation. The content of many other statutory reports is set by legislation or through statutory codes.
6. Secondly, local authorities are required to provide a number of detailed statistical returns to central government covering both capital and revenue income and cost data, at least annually. There is a statutory code, the Service Reporting Code of Practice ("SeRCoP"), that sets out how to allocate costs between service areas in these returns. However, spend on service areas in accounts is no longer required to be presented on a SeRCoP basis.
7. Finally, all local authorities are required to make publicly available a wide range of financial information under the transparency code, including every item of expenditure of more than £500. It is unclear how or whether this information is quality assured or whether the transparency data should be reconciled to the information presented in the financial statements.
8. Many local authorities deliver a range of complex services, some of which are looked at by specialist inspectorates but most of which are not. Key amongst these are the DHSC and DfE inspectorates, respectively the Care Quality Commission and OFSTED, which monitor and inspect and therefore could be said to provide wider assurance over the

⁷ [MHCLG Accounting Officer System Statement](#) – Annex A

quality of adults and childrens' social care; and the police and fire inspectorate, HMICFRS, whose inspections cover service resilience in addition to the effectiveness of service delivery.

9. In addition, many authorities are delivering these services through increasingly complex business models. This means that those providing audit and wider assurance services need to have access to a range of specialist skills and experience beyond audit and accounting. They also need to have sufficient understanding of the wider regulatory framework.
10. The final piece of the assurance jigsaw is internal audit. The relationship between internal and external audit is discussed in **Chapter 5**.

Q10. Should the scope of the vfm opinion be expanded to explicitly require assessment of the systems in place to support the preparation of some or all of the reports that statute requires to be presented to full Council? If you do, which reports should be within scope of the external audit vfm engagement? If not, should these be assessed through another form of external engagement? If you believe that the vfm opinion should be extended to cover these reports will there be implications for the timing of audit work or auditor reporting?

Q11. Should external auditors be required to engage with Inspectorates looking at aspects of a local authority's service delivery? If you believe that this engagement should happen, how frequent should such engagement be and what would be the end purpose of doing so?

Chapter 4: The Governance Framework for the Audit System

Responsibilities following the abolition of the Audit Commission

1. Before it closed on 31 March 2015, the Audit Commission was responsible for appointing auditors for local government, NHS trusts, health housing and other local bodies in England. Approximately 70% of these audits were carried out by District Audit, the Commission's in-house audit practice, the rest being contracted out to private sector auditors.
2. A number of reasons were given for the abolition of the Audit Commission. It was perceived as being unaccountable to ministers and Parliament, as the both the regulator and largest provider of audit services to the sector, it was considered to have an inherent conflict of interest and there was a perception that the CPA/CAA regime had turned it into more of an inspectorate than a regulator or external audit provider.
3. The Local Audit and Accountability Act 2014 transferred the audit functions previously carried out by the Audit Commission to a range of successor bodies as follows:
 - a. Management of audit contracts – transferred to Public Sector Audit Appointments Ltd ("PSAA"), an independent company created by the Local Government Association. This company has also taken on statutory responsibility for bulk procurement of audit contracts, for all councils that have not opted-out. An equivalent body, Smaller Authorities Audit Appointments Ltd performs the same functions for parish councils, independent drainage boards and other smaller authorities.
 - b. Registration and professional conduct of auditors – transferred to the professional accountancy bodies. Currently all firms qualified to conduct local government audit are registered by the ICAEW.
 - c. Quality assurance for audit engagements – firm's internal procedures; which in turn are monitored and assessed by the Financial Reporting Council ("FRC").
 - d. Grant certification – the role of making arrangements for housing benefit subsidy calculations transferred to PSAA until the audit contracts ended. Other grant certification work was not transferred to a successor body.
 - e. Code of Audit Practice and supporting guidance – transferred to the Comptroller and Auditor General ("C&AG"), the Head of the National Audit Office ("NAO")
 - f. Provision of information about audit – the C&AG was given responsibility for the guide to the electorate's rights with regard to the audit of their local authority. PSAA was given responsibility for publishing summary reports on the results of audits and auditor compliance and audit quality. PSAA's responsibility for publishing the summary report lapsed in 2018-19.
 - g. Whistleblowing – external auditors became prescribed persons to which whistleblowing disclosures could be made. The C&AG's responsibility as a prescribed person for whistleblowing disclosures was extended to include disclosures from those working in local government.

Current position

4. The new arrangements have been gradually introduced since 2015-16. 2018-19 is the first year for which all the arrangements have been in operation. However, the key characteristics of the framework, with the split of responsibilities between the C&AG, the FRC, audit firms and PSAA have remained constant since 2015-16.
5. The most visible aspect of the new regime, and one of the key objectives of the Local Audit and Accountability Act 2014, is the reduction in audit fees. PSAA's website states "scale audit fees and indicative certification fees for most audited bodies [for 2015/16] have been reduced by 25 per cent based on the fees applicable for 2014/15"⁸, and fee scales reduced by a further 23 percent⁹ on the retendering of audit lots for the 2018-19 audit cycle.
6. A key characteristic of the governance framework set up to replace the Audit Commission is the fact that, other than deciding when to conduct a best value inspection, there is no role for MHCLG. This was a deliberate consequence of the policy intent when the Commission was abolished. Recently, MHCLG has set up a discussion forum, the Local Audit Delivery Board, that brings all parties with responsibility for the governance framework together. However, this Board has no statutory basis and does not have a clear remit.
7. Whilst some have argued that it is too early to assess the effectiveness of the current framework, others have raised concerns that the fragmented nature of responsibilities for assuring quality means that no-one has oversight of the state of audit in the sector, there has been a loss of sector specific knowledge and it is too easy for those with responsibility to claim that a particular area of concern is outside their remit. Most recently these concerns have been raised in Sir John Kingman's review of the FRC. The summary findings and recommendations are reproduced below.

⁸ <https://www.psa.co.uk/201516-work-programme-and-scales-of-fees/>

⁹ <https://www.psa.co.uk/201819-work-programme-and-scales-of-fees/>

Independent Review of the Financial Reporting Council: Executive summary of findings on local audit

There are important differences between local authority audit and private sector audit:

Auditors of local public bodies report not only on the financial statements, but also on arrangements for securing value for money, and financial sustainability;

Auditors of those bodies carry out their work on behalf of the public, yet in comparison to the lines of accountability in companies between the directors, audit committee and shareholders, there is substantially lower awareness and challenge of the auditors' work in the public sector;

The FRC's enforcement powers in relation to local audit are meaningfully different in comparison to its powers in relation to private sector statutory audit. The former are not within scope of the Audit Enforcement Procedure. Instead of the question as to whether an auditor has 'breached a relevant requirement', a far narrower test applies in relation to local audit – that there are reasonable grounds to suspect misconduct, and that the matter appears to raise 'important issues affecting the public interest'; and

Unless the local body is also a Public Interest Entity, there are no requirements regarding the rotation of auditors.

