

Public Document Pack

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



Contact Clare Rendell
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Date 23 November 2018

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

Dear Councillor

I hereby give you notice to attend the following meeting:

AUDIT COMMITTEE

Date: Monday 3 December 2018
Time: 2.00 pm
Venue: Council Chamber - West Somerset House

Please note that this meeting may be recorded. At the start of the meeting the Chairman will confirm if all or part of the meeting is being recorded. You should be aware that the Council is a Data Controller under the Data Protection Act. Data collected during the recording will be retained in accordance with the Council's policy. Therefore unless you advise otherwise, by entering the Council Chamber and speaking during Public Participation you are consenting to being recorded and to the possible use of the sound recording for access via the website or for training purposes. If you have any queries regarding this please contact the officer as detailed above.

Yours sincerely

A handwritten signature in black ink, appearing to read "Bruce Lang".

BRUCE LANG
Proper Officer

WEST SOMERSET DISTRICT COUNCIL

Meeting to be held on Monday 3 December 2018 at 2.00 pm

Council Chamber - West Somerset House

AGENDA

1. **Apologies**

2. **Minutes of the previous meeting of the Audit Committee** (Pages 5 - 10)

Minutes of the Meeting of the Committee held on 17 September 2018 – **SEE ATTACHED.**

3. **Declarations of Interest**

To receive and record declarations of interest in respect of any matters included on the agenda for consideration at this meeting.

4. **Public Participation**

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

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

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

5. **Audit Committee Action Plan** (Pages 11 - 12)

To update the Audit Committee on the progress of resolutions and recommendations from previous meetings – **SEE ATTACHED.**

6. **Audit Committee Forward Plan** (Pages 13 - 14)

To review the Audit Committee Forward Plan 2018 – **SEE ATTACHED.**

7. **Grant Thornton - External Audit - Progress Report and Update** (Pages 15 - 28)

To consider Report No WSC 84/18 to be presented by Sarah Crouch, Audit Manager, Grant Thornton – **SEE ATTACHED.**

The purpose of the report is to provide the Audit Committee with a progress update regarding the work of the external auditors, Grant Thornton, together with information relating to emerging issues which may be relevant to the Council.

8. **SWAP - Internal Audit Plan 2018-19 Progress Report** (Pages 29 - 46)

To consider Report No WSC 85/18 to be presented by Alastair Woodland, Audit Manager, South West Audit Partnership – **SEE ATTACHED.**

The purpose of the report is to update members on the Internal Audit Plan 2018/19 progress and bring to their attention any significant findings identified through the work.

9. **Treasury Management Update - 30 September 2018** (Pages 47 - 62)

To consider Report No WSC 86/18 to be presented by Steve Plenty, Senior Corporate Accountant – **SEE ATTACHED.**

The purpose of the report is to provide Members with an update on the Treasury Management activity of the Council for the first six months of 2018/19. It focuses on a review of the Council's borrowing and investment activities.

10. **GDPR Action Plan Update** (Pages 63 - 70)

To consider Report No WSC 87/18 to be presented by Richard Doyle, Corporate Strategy and Performance Officer – **SEE ATTACHED.**

The purpose of the report is to provide an update on the actions taken by the Council following the implementation of the new (EU) General Data Protection Regulations (GDPR) and the UK Data Protection Act 2018 which came into force on 25 May 2018.

COUNCILLORS ARE REMINDED TO CHECK THEIR POST TRAYS

AUDIT COMMITTEE

Minutes of the Meeting held on 17 September 2018 at 2.00 pm in the Council Chamber, Williton

Present

Councillor R Lillis.....Chairman

Councillor P Pilkington
Councillor N Thwaites

Councillor R Thomas
Councillor A Kingston-James

Officers In Attendance

Head of Financial Services and Deputy S151 Officer (A Stark)
Principal Revenues and Debt Recovery Officer (D Emery)
Corporate Strategy and Performance Officer (R Doyle)
Democratic Services Manager (R Bryant)
Democratic Services Officer (C Rendell)

Also In Attendance

Peter Barber, Manager, Grant Thornton
Alastair Woodland, Assistant Director, South West Audit Partnership (SWAP)
Yvette Kottaun, Senior Fraud Investigator
David Morris, Head of Service

A.23 Apologies for Absence

Apologies were received from Councillors K Mills and R Woods.
Councillor A Kingston-James substituted for Councillor R Woods.

A.24 Minutes

(Minutes of the Meeting of the Audit Committee held on 23 July 2018, circulated with the Agenda).

RESOLVED that the Minutes of the Audit Committee held on 23 July 2018 be confirmed as a correct record.

A.25 Declarations of Interest

Name	Minute No.	Member of	Personal or Prejudicial	Action Taken
Cllr P Pilkington	All	Timberscombe Parish Council	Personal	Spoke and voted
Cllr R Thomas	All	Minehead Town Council	Personal	Spoke and voted
Cllr A Kingston-James	All	Minehead Town Council	Personal	Spoke and voted

A.26 Public Participation

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

A.27 Audit Committee Action Plan

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

There were two recorded actions from the previous meetings held on 19 June and 23 July 2018, both of which were in progress.

RESOLVED that the Audit Committee Action Plan be noted.

A.28 Audit Committee Forward Plan

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

RESOLVED that the Audit Committee Forward Plan be noted.

A.29 Exclusion of the Press and Public

RESOLVED that the press and public be excluded during consideration of item A.30 on the grounds that, if the press and public were present during the item, there would be likely to be a disclosure to them of exempt information of the class specified in Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 as amended as follows:

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

A.30 Counter Fraud Partnership – 2017/18 Progress Report

(Report No. WSC 71/18, circulated with the Agenda).

The purpose of the report was to summarise the results of the first year of the Counter Fraud Partnership.

RESOLVED that the Committee noted the 2017/18 progress report from the Counter Fraud Partnership.