Historically, the AC also appointed auditors to a range of local bodies in England and Wales, as well as setting and overseeing relevant standards, and conducting UK-wide antifraud work. Since the AC's abolition in 2015, the new local audit framework enables bodies to procure and appoint their own auditors from an open and competitive market of qualified providers. However, 98% of relevant authorities have opted into a central procurement body. The Review has serious concern that those arrangements, in practice, are prioritising a reduction in cost of audit at the expense of audit quality.

These arrangements, if allowed to persist, run a very clear risk of allowing weak and limited audit disciplines to prevail in local government. This is particularly concerning given the vital role played historically by district auditors for instance, in detecting and seeking out corruption.

Particularly at a time when local authorities are under acute financial pressure, and some local authorities are engaging in risky speculative ventures, high-quality and robust scrutiny of local authorities' finances and financial management in the public interest is a critical part of local democracy. The Review is very concerned that the quality of this scrutiny is being pared back at the worst possible time.

Recommendations

The Review recommends that the arrangements for local audit need to be fundamentally rethought. This should include robust assessment and scrutiny of the quality of local audit work, with individual reports shared with audit committees and published; a more appropriate threshold for enforcement action; and, bringing together in one place all the relevant responsibilities, so a single regulatory body can take an overview.

Such a role (regarding local audit) could be taken on by the FRC or its successor body, but the Review recommends that it would be much better undertaken by a separate body that has (or could develop) a deeper expertise in the local audit world. That body should have a different and much more focused remit than the former Audit Commission. It should have a clear objective to secure quality, and should set the relevant standards, inspect the quality of relevant audit work and oversee the relevant professional bodies. It should also take on responsibility for appointing auditors for local bodies and agreeing fees.

Q12. Does the current procurement process for local authority audit drive the right balance between cost reduction, quality of work, volume of external audit hours and mix of staff undertaking audit engagements?

Q13. How should regulators ensure that audit firms and responsible individuals have the skills, experience and knowledge to deliver high quality financial and vfm audits, whilst ensuring the barriers to entry do not get too high?

Q14. What metrics should regulators use when assessing whether financial and vfm audits are delivered to an appropriate level of quality?

Q15. Do you agree with the Independent Review of the Financial Reporting Council's findings and recommendations; and why do you agree/not agree? If you agree with the recommendations do you think the 'single regulatory body' should be the "successor body to the FRC" or a sector specific entity? If you do not agree with the recommendations are there any other changes you would make to the regulatory framework for local authority audit?

Chapter 5: Audit Product and Quality

1. The Public Accounts Committee has raised significant concerns about the quality of local government audit coverage and quality, reporting: “There are a number of issues with external audit. Some council chief executives, finance directors and heads of internal audit raised concerns with the National Audit Office that the contribution of external audit to local governance has reduced recently. CIPFA told us that it shared this concern, which it linked to the change to reduction in audit fees. 25% of finance directors at single tier and county councils felt that their audit fees in 2017–18 were too low relative to the risk that their authorities face. Over half of finance directors at single tier and county councils (which have responsibility for social care services for vulnerable people) wanted some change to their external audit. The most common change, wanted by 26% of these finance directors, was more value for money work, particularly in relation to financial sustainability.”¹⁰
2. There are two key aspects of audit quality, which are not necessarily complementary. These are:
 - a. The quality of the auditor’s performance against whichever standards or principles have been agreed; and
 - b. The quality of the audit output in meeting the legitimate expectations of the users of the accounts.
3. This review is primarily interested in the second of these two aspects. However, this chapter along with **Chapter 6 – Auditor Reporting** includes coverage of the quality of the auditor’s performance. It is also important to note that the two aspects of audit quality are interlinked.

Quality in local authority external audit

Binary nature of audit opinions

4. Under the current framework, auditors of local authorities issue two audit opinions: the financial audit opinion; and the vfm opinion. These two opinions are largely pass or fail tests.
5. Vfm audit opinions are discussed in **Chapter 6**. The financial audit opinion is either **clean** also known as **unmodified** or it is **modified** in one of three ways:
 - a. An **‘except for’** opinion – means the financial statements are true and fair except for the treatment or presentation of one or more specific items.
 - b. An **‘adverse’** opinion – means the financial statements are not true and fair.
 - c. A **‘disclaimer’** of the opinion – means that the auditor is unable to obtain enough evidence to assess whether the financial statements are true and fair.
6. Auditors can also present a clean opinion with an emphasis of matter, where they want to highlight an issue. However, local authority auditors have additional reporting options (see **Chapter 6**), which means there is no incentive to issue an emphasis of matter.

¹⁰ [PAC report - Local Government Governance and Accountability \(15 May 2019\)](#)

7. The pass or fail nature of audit opinions means that they are seen as a nuclear option. Auditors have to pass a number of internal professional and legal tests before issuing a modified opinion, which could make them very reluctant to do so.

Financial Audit

8. Current work by audit regulators and inspectors is thought to focus on the first issue, of how well audits deliver on the standards. This poses a particular issue for public sector audit, where some financial reporting and auditing standards have to be adapted or interpreted to be relevant.
9. The FRC's reports on the performance of audit firms raise concerns about the lack of professional scepticism and challenge rather than failures of audit process. Whilst the FRC does not publish local government specific audit quality data, it has indicated in Audit Delivery Board meetings that the quality of those audits tends to be lower than private sector audits conducted by the same firms. There is also a widely expressed concern that the reduction in fees has led to a change in the mix of staff undertaking local authority audits – i.e. teams are less experienced and have less sector specific knowledge, which has a detrimental impact on quality.
10. The FRC has fewer powers when it identifies poor quality local authority audits than it does when it identifies poor quality Companies Act audits. Specifically, it does not have the same powers to serve enforcement orders or impose financial penalties on local authority auditors who fail to meet their statutory responsibilities. Although these powers have rarely been used, the fact that the threat of use exists for private sector audits but not for local authority audits could influence resourcing decisions made by Audit firms.
11. Some auditors have countered that the FRC's regulatory regime is actively detrimental to the quality of local authority audits. To get a clean bill of health from the FRC, auditors are forced to focus time and effort on areas that would be high risk in the private sector but are not for the public sector. If true, this could be a sector specific example of 'auditing to complete the audit file', rather than to reach the correct opinion.
12. Some auditors have countered that the FRC's regulatory regime is actively detrimental to the quality of local authority audits. To get a clean bill of health from the FRC, auditors are forced to focus time and effort on areas that would be high risk in the private sector but are not for the public sector. If true, this could be a sector specific example of 'auditing to complete the audit file', rather than to reach the correct opinion.
13. There is also a question about whether the way auditing standards define materiality drive quality outcomes in the local government sector. Auditing standards require external auditors to determine the quantum and nature of errors that would be material to users of the account. They are then required to determine "performance materiality for purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures."¹¹ The standard further suggests that for public sector entities, total or net expenditure is the most appropriate basis for setting materiality.
14. There is a question as to whether total or net expenditure is the most appropriate basis for setting materiality for all LAs. Materiality for LA Pension Fund audits is already set

¹¹ [International Standard on Auditing 320 - Materiality](#) - para. 11

based on net liabilities. There is a question as to whether the same approach should be adopted for those LAs with a disproportionately large balance sheet relative to their net expenditure.