A.31 Re-admittance of the Press and Public

A.32 Grant Thornton External Audit – Annual Audit Letter 2017/18

(Report No. WSC 72/18, circulated with the Agenda).

The purpose of the report was to summarise the key findings from the external audit work carried out in respect of the 2017/18 financial year and detail the actual audit fees charged.

The Annual Audit Letter for 2017/18 confirmed that:-

- The Auditors had issued an unqualified opinion in respect of the accounts for 2017/18;
- The Auditors were satisfied that the Council had put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2018;
- The determined materiality for the audit of the Council's financial statements were £354,000, which was 1.8% of the Council's gross revenue; and
- The fees charged for 2017/18 were £42,525 for the statutory audit.

RESOLVED that the Committee noted the report.

A.33 Grant Thornton External Audit – Progress and Update Report

(Report No. WSC 73/18, circulated with the Agenda).

The purpose of the report was to provide the Audit Committee with a progress update regarding the work of the external auditors, Grant Thornton.

The Audit Manager outlined the report, which provided an update on the work undertaken to date and included the status of all the planned audit work for the Council. Additionally, the report shared headlines on some national issues that might have an impact upon the Council.

Within the Sector Update, the following items were highlighted:-

- The Chartered Institute of Public Finance and Accountancy (CIPFA) Consultation on Financial Resilience Index;
- The Ministry of Housing, Communities and Local Government (MHCLG) Social Housing Green Paper;
- The MHCLG Business Rate Pilots; and
- The Institute of Fiscal Studies Impact of Fair Funding Review.

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

- Members requested clarification on when the audit work would end for West Somerset Council (WSC).
For the financial year 2018/19, the Auditors required the accounts by the end of May 2019, so that the work could be carried out in time for the statement of accounts to be approved by the end of July 2019.
- Concern was raised that the New Council Members would sign off the statement of accounts for the dissolved Councils of West Somerset and Taunton Deane.

RESOLVED that the Committee noted the report.

A.34 SWAP Internal Audit – Progress Update 2017/18

(Report No. WSC 74/18, circulated with the Agenda).

The purpose of the report was to update Members on the Internal Audit Plan 2018/19 progress and to bring to their attention any significant findings identified through the work.

Since the June 2018 update, the following audits had been finalised:-

- General Data Protection Regulation Members Awareness Training had been issued with an advisory opinion;
- Parking Maintenance had been issued with a follow up opinion; and
- IT Backup Arrangements had been issued with a reasonable opinion.

In the Parking Maintenance audit report issued in October 2017, SWAP had offered partial assurance. Six recommendations were raised, three were given a priority score four and the remainder allocated a priority score three.

Whilst carrying out the follow-up audit, it was noted that the three priority four recommendations had been addressed. These were in relation to clarity around the WSC maintenance budget and improvements in the risk management process for assessing car parking risks to inform the maintenance budget spend areas.

The outstanding priority three recommendations were:-

- Development of the Car Parking Strategy across Taunton Deane and West Somerset (superseded by the need of a new single authority car parking strategy); and
- Updating the Parking Maintenance Plans with the findings from the technical surveyors.

Whilst the two outstanding actions were more detailed and work was in progress, they needed to be driven forward where possible to minimise risk.

The Audit Manager also highlighted that the Audit Plan was split between 'Business as Usual' and the Transformation Project. Over the next six months, there would be a lot of changes within both Councils which would impact on service delivery and he wanted to ensure that there were mitigations in place to keep work on track. The main risks were:-

- Loss of knowledge (capacity issue); and
- Creation of the New Council for the 1 April 2019.

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

- Members queried whether the main risk was on staffing.
Yes, there would be knowledge and capacity issues. There would also be a channel shift toward more customer self-serve, but the technology needed to be in place for that to work.
- Members queried whether there was anything they could do to help during the next six months.
Members could help manage customers' expectations during the changes and also understand that service would be affected.
- The Chairman queried whether there were enough days allocated for the audit work to be carried out.
The Auditors would have to prioritise their work, but there should be enough days. WSC had benefited from the joint working with Taunton Deane.

RESOLVED that the Committee noted the progress made in delivery of the 2018/19 internal audit plan and the significant findings.

A.35 Summary of Overdue High Priority SWAP Audit Recommendations

(Report No. WSC 75/18, circulated with the Agenda).

The purpose of the report was to provide Members with a position statement on the SWAP audit recommendations for West Somerset Council, which were assessed as high and very high priority, where the agreed remedial action was overdue.

The report highlighted the Priority Four and Five audit actions that affected WSC, where the agreed remedial action was overdue. On this occasion there were three Priority Four actions which were overdue but zero overdue Priority Five recommendations for WSC. The overdue actions were for Discretionary Housing Payments and Contract Management Bribery.

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

- Members queried whether there had been any incidents of Contract Bribery.
No, however, there was a new policy being developed for the New Council.
- Members queried whether the recommendation on Discretionary Housing Payments was due to the introduction of Universal Credit.
Yes, the fourteen day target was not achievable due to the long waiting times for Universal Credit.

RESOLVED that the Committee reviewed the overdue actions.

A.36 Audit Action Plan Update

(Report No. WSC 76/18, circulated with the Agenda).

The purpose of the report was to provide an update of progress against the Annual Governance Statement (AGS) Action Plan for 2018/19.

The AGS included an action plan which addressed any new governance issues identified by the Corporate Governance Officers Group and relied on reports from internal and external audit.

There were two actions now planned for 2018/19. These were:-

- To implement and develop our new risk management culture; and
- To implement the Corporate Governance process for the Shadow Council and the transformed New Council.

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

- Members raised concern for the next six months.
The Officer offered reassurance that there were processes in place to drive forward the work that was needed.