15. Auditors are allowed to set a lower performance materiality where balances are particularly sensitive but cannot set a higher performance materiality. This poses a particular problem for the audits of many smaller local authorities, where the balance sheet is disproportionately large relative to gross or net expenditure. To comply with auditing standards, the auditor is required to focus more time and audit effort on balance sheet items, even where these may be less risky or of less interest to users of the accounts. Whilst amending auditing standards is outside the scope of this Review, views on the extent to which this and other professional standards have a positive or negative effect on audit quality would be welcomed.
16. Finally there is a question about whether auditors have sufficient understanding of the business to be able to focus on the right areas. Understanding the business is a key part of any audit. Together with the assessment of balances against performance materiality it drives how much effort is focussed on any specific area. The local authority regulatory framework is different to that of other sectors, and the incentives and risks are different. As audit firms draw upon a wider pool of staff to undertake LA audits, there is a question of the extent to which their audit teams are able to maintain and demonstrate appropriate skills and knowledge to meet the legitimate expectations of users.
17. Another aspect of understanding of the business is consistency of accounting judgements made by auditors. Unlike companies, local authorities all undertake the same broad range of services and engage in similar transactions. In the past two audit cycles different audit firms have made different judgements in relation to matters such as Inverse Floater ‘Lender Option Borrower Option’ loans, pension deficit valuation following the McCloud judgement, and acceptable treatments for Minimum Revenue Provision. It is arguable that these differences have increased uncertainty and cost for both local and central government, without improving audit quality or adding any transparency that would help users of the accounts.

VfM Audit

18. The NAO’s Code of Audit Practice sets out the procedures that auditors must have regard to when undertaking work to support a vfm opinion.¹² The NAO is currently consulting on updating this code.
19. The current Audit Code is a high-level principles-based document. What is noticeable is that other than referring to the need to comply with **relevant** professional standards, there is no mention of audit quality. The proposed updates to the Audit Code indicate that the NAO is not proposing to provide any more detail on quality. This is a particular issue for vfm audits where Auditing Standards are neither relevant nor applicable. The current Audit Code is supplemented by a number of Auditor Guidance Notes (AGNs), which have the same status as the Audit Code. AGN03 covers vfm audit. It takes the form of a principles-based note, with a supplementary document for each sector. AGN03 provides information about sector developments, inspectorates whose work auditors may want to have regard to and about the key documents auditors may want to

¹² [NAO Code of Audit Practice](#) – chapter 3

look at when forming their audit opinion. There is no mention of audit quality or the work auditors need to undertake before forming their vfm opinion.

20. It therefore seems that other than auditing standards, which are not designed for ensuring that enough work has been done to form a vfm opinion, there is no definition of what a quality vfm audit looks like. Nor does there seem to be any basis for a regulator to form a view on whether an audit firm's procedures are adequate to deliver quality outcomes.

Reliance on Internal Audit

21. All local authorities should have an internal audit function that complies with Public Sector Internal Audit Standards. These standards define the role of internal audit as providing "independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."¹³ In practice internal auditors of local authorities cover a range of areas including but not limited to financial resilience, aspects of service delivery, fraud investigations and the operating effectiveness of control frameworks.
22. Whilst being mindful of the prohibition in UK Auditing Standards of external auditors placing direct reliance on the work of internal audit the Review is interested exploring the relationship between internal and external audit, particularly if a closer or more codified relationship could lead to higher quality outcomes.

Resourcing Audit Engagements

23. Delivering high quality audit products is dependent on auditors having sufficient staff with the expertise and sector knowledge to audit local authority accounts. Events during 2018-19 have called into question whether there is enough expertise or resource in the sector. In August 2019, PSAA reported that for 2018-19 accounts, 209 out of 497 audited accounts produced by local government bodies were not delivered on time (2017-18: 64 out of 495 missed the deadline). Whereas in 2017-18, technical accounting issues, client issues and outstanding objections were the main reasons for missing the statutory deadline, in 2018-19 we have been informed that roughly a third of the audited accounts that that were not delivered on time, were late due to issues at audit firms.
24. The Review is interested in views on the impact that the failure to meet statutory deadlines has had on the quality and usefulness of the audit process, on the real world impact for local authorities of this delay, and in suggestions for changes that could be made to the framework to mitigate the risk that this situation reoccurs in future years.

Q16. Do external audit firms have enough understanding of the local authority regulatory framework to focus audit work on the right areas? How do they/should they demonstrate this? Who should regulate this work?

Q17. Do auditing standards have a positive impact on the quality of local authority financial audits?

¹³ <https://www.cipfa.org/policy-and-guidance/standards/public-sector-internal-audit-standards>

Q18. Do audit firms allocate sufficient resources to deliver high quality and timely audits? How is consistency and quality maintained in external audit work? To what extent is there consistency in audit teams year on year? What more can be done to ensure consistency between firms?

Q19. To what extent are senior audit staff, particularly the responsible individual signing the audit certificate, visibly involved in audit work? Who do senior audit staff meet with?

Q20. Should external auditors consider financial resilience as a key factor when designing their vfm work programme? If so, what factors do they/should they consider as indicative of a lack of financial resilience?

Q21. Does the Code of Audit Practice provide enough guidance on how much work needs to be done to support the vfm opinion? If not, what should it cover?

Q22. Do auditing standards provide appropriate guidance on quality standards for vfm audits? If not, is guidance needed and should it be included in the Code of Audit Practice or elsewhere?

Q23. What is the current relationship between external and internal audit? How should that relationship be developed to add most value to local authorities and local residents?

Q24. What should happen when a regulator finds that a local authority audit has not met quality standards? Where should the balance between ensuring effective enforcement action against auditors and maintaining participants in the audit market lie?

Chapter 6: Auditor Reporting

1. Auditors of local authorities have a wider range of reporting powers and duties than the auditors of companies. These are:
 - a. The audit certificate and report, which differs from private sector audit certificates in that it has two opinions, the financial audit opinion and an opinion on the adequacy of systems in place to support the economy, effectiveness and efficiency of service delivery, commonly known as the “vfm opinion”; and
 - b. Sector specific statutory reporting powers.
2. The Brydon Review is looking at financial audit opinions and reports in some detail. The arguments made to and conclusions reached by Sir Donald Brydon are likely to be relevant at least in part to the financial audit opinion. In addition, there have been no qualified financial audit opinions in the LA sector since the new arrangements were introduced in 2015-16.
3. Therefore that discussion is not repeated in this Call for Views, which focuses on the format and timing of the vfm opinion; and secondly the use, format and timing of the sector specific reporting powers.