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

(The meeting closed at 3.15pm)

Agenda Item 5

AUDIT COMMITTEE ACTION PLAN

Date/Minute Number	Action Required	Action Taken
23 July 2018 A.19 Audit Committee Action Plan	<u>RESOLVED:-</u> Members requested reassurance that controls were in place to ensure 'business as usual' would not be affected during the Transformation Project.	The External Auditors suggested that the Internal Auditors could address the risks in their audit work during the project.
19 June 2018 A.12 Annual Governance Statement 2017/18	<u>RESOLVED:-</u> Concern was raised on the term 'risk takers' used in the report.	The wording would be amended. This was chased on 23.07.2018 and the Assistant Director for Strategic Finance would chase the Corporate Strategy and Performance Officer for a revised copy to be distributed to the Members.

Agenda Item 6

West Somerset Council - Audit Committee – Forward Plan 2018

Meeting	DRAFT AGENDA ITEMS	LEAD OFFICER
17 September 2018 <u>Deadline:</u> <u>6 Sept 2018</u>	Grant Thornton External Audit – Annual Audit Letter 2017/18 Grant Thornton External Audit – Progress & Update Report SWAP Internal Audit – Progress Update 2017/18 Summary of Overdue Level 4/5 Actions Corporate Governance Action Plan Update Powys Counter Fraud Partnership – Update Report Forward Plan	Sarah Crouch Sarah Crouch Alastair Woodland Richard Doyle Richard Doyle Heather Tiso
3 December 2018 <u>Deadline:</u> <u>22 Nov 2018</u>	Grant Thornton External – Progress Report SWAP Internal Audit – Progress Report 2016/17 Grant Certification Report 6-Month Review of Treasury Management Activity GDPR Action Plan Update Forward Plan	Sarah Crouch Alastair Woodland Sarah Crouch/Andrew Stark Steve Plenty Richard Doyle
18 March 2019 <u>Deadline:</u> <u>7 March 2019</u>	Grant Thornton External Audit – Audit Update Grant Thornton External Audit – Audit Plan SWAP Internal Audit – Progress Report 2018/19 Corporate Risk Management Update Corporate Governance Action Plan Summary of Overdue Level 4/5 Actions Forward Plan	Sarah Crouch Sarah Crouch Alastair Woodland Richard Doyle Richard Doyle Richard Doyle

Report Number: WSC 84/18

West Somerset Council

Corporate Governance Committee 3 December 2018

External Audit – Progress Report and Update

This matter is the responsibility of Councillor Martin Dewdney

Report Author: Andy Stark, Interim Finance Manager (Deputy S151 Officer)

1 Purpose of the Report

- 1.1 This is a regular report for Members by our external auditors, Grant Thornton. Specifically the report provides an update in relation to their progress in delivering the responsibilities of being the external auditors for the Council and also to provide a summary of emerging national issues and developments to consider.

2 Recommendations

- 2.1 That Members are requested to note the Report.

3 Risk Assessment

Risk Matrix

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

4 Background and Full details of the Report

- 4.1 The Council's external audit function is undertaken by Grant Thornton. This report provides Members with an update on the progress as at November 2018 in delivering their responsibilities as the Council's external auditors as well as providing a summary of relevant emerging national issues and developments.

5 Links to Corporate Aims / Priorities

- 5.1 There are no direct implications.

6 Finance / Resource Implications

6.1 There are no direct implications.

7 Legal Implications

7.1 There are no legal implications from this report.

8 Environmental Impact Implications

8.1 There are no direct implications.

9 Community Safety Implications

9.1 There are no direct implications.

10 Equality and Diversity Implications

10.1 There are no direct implications.

11 Social Value Implications

11.1 There are no direct implications.

12 Partnership Implications

12.1 There are no direct implications.

13 Health and Wellbeing Implications

13.1 There are no direct implications.

14 Asset Management Implications

14.1 There are no direct implications.

15 Consultation Implications

15.1 There are no direct implications.

Democratic Path:

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

List of Appendices

Appendix A	Grant Thornton – Audit Progress Report and Sector Update
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Contact Officers

Name	Andy Stark	Name	Paul Fitzgerald
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Audit Progress Report and Sector Update

West Somerset District Council
Year ending 31 March 2019
December 2018



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Introduction



Peter Barber

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

The paper also includes:

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

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Engagement Lead

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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.



Sarah Crouch

Engagement Manager

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Progress at November 2018

2017/18 Audit

We have completed our audit of the Council's 2017/18 financial statements. Our audit opinion, including our value for money conclusion and certificate of audit closure was issued on the 31 July 2018.

We issued:

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

We have issued all our deliverables for 2017/18 and have concluded our work on the 2017/18 financial year. Our Annual Audit Letter, summarising the outcomes of our audit was presented at the September Committee.

2018/19 Audit

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

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

- continue to hold regular discussions with management to inform our risk assessment for the 2018/19 financial statements and value for money audits;
- review minutes and papers from key meetings; and
- continue to review relevant sector updates to ensure that we capture any emerging issues and consider these as part of audit plans.

Other areas

Certification of claims and returns

We are required to certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. This certification work for the 2018/19 claim is underway, and will be concluded by the end of November 2018.

The results of the certification work are reported to you in our certification letter, which will come to the March Audit Committee. A verbal update on this will be given at the meeting.

Meetings

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

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Our Annual Accounts workshop is to take place early in the new year. We have invited key members of your finance team to this.

Audit Deliverables

2017/18 Deliverables	Planned Date	Status
Annual Certification Letter This letter reports any matters arising from our certification work carried out under the PSAA contract.	December 2018	Not yet due
<hr/>		
2018/19 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2018/19.	April 2018	Complete
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2018-19 financial statements.	January 2019	Not yet due
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March 2019	Not yet due
Audit Findings Report The Audit Findings Report will be reported to the July Audit Committee.	July 2019	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2019	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2019	Not yet due
Annual Certification Letter This letter reports any matters arising from our certification work carried out under the PSAA contract.	December 2019	Not yet due

Sector Update

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

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

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

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

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

In good company: Latest trends in local authority trading companies

Our recent report looks at trends in LATC's (Local Government Authority Trading Companies). These deliver a wide range of services across the country and range from wholly owned companies to joint ventures, all within the public and private sector.