VfM certificates and reports - format

1. It is arguable that users of local authority accounts are more interested in the vfm opinion than in the financial audit opinion. Currently vfm audit is largely a pass or fail test. The Audit Code requires auditors to form an opinion on whether “In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.”
2. The vfm audit opinion is either **clean** also known as **unmodified**, or is **modified** in one of two ways:
 - a. An **‘except for’** opinion means that the LA has proper arrangements in place except for in one or more significant areas.
 - b. An **‘adverse’** opinion means that a LA does not have proper arrangements in place.
3. There are two things to note about this opinion: firstly it is backwards looking – it provides no assurance on whether those arrangements will remain in place going forward; and secondly it provides no assurance that value for money outcomes have been achieved. This is reflected in the Audit Code which requires auditors to consider outcomes to the extent they provide evidence to support the arrangements that the LA says it has.
4. In addition, it is a single opinion covering all of the financial management, financial resilience and service delivery aspects of value for money. This had led to a situation where the most common reason for a qualified vfm opinion is an Ofsted judgement that childrens’ services were “inadequate”. When PSAA published its summary report on the results of 2017-18 audit work it listed 32 qualified vfm opinions. Half of these were due

to an “inadequate” Ofsted rating.¹⁴ The circumstances supporting an “inadequate” Ofsted rating are fully explained in a detailed and publicly available report. Given this, it is not clear how qualifying the vfm opinion adds to transparency.

5. The NAO consultation on the new Audit Code recognises that there may be room to improve the format of the vfm opinion and asks a number of questions about how changes to the Audit Code can make auditor reporting more impactful. This Review is also interested in ideas about how the vfm opinion could be enhanced to provide more transparency to users.

VfM certificates and reports - timeliness

6. Questions have been raised both about how long it takes before an auditor feels comfortable in issuing a qualified vfm opinion and about when the vfm opinion would be most useful to members.
7. Often modified opinions are delivered well after the event that led to a qualification, in extreme cases some years later. For example, during 2016-17 Spelthorne Borough Council, which had net service expenditure of about £10m p.a. purchased the BP Campus for £385m. The auditors issued an adverse vfm opinion in March 2019, by which time Spelthorne had substantially revised its approach to commercial property acquisitions and had built its portfolio through about £600m of additional purchases.
8. The purpose of presenting this example is not to criticise or challenge why the auditors took so long to come to an opinion in this case, but rather to ask whether an opinion formed so long after the event that led to concerns can ever be said to enhance transparency and accountability of members.
9. The timing of the vfm opinion, whether modified or not is also of interest to the Review. Given that the vfm audit looks at the arrangements in place to secure value for money outcomes, it does not necessarily need to be linked to the statutory deadlines for preparing and auditing financial statements. This differs from central government, where the vfm opinion on the ‘regularity’¹⁵ of transactions is directly linked to the annual accounting cycle. The Review is interested in when in the annual cycle an opinion on arrangements in place to secure value for money would be of most use and the resource implications of decoupling the timing of the financial audit and vfm opinions.

Statutory Reporting Powers – use and timeliness

10. Auditors of local authorities have statutory powers that provide them with a number of mechanisms that allow them to sound an early warning. Some of these can be used outside the normal financial audit cycle. These are:
 - a. **Statutory Recommendations** – the auditor has the power to make written recommendations to the audited body, which need to be considered by full council or equivalent in public and responded to publicly. Recommendations can be made during or at the end of the audit and must be copied to the Secretary of State.

¹⁴ [Report on the results of auditor's work \(Oct 2018\)](#) – list of qualified opinions will not include LAs where the 2017-18 audit was concluded after the PSAA report was published.

¹⁵ Regularity is defined in [Managing Public Money](#) as public funds being spent in a way that is “compliant with the relevant legislation (including EU legislation), delegated authorities and following the guidance in this document.” (Section 2.4)

- b. **Public Interest Report** – the auditor has the power to report publicly on any matter that comes to their notice that may be of interest to the authority or the general public. Public Interest Reports can be made at any time and must be copied to the Secretary of State.
- c. **Advisory Notice on the Budget** – if the auditor considers that a budget presented to and approved by full Council or equivalent is unlawful they can issue a public advisory notice stating that fact and/or make an application for judicial review.
- d. **Application to the courts** – if an auditor considers that an item of account is contrary to law, they can make an application to the courts to disallow it.

11. These powers have not been used to a large extent. Table 1 details the number of times each power has been used for principal councils¹⁶ in the final two years of the Audit Commission regime and the first three years of the current audit framework as reported in the summary publications “Report on the results of auditors’ work” published by PSAA.

Power	Table 1: Modified auditor reporting 2013-14 to 2018-19¹⁷				
	2013-14	2014-15	2015-16	2016-17	2017-18
Modified vfm opinion	18	26	40	43	48
Modified financial statement opinion	0	0	0	1	1
Statutory recommendations	1	1	0	3	1
Public Interest Report	1	2	2	1	0
Advisory Notice	0	0	0	0	1
Application to Courts	0	0	0	0	0

12. The number of modified vfm conclusions significantly increased from 2013-14 to 2014-15, but has remained fairly constant since. Given the increase financial pressure local authorities have been under in recent years an increase in modified vfm conclusions is not that surprising. However, as mentioned elsewhere, the most common reason for a modified vfm conclusion is an inadequate Ofsted report. Since Ofsted does not inspect every local authority’s Childrens’ Services provision every year qualifications for this reason are somewhat ‘sticky’. Once a local authority’s vfm opinion has been qualified on these grounds it will be continue to be qualified in every year until an Ofsted inspection changes the assessment of Childrens’ Services.
13. The use of statutory recommendations has remained at a fairly consistent low-level. This may not be an issue if significant control issues are being reported to elected representatives through other methods.
14. Public Interest Reports have always been very uncommon but seem to no longer be used. This is surprising given the increasingly high profile of commercial and other new arrangements entered into by some local authorities.

¹⁶ Principal councils are defined as upper and single tier authorities, shire districts, fire and rescue authorities, local police bodies, combined authorities and passenger transport authorities.

¹⁷ Source: PSAA. Stats correct as of September 2019. Does not include outstanding audits.

15. An advisory notice on the budget and an application to the courts are rightly seen as nuclear options. Given this, it is not surprising that the only council to receive an advisory notice has been Northamptonshire CC and no application to the courts has been made under the current regime.
16. The Review is interested in views on whether sufficient use has been made of each of modified vfm opinions, statutory recommendations and public interest reports, where these powers have been used whether this has been done in a timely fashion, and in the barriers (if any) for using statutory reporting powers.