Outsourcing versus local authority trading companies

The rise of trading companies is, in part, due to the decline in popularity of outsourcing. The majority of outsourced contracts operate successfully, and continue to deliver significant savings. But recent high profile failures, problems with inflexible contracts and poor contract management mean that outsourcing has fallen out of favour. The days of large scale outsourcing of council services has gone.

Advantages of local authority trading companies

- Authorities can keep direct control over their providers
- Opportunities for any profits to be returned to the council
- Provides suitable opportunity to change the local authority terms and conditions, particularly with regard to pensions, can also bring significant reductions in the cost base of the service
- Having a separate company allows the authority to move away from the constraints of the councils decision making processes, becoming more agile and responsive to changes in demand or funding
- Wider powers to trade through the Localism act provide the company with the opportunity to win contracts elsewhere

Choosing the right company model

The most common company models adopted by councils are:

Wholly
owned

Joint
Ventures

Social
Enterprise

Wholly owned companies are common because they allow local authorities to retain the risk and reward. And governance is less complicated. Direct labour organisations such as Cormac and Oxford Direct Services have both transferred out in this way.

JVs have become increasingly popular as a means of leveraging growth. Pioneered by Norse, Corserv and Vertas organisations are developing the model. Alternatively, if there is a social motive rather than a profit one, the social enterprise model is the best option, as it can enable access to grant funding to drive growth.

Getting it right through effective governance

While there are pitfalls in establishing these companies, those that have got it right are: seizing the advantages of a more commercial mind-set, generating revenue, driving efficiencies and improving the quality of services. By developing effective governance they can be more flexible and grow business without micromanagement from the council.

LATC's need to adapt for the future

- LATC's must adapt to developments in the external environment
 - These include possible changes to the public procurement rules after Brexit and new local authority structures. Also responding to an increasingly crowded and competitive market where there could be more mergers and insolvencies.
- Authorities need to be open to different ways of doing things, driving further developments of new trading companies. Relieving pressures on councils to find the most efficient ways of doing more with less in today's austere climate.

Overall, joint ventures can be a viable alternative delivery model for local authorities. Our research indicates that the numbers of joint ventures will continue to rise, and in particular we expect to see others follow examples of successful public-public partnerships.

[Download the report here](#)



<https://www.grantthornton.co.uk/en/insights/the-rise-of-local-authority-trading-companies/>

Links

Grant Thornton website links

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

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

<https://www.grantthornton.co.uk/en/insights/the-rise-of-local-authority-trading-companies/>

Report Number: WSC 85/18

Presented by: Alastair Woodland, Assistant Director
Author of the Report: Alastair Woodland, Assistant Director

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Report to a Meeting of: Audit Committee
To be Held on: 3 December 2018

INTERNAL AUDIT PLAN 2018-19 PROGRESS REPORT

1. PURPOSE OF REPORT

- 1.1 To update members on the Internal Audit Plan 2018-19 progress and bring to their attention any significant findings identified through our work.

2. CONTRIBUTION TO CORPORATE PRIORITIES

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

3. RECOMMENDATIONS

- 3.1 Members are asked to note progress made in delivery of the 2018/19 internal audit plan and the significant findings.

4. RISK ASSESSMENT (IF APPLICABLE)

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

5. BACKGROUND INFORMATION

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

- Details of any new significant weaknesses identified during internal audit work completed since the last report to the committee in September 2018.
- A schedule of audits completed during the period, detailing their respective assurance opinion rating, the number of recommendations and the respective priority rankings of these.

6. FINANCIAL/RESOURCE IMPLICATIONS

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

7. COMMENTS ON BEHALF OF SECTION 151 OFFICER

7.1 No Specific comments.

8. EQUALITY & DIVERSITY IMPLICATIONS

8.1 There are no direct implications from this report.

9. CRIME AND DISORDER IMPLICATIONS

9.1 There are no direct implications from this report.

10. CONSULTATION IMPLICATIONS

10.1 There are no direct implications from this report.

11. ASSET MANAGEMENT IMPLICATIONS

11.1 There are no direct implications from this report.

12. ENVIRONMENTAL IMPACT IMPLICATIONS

12.1 There are no direct implications from this report.

13. HEALTH & WELLBEING

13.1 There are no direct implications from this report.

14. LEGAL IMPLICATIONS

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

West Somerset Council

Report of Internal Audit Activity

Plan Progress 2018/19- December 2018

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The contacts at SWAP in connection with this report are:

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Our audit activity is split between:

- **Operational Audit**
- **Governance Audit**
- **Key Control Audit**
- **IT Audit**
- **Grants**
- **Follow Up**
- **Non-Opinion / Advisory Reviews**



Role of Internal Audit

The Internal Audit service for West Somerset Council is provided by SWAP Internal Audit Services (SWAP). SWAP is a Local Authority Controlled Company. SWAP has adopted and works to the Standards of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS), and also follows the CIPFA Code of Practice for Internal Audit. The Partnership is also guided by the Internal Audit Charter approved by the Audit Committee at its meeting in March 2018.

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

- Operational Audit Reviews
- Cross Cutting Governance Audits
- Annual Review of Key Financial System Controls
- IT Audits
- Grants
- Follow Up
- Non-Opinion / Advisory Reviews

Internal Audit work is largely driven by an Annual Audit Plan. This is approved by the Section 151 Officer, following consultation with the Corporate Management Team. This year's Audit Plan was reported to this Committee and approved by this Committee at its meeting in March 2018.

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

Internal Audit Plan Progress 2018/19

Outturn to Date:

We rank our recommendations on a scale of 1 to 3, with 1 being a fundamental concern to the services/area being reviewed and 3 being a minor concern that requires management attention.



Internal Audit Work

The schedule provided at **Appendix B** contains a list of all audits as agreed in the Annual Audit Plan 2018/19. It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

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

Since the September 2018 update the following audits have been finalised.

Audit Area	Quarter	Status	Opinion
2018/19			
Supplier Resilience	1	Final	Partial
Insurance Arrangements	2	Final	Reasonable
GDPR – Progress towards compliance	2	Final	Reasonable
2017/18			
Cyber Security	4	Final	Reasonable

Overall good progress is being made on the Audit Plan 2018-19. Current progress as at September can be seen from **Appendix B**. At this point I will need to bring to your attention that we have recently had two IT Audit Specialists leave the organisation and this will have an impact on our ability to delivery all the planned IT work to the originally agreed timescales.

Outturn to Date:

We rank our recommendations on a scale of 1 to 3, with 1 being a fundamental concern to the services/area being reviewed and 3 being a minor concern that requires management attention.

Internal Audit Work Continued

Partial Assurance / No Assurance Audits

As agreed with this Committee where a review has a status of ‘Final’ and has been assessed as ‘Partial’ or ‘No Assurance’, I will provide further detail to inform Members of the key issues identified. Since the September 2018 update, there is one Partial Assurance review relating to Supplier Resilience that I need to bring to your attention. Further details can be found within **Appendix C**.

‘High’ Corporate Risk

Our audits examine the controls that are in place to manage the risks that are related to the area being audited. We assess the risk at an inherent level i.e. how significant is the risk(s) at a corporate level on a scale of High, Medium or Low. Once we have tested the controls in place we re-evaluate the risk based on how effective the control are operating to govern that risk (Residual Risk). Where the controls are found to be ineffective and the inherent and residual risk is assessed as ‘high’, I will bring this to your attention.

Since the September 2018 update there are no new ‘High’ risks that I need to bring to your attention.

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



Approved Changes to the Audit Plan

The audit plan for 2018/19 is detailed in **Appendix B**. Inevitably changes to the plan will be required during the year to reflect changing risks and ensure the audit plan remains relevant to West Somerset Council. Members will note that, where necessary, any changes to the plan throughout the year will have been subject to agreement with the appropriate Service Manager and the Audit Client Officer.

Since the September 2018 update there are a couple of plan changes that I need to bring to your attention:

- Due to the work already scheduled for Transformation the review of the Strategic Framework was dropped to supplement time needed for the Housing Compliance (Fire Safety Management) review and to allow time for us to review Redundancy Payments due the significant value expected to be paid out Circa. £5 Million.
- Homelessness Reduction has also been dropped to free up time for us to assist with the Service Mapping Activity. The Service Mapping Activity aims to ensure that the Council has the necessary knowledge / skills in place to deliver key services come the 1 April due to the volume of staff leaving.

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

- Substantial
- Reasonable
- Partial
- No Assurance
- Non-Opinion / Advisory



Audit Framework Definitions

Control Assurance Definitions

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

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

We keep our audit plans under regular review, so as to ensure we are auditing the right things at the right time. Recommendations are prioritised from 1 to 3 on how important they are to the service/area audited. These are not necessarily how important they are to the organisation at a corporate level.



Audit Framework Definitions

Categorisation of Recommendations

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

- Priority 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.

Definitions of Risk

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

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

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ← → 5 = Minor			Comments
						Recommendation			
						1	2	3	
FINAL									
Governance, Fraud & Corruption	GDPR - Members Awareness Training	1	Final	Non-Opinion	-	-	-	-	
Follow-up audit	Parking Maintenance	1	Final	Non-Opinion	3	0	0	3	
Governance, Fraud & Corruption	Supplier Resilience	1	Final	Partial	6	-	1	5	See Appendix C
Governance, Fraud & Corruption	Insurance Arrangements	2	Final	Reasonable	2	-	2	-	
Governance, Fraud & Corruption	GDPR – Progress towards compliance	2	Final	Reasonable	7	-	-	7	
DRAFT									
Governance, Fraud & Corruption	Healthy Organisation	2-3	Review						
IN PROGRESS									
Transformation	Service Mapping Activity (NEW)	3	In progress						See Appendix D
Transformation	New Council Governance	1-4	In Progress						
Transformation	Business Process Re-engineering	1-4	In Progress						See Appendix D
Transformation	Benefits Realisation Management	1-4	In Progress						See Appendix D
Information and Communication Technology	Universal Transaction Portal	1-3	In Progress						

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Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ← → 5 = Minor			Comments
						Recommendation			
						1	2	3	
Information and Communication Technology	Refresh of Network Security Infrastructure	2-3	In Progress						
Information and Communication Technology	Programme of Consolidation	2-4	In Progress						
NOT STARTED									
Key Control Audit	Creditors	3 – 4	Not Started						
Key Control Audit	Debtors	3 – 4	Not Started						
Key Control Audit	Treasury Management	3 – 4	Not Started						
Key Control Audit	Main Accounting	3 – 4	Not Started						
Transformation	Redundancy Payments	4	Not started						
Key Control Audit	System Parameter Testing	4	Not Started						
DROPPED									
Transformation	Strategic Framework	1 to 4	Dropped						Time to Redundancy Payments
Operational	Homelessness Reduction	4	Dropped						Time to Service Mapping Activity

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Audit Assignments completed since the September 2018 update:

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 Audit Findings and High Priority Service Findings

The following information provides a brief summary of each audit review finalised since the last Committee update in September 2018. Each audit review is displayed under the relevant audit type, i.e. Operational; Key Control; Governance; Fraud & Corruption; ICT and Special Review.

Since the September 2018 update there is one Audit I need to bring to your attention, this being in relation to Supplier Resilience.