Publishing a summary of the results of local authority audits

17. Between 2015-16 and 2017-18 PSAA took over responsibility for producing a report summarising the results of local government (including police and fire) and NHS audits. Now that the new audit regime has been fully implemented, this responsibility has lapsed. The Review is interested in views on whether a summary publication of audit results adds value, if so what it should cover and in which entity is best placed to produce it.

Q25. Do you think that the format of the vfm audit opinion provides useful information? If not what would you like it to cover?

Q26. Do you think the vfm opinion should be qualified solely because a local authority has received an inadequate Ofsted opinion or a similar opinion from another inspectorate?

Q27. Do you think that the vfm opinion is presented at the right point in a local authority's annual financial management and budgeting cycle? If not when do you think it would be most useful?

Q28. Where auditors have identified significant issues, audit certificates and reports have often been delayed? Why do you think this is and can changes be made to the framework to encourage earlier reporting of significant issues?

Q29. In your view, what sorts of issues should Public Interest Reports be used to highlight?

Q30. Statistics demonstrate that very few Public Interest Reports and Statutory Recommendations have been issued. Why do you think this is? Does it indicate an issue with the framework or common behaviours? If you think this is an issue, what can be done to incentivise more frequent and timely reporting of significant issues?

Q31. Does a publication summarising the results of local authority audits add value? If so who should publish it and what information would they need to have access to to perform this function effectively?

Chapter 7: The Framework for Responding to Audit Findings

Introduction

1. This chapter looks at whether the governance framework for responding to audit findings and qualified audit reports incentivises LAs to take recommendations seriously. It also considers the profile of modified audit opinions.
2. Whilst some have argued that the auditors of large companies are too slow to highlight issues, when they do raise concerns, there tends to be an immediate and significant impact on the share price of that company. Auditors do not necessarily have to report to have an impact on the value of shares. An auditor announcing that it is going to resign from a listed company audit can have the same impact. This provides a powerful incentive to management, to respond to or to look like they are responding to audit recommendations provided in the annual Audit Completion Report.
3. The same incentive does not exist in local authorities, which have no share price and which are funded largely based on an assessment of relative need. When a local authority receives a modified audit opinion, there is no evidence that this is publicised by the LA or the auditor and such opinions are rarely reported in the sector press.
4. The Best Value Inspection of Northamptonshire County Council (“NCC”) noted that the auditors recorded an adverse vfm opinion in both 2015-16 and 2016-17, but that “neither of these reports seemed to trouble NCC” and that “there is no evidence that the second adverse best value judgement ... was escalated to full council.”¹⁸ Whilst, as the Best Value Inspector highlights, NCC is an extreme case and their lack of reaction to the audit report is unusual, there does not seem to be any consistent practice for much of the sector in the way that auditor reports are received and responded to.

Who do external auditors report to

5. PCCs and Chief Constables are required to have Joint Audit Committees (“JAC”), with independent members. These are normally chaired by the PCC. JACs are responsible for receiving audit reports and provide independent assurance on the adequacy of the corporate governance and risk management arrangements in place and the associated control environment, advising according to good governance principles and proper practices. There is an expectation that the Chief Finance Officer and Chief Executive will attend all JAC meetings and the Chief Constable will attend the meeting where the audit certificate and report is presented.
6. Mayoral Combined Authorities are required to have an Audit Committee with an independent chair. The other members of the Committee can be independent or as seems to be common practice can be elected members from the constituent authorities. Other types of councils are not required to have Audit Committees although in practice many do. Where a local authority does not have an Audit Committee auditor reports are received by another appropriate committee. There is no statutory guidance or freely available sector specific good practice guidance on either the membership or scope of Audit Committees or their equivalents.

¹⁸ [NCC Best Value Inspection](#) - paras. 3.85 & 3.86.

7. A CIPFA survey¹⁹ published in November 2016 found that 92% of Audit Committees or equivalent were Chaired by an elected member, normally one appointed from the majority group and 61% had no independent members. Virtually all of these committees considered both external and internal audit reports along with the annual governance statement. Heads of Internal Audit and Chief Finance Officers attended 97% and 95% of meetings respectively. Strategic Directors attended 37% of meetings and Chief Executives 24% of meetings. The survey did not collect data on skills and training of members or on when issues were escalated to full council.
8. There does not seem to be any more recent sector-wide information on which committees receive audit reports, on their membership, attendees, terms of reference or on what gets escalated to full council or other bodies. Nor does there seem to be any explicit requirement for auditors to follow-up on the implementation of non-statutory recommendations, particularly where these relate to vfm arrangements.
9. The use to which audit reports are put by stakeholders is also unclear. Public Interest Reports and Statutory Recommendations must be copied to the Secretary of State. However, MHCLG has no responsibility for taking action when it receives such a report and, other than the best value inspection powers, which are rightly seen as a nuclear option to be used only as a last resort, no authority to take any action. PSAA must be notified when a qualified opinion is issued, but has no responsibility for taking any action.
10. The Review is interested in respondent's views on whether the governance framework for considering internal and external audit findings encourages local authorities to take prompt action in response to issues raised and whether it supports continuous improvement.

Q32. To whom should external auditors present audit reports and findings; is it the audit committee, to full council or equivalent or another committee? If findings are not presented to full council or equivalent what information (if any) should full council or equivalent receive?

Q33. In your authority, what is the membership of the audit committee (number of members, how many are independent etc) and which officers typically attend?

Q34. How should local authorities track implementation of recommendations made by internal audit, external audit and relevant statutory inspectorates? What should the external auditors do if recommendations are not being implemented?

Q35. Should there be a role for an external body in tracking action taken in response to modified audit opinions and/or statutory recommendations and public interest reports? If so should that responsibility sit with MHCLG, the sector specific oversight body recommended by the Independent Review of the Financial Reporting Council or another body?

¹⁹ <https://www.cipfa.org/services/networks/better-governance-forum/corporate-governance-documentation/cipfa-survey-of-audit-committees-in-local-authorities-and-police>

Chapter 8: The Financial Reporting Framework

The purpose of financial reporting in the local authority sector

1. Financial reports provide basic information to people interested in the performance of an entity. Most of the money that local authorities receive is provided from general or local taxation. Given this, it is reasonable to expect people outside the body who are interested in a local authority's financial performance to want to know how the money being managed is being spent. This includes knowing whether the local authority is performing effectively to achieve what was intended with the money.
2. Other than through use of inspection and objection rights (**see chapter 6**), many of the individuals with an interest in the performance of a local authority do not have the power to require the authority to produce customised financial or performance information. Instead they rely on the financial statements. This means that to be relevant the information produced in local authority financial statements must meet the accountability and/or decision-making needs of users and be sufficiently transparent and understandable to be interpretable by a reasonably well-informed person.