Governance, Fraud and Corruption Audits

The Governance, Fraud and Corruption Audit process focuses primarily on key risks relating to cross cutting areas that are controlled and/or impact at a Corporate rather than Service specific level. It also provides an annual assurance review of areas of the Council that are inherently higher risk. This work will enable SWAP to provide management with assurance that key controls are in place. SWAP will use the findings of these reviews to support the assurance that is required as part of the Council’s Annual Governance Statement; it will also provide assurance to the External Auditor on areas that they have requested specific assurance.

Supplier Resilience – Partial Assurance

This audit sought assurance that the Council had effective arrangements in place to assess the business resilience of suppliers and ensure service continuity in the event of supplier failure.

Taunton Deane Borough Council and West Somerset Council have not outsourced many of their services; preferring to work in partnership with other councils or retain the service in-house. They also have very few suppliers that have been contracted to deliver more than one service; this does reduce the risk as the number

Audit completed since the September 2018 update: Assignments since the

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.

Governance, Fraud and Corruption Audits Continued

of contracts that could impact on service delivery, as a result of supplier failure, is less than for a council with a high number of outsourced services. However, even where the delivery mechanism is outsourced, responsibility for the service remains attached to the local authority. As a result, all contracts require adequate management and monitoring of the supplier, to ensure continuity and satisfactory performance of the services provided.

Sound due diligence processes are crucial. When a council takes on a new supplier it should be thinking beyond the products and services that the contractor is supplying, and its ability to deliver them, and look at whether the contractor itself prioritises business resilience and effectively manages its own risks such as bribery compliance, cyber security, business continuity and data protection. The councils’ own business continuity arrangements should also be clear.

We found that some due diligence checks were undertaken at the procurement stage: the financial stability of suppliers was checked upon request, and in some but not all cases relevant insurance and business continuity arrangements were reviewed, and copies of documents obtained. There was, however, no consistency in how these documents were retained and by whom. Changes in personnel had also resulted in historic documentation being lost. There was also no evidence that the criticality of the service to either council was assessed at the procurement stage to determine the level of due diligence to be followed.

In addition, there was limited assurance that the contractors, and the supply chain as a whole, will continue to operate for the foreseeable future as there was little or no evidence of continuity plans being tested, and periodic credit checks being undertaken. Where revised business continuity plans, and updated insurance documentation was provided to the councils, there was no consistency to the retention of this documentation and the responsibility assigned for ensuring they were robust and covered the relevant areas set out within the contract / agreement. Some documents were retained by the Procurement Manager and some by the

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Audit completed since the September 2018 update: Assignments since the

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.

Governance, Fraud and Corruption Audits Continued

manager responsible for the contract.

The Contract Managers, responsible for monitoring the three contracts reviewed, maintained regular dialogue with the supplier in order to monitor the supplier performance and discuss any performance or contract related issues; however, the responsibility for monitoring supplier resilience within this role was not clear.

We have reported that a supplier resilience framework is required and that this should be communicated to all relevant staff. An assessment of their current suppliers to determine their criticality to each council and the delivery of services or policy outcomes should then be undertaken. The level of monitoring undertaken on the supplier needs to be proportionate to the results of this assessment.

A follow-up audit will be carried out in Quarter 1 of 2019/20.

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Audit Assignments completed since the September 2018 update:

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.

Transformation update

In the 2018/19 audit plan we included time to provide assurance on areas that focused on transformation, these included but were not restricted to Business Process Re-engineering (BPR) and Benefits Realisation Management (BRM). Our position statement on BPR issued to Management in April 2018 concluded that we were satisfied the methodology being applied was in line with best practice. A separate position statement on Benefits Realisation Management covering progress made over May/June 2018 raised concerns about:

- The Benefits Realisation Plan being incomplete;
- Due to the lack of up-to-date financial information and the level of uncertainty with costs in each workstream during the design phase we could not provide assurance around the delivery of financial savings at that point in time.

On 12 November 2018 a meeting was held with the Programme Manager who provided us with an update on the progress made with BPR and BRM. Following this meeting we were provided with supporting documentation to back up what was said to us. We make the following observations from our meeting and the documentation provided:

- Business Realisation Management
We note that there is a Benefits Management Plan in existence, which includes a Benefits Realisation Action Plan. With reference to redundancy costs as at November 2018 we note those for the DLO (£798k) and excluding the DLO (£4.48m). We also acknowledge the one-off funding required for maintaining business as usual service capacity at acceptable levels and observe the New Council costs have increased from £7.141m to £9.528m but appreciate that there is a plan in place to balance the increase in the budget (£2.387m). Management have confirmed that overall the savings target has been revised to £3.5m with an increase in the net pay back period to 2.7 years. Management regard this as acceptable in terms of value for money.

Audit completed since the September 2018 update: Assignments since the

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.

Transformation update (continued)

- Business Process Re-engineering
 Management have confirmed that a Process Redesign exercise identified a full list of processes carried out by Taunton Deane and West Somerset Councils. The exercise identified 721 processes of which 432 that were triggered by customers. A further detailed analysis of the list identified 401 processes that would benefit from some redesign of which 254 were aimed to Go Live by April 2019. As at August 2018 thirteen sprints had been completed and a total of fifty-one processes had been reviewed from a Process Redesign Perspective and handed over to the Tech workstream. Twenty-nine were in progress (mostly just waiting to be signed-off). Since then we noted that the review of some processes were hampered by erroneous data which impacted on the efficiency of the Business Analysts, but six more Business Analysts have since been employed to help. These additions together with end user testing to ensure the process works in practice gives us more, but not complete assurance, that Business Process Reengineering is on track.

Finally we have reviewed what Management have identified as the Top Risks with the Transformation Programme and we would concur with them. We note that the four risks identified with an amber RAG rating have permanent solutions in place and the risk identified as ‘High volume of staff gaps in new organisation’ has a red RAG rating, however strategic solution are in place to forecast a worst-case scenario and build a plan. Internal Audit is also helping with the completion of the Activity Tracker to identify where resource gaps/training needs are required to deliver key processes.

Report Number: WSC 86/18

West Somerset Council

Audit Committee – 3rd December 2018

Treasury Management Update – 30th September 2018

This matter is the responsibility of Cabinet Member Martin Dewdney

Report Author: (Steve Plenty, Senior Corporate Accountant)

1 Purpose of the Report

- 1.1 To provide Members with an update on the Treasury Management activity of the Council for the first six months of 2018/19. It focuses on a review of the Council's borrowing and investment activities.

2 Recommendations

- 2.1 To note the Treasury Management position as at 30th September 2018 (Appendix A attached to this report).

3 Risk Assessment (if appropriate)

Risk Matrix

Description	Likelihood	Impact	Overall
The Council fails to maintain an adequate system of internal control.	2	3	6
<i>The Council has an approved Treasury Management Strategy Statement and effective management practices to ensure compliance</i>	1	2	2

Risk Scoring Matrix

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

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

4 Background and Full details of the Report

- 4.1 On 23rd February 2018 the Council approved the Treasury Management Strategy Statement, Minimum Revenue Policy and Annual Investment Strategy for 2018/19.
- 4.2 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These reports are required to be adequately scrutinised by committee before being recommended to the Council. This role is undertaken by the Audit Committee.

5 Links to Corporate Aims / Priorities

- 5.1 None in relation to this report.

6 Finance / Resource Implications

- 6.1 Investment income is predicted to be £0.036m above the budget of £0.028m for the financial year 2018/19.
- 6.2 The Council currently has no external loans and is not predicting the need to borrow externally for the remainder of the 2018/19 financial year, however finance officers will continue to monitor this closely.

7 Legal Implications

7.1 The Section 151 Officer has a legal requirement to ensure appropriate arrangements are in place to adequately control the Council's resources.

8 Environmental Impact Implications

8.1 None in respect of this report.

9 Safeguarding and/or Community Safety Implications

9.1 None in respect of this report.

10 Equality and Diversity Implications

10.1 None in respect of this report.

11 Social Value Implications

11.1 None in respect of this report.

12 Partnership Implications

12.1 None in respect of this report.

13 Health and Wellbeing Implications

13.1 None in respect of this report.

14 Asset Management Implications

14.1 None in respect of this report.

15 Consultation Implications

15.1 None in respect of this report.

Democratic Path:

- **Audit Committee – Yes**
- **Full Council – Yes**

Reporting Frequency: **Once only** **Ad-hoc** **Quarterly**
 Twice-yearly **Annually**

List of Appendices

Appendix A	Treasury Management Update – 30 th September 2018
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Treasury Management Update
Six Months Ended 30 September 2018

Introduction

In December 2017 the Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Council to approve treasury management semi-annual and annual reports. The Council's treasury management strategy for 2018/19 was approved at a meeting of Full Council on 23 February 2018.

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

Following consultation in 2017, CIPFA published new versions of the Prudential Code for Capital Finance in Local Authorities (Prudential Code) and the Treasury Management Code of Practice but has yet to publish the local Council specific Guidance Notes to the latter. In England the Ministry of Housing Communities and Local Government (MHCLG) published its revised Investment Guidance which came into effect from April 2018.

The updated Prudential Code includes a new requirement for local authorities to provide a Capital Strategy, which is to be a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Council will be producing its Capital Strategy later in 2018-19 for approval by Shadow Full Council.

External Context

Economic background: Oil prices rose by 23% over the six months to around \$82/barrel. UK Consumer Price Inflation (CPI) for August rose to 2.7% year on year, above the consensus forecast and that of the Bank of England's in its August *Inflation Report*, as the effects of sterling's large depreciation in 2016 began to fade. The most recent labour market data for July 2018 showed the unemployment rate at 4%, its lowest since 1975. The 3-month average annual growth rate for regular pay, i.e. excluding bonuses, was 2.9% providing some evidence that a shortage of workers is providing support to wages. However real wages (i.e. adjusted for inflation) grew only by 0.2%, a marginal increase unlikely to have had much effect on households.

The rebound in quarterly GDP growth in Q2 to 0.4% appeared to overturn the

weakness in Q1 which was largely due to weather-related factors. However, the detail showed much of Q2 GDP growth was attributed to an increase in inventories. Year on year GDP growth at 1.2% also remains below trend. The Bank of England made no change to monetary policy at its meetings in May and June, however hawkish minutes and a 6-3 vote to maintain rates was followed by a unanimous decision for a rate rise of 0.25% in August, taking Bank Rate to 0.75%.

Having raised rates in March, the US Federal Reserve again increased its target range of official interest rates in each of June and September by 0.25% to the current 2%-2.25%. Markets now expect one further rise in 2018.

The escalating trade war between the US and China as tariffs announced by the Trump administration appeared to become an entrenched dispute, damaging not just to China but also other Asian economies in the supply chain. The fallout, combined with tighter monetary policy, risks contributing to a slowdown in global economic activity and growth in 2019.

The EU Withdrawal Bill, which repeals the European Communities Act 1972 that took the UK into the EU and enables EU law to be transferred into UK law, narrowly made it through Parliament. With just six months to go when Article 50 expires on 29 March 2019, neither the Withdrawal Agreement between the UK and the EU which will be legally binding on separation issues and the financial settlement, nor its annex which will outline the shape of their future relationship, have been finalised, extending the period of economic uncertainty.

Financial markets: Gilt yields displayed marked volatility during the period, particularly following Italy's political crisis in late May when government bond yields saw sharp moves akin to those at the height of the European financial crisis with falls in yield in safe-haven UK, German and US government bonds. Over the period, despite the volatility, the net change in gilt yields was small. The 5-year benchmark gilt only rose marginally from 1.13% to 1.16%. There was a larger increase in 10-year gilt yields from 1.37% to 1.57% and in the 20-year gilt yield from 1.74% to 1.89%. The increase in Bank Rate resulted in higher in money markets rates. 1-month, 3-month and 12-month LIBID rates averaged 0.56%, 0.70% and 0.95% respectively over the period.