Introduction to the framework

3. When producing financial reports, local authorities are required to have regard to the Statutory Code of Local Authority Accounting Practice ("the Accounting Code"), issued by the CIPFA. The Accounting Code is based on private sector accounting standards other than where they have been adapted for the specific circumstances of local authorities or where these conflict with specific statutory requirements. When implementing, adapting or interpreting accounting standards, the Code seeks to maintain consistency, with other parts of the UK public sector. Preparation of the Code is overseen by the CIPFA/LASAAC Accounting Code Board, which comprises representatives of types of local authorities and supreme audit institutions in all four jurisdictions of the UK, the Financial Reporting Council, auditors and independents. MHCLG has observer status on this Board.
4. The Code applies to principal councils, police and crime commissioners, chief constables, fire and rescue authorities, the Greater London Authority, mayoral combined authorities, passenger transport executives and national parks authorities in England. It also applies to similar authorities in Wales, Scotland and Northern Ireland, although the legislative framework for these authorities is different and they are outside the scope of this Review. The Code does not normally apply to subsidiary companies consolidated into local authority accounts. Such companies use the applicable private sector accounting framework.
5. The Code is updated annually and a new edition is published each financial year. It is not a free document. Purchasing the 2019-20 Code from CIPFA costs £340 (hard copy) or £710 (online copy). CIPFA's sales numbers demonstrate that not every local authority purchases a new Code for every financial year.
6. The Code does not apply to parish councils, ports authorities or independent drainage authorities with gross income and expenditure of less than £6.5m per annum (which is currently all of them). The accounting and governance framework for these authorities is set by an organisation called the Joint Panel on Accountability and Governance (JPAG),

which comprises representatives of the associations for each type of smaller authority, auditors active in the sector, the National Audit Office, the Smaller Audits Appointments Authority Ltd and MHCLG. Smaller parish councils fill in a simplified financial return on a receipts and payments basis. Further discussion of smaller authorities is included in **Chapter 9**.

Format of local authority accounts

7. The first thing that is noticeable when looking at local authority accounts is their length. Table 2 compares the length financial statements section from the 2018-19 annual reports of five local authorities selected at random to the financial statements section from the 2018 annual reports of two large and complex private sector corporations.

Entity	Net General Fund Service Expenditure	Financial Statements Length (pages) ²⁰
Bristol City Council	£351.5m	124
Fenland District Council	£12.7m	79
Leeds City Council	£755.8m	77
Richmondshire District Council	£6.3m	72
Merseyside PCC	£460.1m	66
Royal Bank of Scotland PLC		77
CAPITA PLC		84

8. The second key aspect of local authority accounts is that they look different to central government and private sector accounts. All local authority accounts have two sector specific primary statements. In addition to this, some authorities are required to produce supplementary accounts.
9. Table 3 shows the primary statements and supplementary accounts that the user can expect to find in a set of local authority accounts.

Statement	Purpose
Comprehensive Income and Expenditure Statement (CIES)	Summary of the resources generated and consumed by the council on an accruals basis. Shows gross and net expenditure by service area and other income and expenditure incurred by the council.
Movement in Reserves Statement (MIRS)	Shows how the movement in reserves in the Balance Sheet is reconciled to the CIES deficit and what adjustments are required to be charged to the General Fund balance for Council Tax setting purposes.
Balance Sheet	Sets out the Council's financial position at the year end.
Expenditure and Funding Analysis (EFA)	Summarises the annual expenditure used and funded by the Council together with the adjustments between the funding and accounting basis to reconcile with the CIES.
Cashflow Statement	Summarises the inflows and outflows of cash for revenue and capital transactions during the year.

²⁰ Number of pages counted does not include annual report, governance statement or audit report

Collection Fund Account ²¹ - Billing authorities	Agent's statement that reflects the statutory obligation for billing authorities to maintain an account showing collection of Council Tax and National Non-Domestic Rates (NNDR) and the distribution of these taxes to precepting authorities.
Housing Revenue Account (HRA) - LAs with social housing stock	Local authorities are not allowed to cross subsidise provision of social housing from general taxation or vice versa. The HRA shows the major elements of expenditure on social housing and how these costs are met.

10. The statements referred to above are supported by Accounting Policies and Notes to the Accounts. Many of the notes are those required by accounting standards. However, the local authority specific primary statements have local authority specific notes.

The balanced budget requirement and statutory adjustments

11. The key financial control in local government is the balanced budget requirement. Every local authority is required to approve a balanced budget by either 1 or 8 March before the start of the financial year to which it relates. The calculation that local authorities are required to make is set out in primary legislation. It can be summarised as:

	£'
Net service expenditure	(x)
NNDR & grant income	x
Other income/expenditure	x/(x)
Appropriations from/to reserves	<u>x/(x)</u>
Council tax requirement	x

12. The balanced budget calculation has a lot to recommend it. The fact that full council or equivalent passing the balanced budget makes the council tax charge for the coming year lawful provides a strong incentive to set and approve a balanced budget every year. Local authorities are also required to maintain a self-assessed level of general fund reserves commensurate with sound financial risk management. When a local authority overspends it will need to generate additional income or will need to utilise reserves, which will mean that there is less resource available to support the following year's budget.

13. There are a couple of issues with the calculation. Firstly, it was designed in 1992, prior to the introduction of accruals accounting in the local authority sector; and secondly, as the specific calculation is set out in primary legislation, changing it would require including amending clauses in an Act of Parliament covering an appropriate topic.

14. Following the adoption of accruals accounting by the local authority sector and as International Financial Reporting Standards ("IFRS") have continued to develop, successive government have sought to protect council tax payers from accruals movements that do not have an immediate impact on the costs of service delivery through means of statutory overrides.

²¹ Districts and Unitary Authorities including London Boroughs collect Council Tax and NNDR. They are known as 'billing authorities'. Taxes collected are shared between billing authorities and other authorities with a right to a share of those taxes (known as 'precepting authorities') in proportions set out in statute.

15. The most significant of these adjustments relates to depreciation. Local authorities are required to charge depreciation on assets in the same way as any other entity. They then reverse out the depreciation charge in the EFA and replace it with a prudent provision for the debt taken out to acquire assets (Minimum Revenue Provision).
16. The adjustments process has two consequences. Firstly it greatly increases the length of local authority accounts as in addition to having between two and four additional primary statements (all with their own notes), the accounts report some transactions on both an accruals and a funding basis and include notes reconciling the two; and secondly, neither the CIES or the Balance Sheet show the true financial position of an authority. To understand that position it is necessary to understand how the outturn reported in these statements reconciles to the basis on which the balanced budget calculation is made.

Recent developments in the sector

17. The length and difficulty in understanding local authority financial information has been a subject of discussion for some time within the sector. For example, CIPFA has produced a strategy discussion paper on whether the current Accounting Code supports the production of useful information in a cost-effective manner.
18. There has also been a push to put more useful summary information in the narrative section appended to the front of the financial statements. However, as highlighted in **Chapter 2**, this information is not subject to audit. All the auditor is required to do is to read this narrative information to ensure it is not inconsistent with the accounts or their understanding of the business.

Q36. Do local authority accounts allow the user to understand an authority's financial performance and its financial resilience? If not, how could they be revised to be more understandable? What information could be presented to enable users of the accounts to understand whether the financial position of a specific LA is getting better or worse?

Q37. The UK Government is committed to maintaining IFRS based accounting for the UK public sector. Given this, how would you recommend resolving the mismatch between the accruals and funding basis to improve the understandability of local authority accounts?

Q38. Do you think that summary financial information should be reported in the annual report section of the accounts? If so, on what basis and should this information be covered by the financial audit opinion?

Q39. If you think that summary financial information should be reported in the annual report section of the accounts, should it be presented with performance information? If so, what performance information would be of most interest to stakeholders?

Chapter 9: Other Issues

Inspection of and objections to items in the accounts

1. Inspection and objection rights are intended to allow local residents to hold their councils to account. Local authorities are required to publish their unaudited accounts on the council website for a continuous 30 day period that must include the first ten days in June. Local residents, interested persons and journalists can inspect the accounts and related documents. Those on the electoral register can also ask questions about the accounts produced by their local LA and raise an objection with the external auditor to a transaction therein.
2. The auditor is required to consider all objections and if they have merit, to launch an investigation. Investigations can lead to a Public Interest Report or to an application to the courts to declare a transaction unlawful. If the matter does not warrant either of these outcomes, it may still be a matter that the auditor may wish to raise with the authority or to consider as part of their routine planned audit work. Where an auditor investigates they will write to the person who raised the objection setting out the results of their investigation. They do not copy this letter to the LA, MHCLG or any other party.
3. There has not been any objection on accounts has led to a Public Interest Report or an application to the courts since the introduction of the current regime. Anecdotal evidence suggests that there are two types of objections. Some local residents have specific issues with their local authority's expenditure on one or more items and raise objections on the same matter every year. The second type of objection is where special interest campaigns have tried to get local residents to object to the same item in accounts across a number of local authorities. This type of objection has been made in relation to PFIs and Lender Option Borrower Option loans (LOBOs).
4. There is no central record of how many objections have been raised by authority, what percentage of these have led to investigations and/or recommendations to management, or what the costs of this process have been both for auditors and local authorities. Where objections have been raised about a sector-wide, for example LOBOs, they have taken a long time to resolve and in for some LAs this has held up completion of the audit process.

Changes in local authority business models

5. As alluded to elsewhere in this call for views, the business models adopted by local authorities have seen significant change since the current audit regime was introduced.
6. The first significant change is the general power of competence introduced in the Localism Act 2011. This allows local authorities to set up wholly-owned subsidiaries, which are allowed to do anything a legal person can do. Before 2014-15, the general power of competence was not widely used. However, in recent years local authorities have increasingly used this power to set up subsidiaries covering a large range of business activities. Thinking about the impact general power of competence companies have on the financial and vfm audit opinions poses a challenge for auditors, as irrespective of whether they are material enough to require group accounts, they can expose local authorities to financial and reputational risk or divert management attention away from core service delivery.

7. The second significant change relates to wider partnership working – how local auditors can cooperate effectively with each other when reporting on partnership working. Partnerships are often non-statutory arrangements in which local auditors can only report on the arrangements in place within the individual bodies they audit. Some of these are set up by agreement between local authorities. Others such as Clinical Commissioning Groups and some Local Enterprise Partnerships have been set up as a result of government policy.
8. The final significant change is the increase in borrowing to fund commercial property acquisition (“commercialisation”). In some cases local authorities have designed commercial property strategies purely to generate a return. However, many of these strategies will also be focused on regeneration and increasing local economic activity. Commercialisation provides a challenge for the financial audit partly due to the materiality considerations discussed in **Chapter 5** and partly due to the auditor’s need to consider and understand appropriate laws and regulations. It poses a challenge for the vfm audit opinion partly because the auditor will need to check whether an authority has appropriate systems in place to manage this activity and partly because of the risk of diverting management attention.

Smaller Authorities

9. As noted earlier in this call for views, the local authority financial reporting and audit framework includes smaller authorities. Smaller authorities, also known as “Category 2 authorities”, are parish councils, drainage authorities and similar with gross annual income and expenditure not exceeding £6.5m. Smaller authorities with gross income or expenditure of more than £200k are required to prepare a simplified accruals Annual Governance and Accounts Return. Those with income and expenditure of less than £200k can prepare a receipts and payments Annual Governance and Accounts Return. Those with no income and expenditure are allowed to send a statement to their auditor declaring themselves to be exempt from preparing accounts.
10. Smaller authority Annual Governance and Accounts Returns are subject to a limited assurance review. Undertaking a limited assurance review primarily involves performing inquiry and analytical procedures, thereby enabling the auditor to reach a conclusion on whether anything has come to their attention that indicates that the accounts are not true and fair. The conclusion provides some assurance to users of the accounts but less than a full audit certificate.
11. The first issue the Review wants to explore is the adequacy of this opinion for all smaller authorities. As services and assets are transferred to them a small number of parish councils are approaching the £6.5m threshold. Given the sums of money they have stewardship for, questions have been asked about whether they should be subject to a level of external review greater than a limited assurance engagement. One of the issues with this suggestion is that the next level of assurance recognised by professional standards bodies is a full external audit, and legislation already allows Category 2 authorities to ‘opt up’ if they so wish.
12. The second issue the Review wants to explore is the inspection and objection regime for smaller authorities. A few smaller authorities receive a large number of objections on each set of accounts. As auditors are allowed to charge additional fees to recoup their

costs in responding to objections, the financial burden on smaller authorities whose accounts are objected to can be disproportionate, potentially leading to an increase in Council Tax bills for local residents. The Review is interested in suggestions in the way this burden can be reduced, whilst retaining the right for all local residents to inspect and object to items of account.

Q40. For larger authorities, does the inspection and objection regime allow local residents to hold their council to account in an effective manner? If not, how should the regime be modified?

Q41. Is more guidance needed to help auditors assess the impact of significant changes to common business models? If so is this guidance needed to support the financial audit, the vfm audit or both?

Q42. Is the financial reporting and audit framework for larger category 2 authorities appropriate? If not, what additional information should be subject to audit/assurance and what would be the cost implications of this?

Q43. For smaller authorities, does the inspection and objection regime allow local residents to hold their council to account in an effective manner and is the cost of processing and responding to objections proportionate? If not, how should the regime be modified?

Appendix 1: About this Call for Views

Who is this for?

1. The Review would welcome views from any respondents with an interest (direct or indirect) in local authority audit and financial reporting.

How to respond

2. This call for views closes on 22 November 2019.
3. Please send any response to Redmond.Review@communities.gov.uk
4. If you do not have access to email, you can write to Redmond Review Secretariat
2nd Floor Fry Building, 2 Marsham Street, London, SW1P 4DF.

Disclosure of the information you provide

5. Because information provided in response to this call for views will be received by the Review Secretariat which is hosted by the Ministry of Housing, Communities and Local Government, that information may be subject to publication or release to other parties or to disclosure in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 2018 (DPA) and the Environmental Information Regulations 2004).
6. If you want information you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence.
7. In view of this it would be helpful if you could explain to us why you may regard the information you have provided as confidential. If we receive a request for disclosure of the information, we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances.
8. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding.

Personal data

9. The following is to explain your rights and give you the information you are entitled to under the Data Protection Act 2018.
10. Please note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

The identity of the data controller and contact details of our Data Protection Officer

11. MHCLG is the data controller. The Data Protection Officer can be contacted at dataprotection@communities.gov.uk.

Why we are collecting your personal data

12. Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

Our legal basis for processing your personal data

13. The Data Protection Act 2018 states that, as a government department, MHCLG may process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

With whom we will be sharing your personal data

14. Your data will be shared with the Independent Reviewer.

Your rights, e.g. access, rectification, erasure

15. The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right:
 - to see what data we have about you
 - to ask us to stop using your data, but keep it on record
 - to have all or some of your data deleted or corrected
 - to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law.
16. You can contact the ICO at <https://ico.org.uk>, or telephone 0303 123 1113.
17. Your personal data will not be sent overseas.
18. Your personal data will not be used for any automated decision making.
19. Your personal data will be stored in a secure government IT system.

Appendix 2: Independent review into the arrangements in place to support the transparency and quality of local authority financial reporting and external audit in England

A. Purpose

The Secretary of State for the Ministry of Housing, Communities and Local Government (MHCLG) invites Sir Tony Redmond to conduct a Review of the arrangements in place to support the transparency and quality of local authority financial reporting and external audit including those introduced by the Local Audit and Accountability Act 2014 (the Act). The Review will not look at broader issues of local authority finances and sustainability.

B. Review objectives

The Review will examine the existing purpose, scope and quality of statutory audits of local authorities in England and the supporting regulatory framework to in order to determine:

- Whether the audit and related regulatory framework for local authorities in England is operating in line with the policy intent set out in the Act and the related impact assessment
- Whether the reforms have improved the effectiveness of the control and governance framework along with the transparency of financial information presented by councils;
- Whether the current statutory framework for local authority financial reporting supports the transparent disclosure of financial performance and enables users of the accounts to hold local authorities to account; and
- To make recommendations on how far the process, products and framework may need to improve and evolve to meet the needs of local residents and local taxpayers, and the wider public interest.

C. Scope

The review's scope is taken to include the objectives and context included in these terms of reference.

In practice, this means the review is likely to focus on the following questions;

- Have the financial savings from local audit reforms been realised?
- Is there a more accessible audit market and has there been an increase in audit providers?
- Have audit standards been maintained or improved, and not been compromised?
- Is there an 'expectation gap' in what external audit provides? What is the nature of the gap and how can it be filled?
- Are auditors properly responding to questions or objections by local taxpayers?
- Are auditors using their reporting powers in an appropriate way?
- Are audit recommendations effective in helping local authorities to improve their financial management?

- Are councils responding to auditor recommendations in an appropriate manner?
- Whether local authority accounts report financial performance including use of resources against budget in a manner that is transparent and comprehensible to council tax payers and the general public?
- Does the financial information provided in local authority accounts facilitate scrutiny by local taxpayers and by the local press?

The financial reporting and audit framework for Clinical Commissioning Groups, NHS Trusts and Foundation Trust and special trustees for hospitals is outside the scope of this Review. This is because these bodies have significantly different statutory bases and governance frameworks to other bodies covered by the Act.

D. Context

Local Government in England is responsible for 22% of total UK public sector expenditure. It is essential that local authority financial reporting is of the highest level of transparency to allow taxpayers to understand how their money is being spent.

The responsibilities for the framework within which local authority audits are conducted is the Local Audit and Accountability Act 2014. It gave effect to manifesto commitments to abolish the Audit Commission and its centralised performance and inspection regimes and put in place a new localised audit regime, refocussing local accountability on improved transparency.

Now the Act has been fully implemented, the Government is required to review its effectiveness. This review will meet MHCLG's commitment to undertake a post implementation review of the audit framework and financial reporting elements of the Act. The Government wants to use this opportunity to step back and review the effectiveness of the local authority financial reporting and audit regime. Developments in the sector such as the growth of commercial investment activity have led to a perceived widening of the 'expectation gap'; that is, the difference between what users expect from an audit and the reality of what an audit is and what auditors' responsibilities entail. There may also be an expectation gap between the information that users of local authority accounts believe is needed and what is available to them through audited financial statements or other publicly available information.

Other elements of the Act, including openness transparency of council meetings, the local authority publicity code and intervention powers are outside the scope of this Review. MHCLG will undertake a post implementation review of those elements of the Act in house.

This Review has assumed greater significance due to developments elsewhere. BEIS commissioned Sir John Kingman in April 2018 to carry out a review into the role of the Financial Reporting Council and, in February 2019, Sir Donald Brydon to carry out a review into the quality and effectiveness of statutory audit (reporting in December 2019). In addition, the Competition and Markets Authorities' 18 April 2019 report recommends changes to the statutory audit market that will impact on local audit. Alongside this, there have been three recent PAC hearings on: the Financial Sustainability of Local Authorities (Nov 2018) Local Audit in England (Jan 2019) and Local Authority Governance (Mar 2019). Finally, as part of its legal duties, the National Audit Office is required to review and replace the current Code of Audit Practice by April 2020.

E. Governance

The review will be led by Sir Tony Redmond and report to the Secretary of State for Communities and Local Government

The Independent Reviewer will be supported by an Advisory Group that will advise on the direction of the review and sources of evidence and will help to scrutinise and challenge emerging findings and recommendations.

F. The Review Secretariat

There will be a small dedicated Review Secretariat acting in support of the Independent Reviewer.

G. Stakeholder Engagement

The Review will undertake engagement with a wide range of stakeholder groups, including those representing the interests of local authorities, the accountancy profession, and local residents and taxpayers in order to fully understand the range of issues and to ensure constructive challenge.

Somerset County Council

Audit Committee – 21 November 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 agenda for the next meeting on 30 January 2020, 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 January 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
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
26 March 2020	
18 June 2020	
30 July 2020	
24 September 2020	
19 November 2020	

This page is intentionally left blank