Credit background: Reflecting its perceived higher risk, the Credit Default Swap (CDS) spread for non-ringfenced bank NatWest Markets plc rose relatively sharply over the period to around 96bps. The CDS for the ringfenced entity, National Westminster Bank plc, has held steady below 40bps. Although the CDS of other UK banks rose marginally over the period, they continue to remain low compared to historic averages.

The ringfencing of the big four UK banks - Barclays, Bank of Scotland/Lloyds, HSBC and RBS/NatWest Bank plc – is complete, the transfer of their business lines into retail (ringfenced) and investment banking (non-ringfenced) is progressing and will need to be completed by the end of 2018.

There were a few credit rating changes during the period. Moody’s downgraded Barclays Bank plc’s long-term rating to A2 from A1 and NatWest Markets plc to Baa2 from A3 on its view of the credit metrics of the entities post ringfencing. Upgrades to long-term ratings included those for Royal Bank of Scotland plc, NatWest Bank and Ulster Bank to A2 from A3 by Moody’s and to A- from BBB+ by both Fitch and Standard & Poor’s (S&P). Lloyds Bank plc and Bank of Scotland plc were upgraded to A+ from A by S&P and to Aa3 from A1 by Moody’s.

Our treasury advisor Arlingclose will, henceforth, provide ratings which are specific to wholesale deposits including certificates of deposit, rather than provide general issuer credit ratings. Non-preferred senior unsecured debt and senior bonds are at higher risk of bail-in than deposit products, either through contractual terms, national law, or resolution authorities’ flexibility during bail-in. Arlingclose’s creditworthiness advice will continue to include unsecured bank deposits and CDs but not senior unsecured bonds issued by commercial banks.

Local Context

On 31 March 2018, the Council’s underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in the Table below.

Table 1: Balance Sheet Summary

	31.03.18 Actual £000
General Fund CFR	5,204
Less: Usable reserves	(8,115)
Less: Working capital	(13,007)
Net Investment Capacity	(15,918)

The Council’s current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.

The treasury management position at 30 September 2018 and the change in the first six months of 2018/19 is shown in the table below.

Table 2: Treasury Management Summary

	31.03.18 Balance £000	Movement £000	30.09.18 Balance £000	30.09.18 Rate %
Long-term borrowing	0	0	0	N/A
Short-term borrowing	0	0	0	N/A
Total borrowing	0	0	0	
Long-term investments	0	0	0	N/A
Short-term investments	12,938	1,269	14,207	0.46
Cash and cash equivalents	3,462	1,399	4,861	0.51
Total investments	16,400	2,668	19,068	0.48
Net Investments	16,400	2,668	19,068	

Borrowing Strategy during the half year

At 30 September 2018 the Council held no external loans, this position remains unchanged from that reported at 31 March 2018 as part of the 2017/18 Treasury Management Outturn Report.

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

However, the Council does not expect to borrow externally for the remainder of 2018/19.

Table 3: Borrowing Position

	Opening CFR 31/03/2018 £000	MRP £000	Maturing Debt £000	New Borrowing £000	Closing CFR 30/09/2018 £000
CFR	5,204	(143)	0	0	5,061

Investment Activity

The Council holds invested funds on its own behalf with a separate fund in respect of the Section 106 Agreement it has with EDF relating to the building of Hinkley Point C Nuclear Power Station, representing income received in advance of expenditure plus balances and reserves held. During the six-month period, the Council's investment balance ranged between £12.9m and £22.5m due to timing differences between income and expenditure. The investment position is shown in the table below.

Table 4: Treasury Investment Position

	31.03.18 Balance £000	Movement £000	30.09.18 Balance £000	30.09.18 Average Rate %
Banks & Building Societies (unsecured)	112	500	612	0.37
Covered Bonds (secured)	500	(500)	0	0.00
Government (incl. local authorities)	12,438	1,769	14,207	0.46
Money Market Funds	3,350	899	4,249	0.52
Total Investments	16,400	2,668	19,068	

Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's main objective when investing money is the security of capital. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2018/19.

Credit Risk

The table below shows counterparty credit quality as measured by credit ratings and the percentage of the in-house investment portfolio exposed to bail-in risk. This is an extract from Arlingclose's quarterly investment benchmarking.

Table 5: Investment Benchmarking – Treasury Investments Managed In-house

	Credit Score	Credit Rating	Bail-in Exposure	Rate of Return
31.03.2018	3.38	AA	21%	0.35%
30.09.2018	3.39	AA	19%	0.57%
Similar LAs	4.28	AA-	56%	1.41%
All LAs	4.38	AA-	60%	1.25%

MHCLG have consulted on statutory overrides relating to the IFRS 9 Financial Instruments accounting standard from 2018/19. The consultation recognised that the requirement in IFRS 9 for certain investments to be accounted for as fair value through profit and loss may introduce “more income statement volatility” which may impact on budget calculations. The consultation proposed a time-limited statutory override and sought views whether it should be applied only to pooled property funds. The Council responded to the consultation which closed on 28 September supporting an unlimited statutory override across all asset types.

Following the consultation process the Government has put in place a statutory override for a five year period across all investment schemes. This will require the establishment of a new unusable reserve to hold the fair value movements on investments to promote transparency and ensure there is no effect on the General Fund balance.

Non-Treasury Investments

The definition of investments in CIPFA’s revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in MHCLG’s Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.

Currently the Council has no existing non-treasury investments.

Treasury Performance

The average cash balances were £18.294m during the period. Investments in Money Market Funds generated an average rate of 0.52%, investments with the Debt Management Office (DMO) generated an average of 0.35%, investments with Banks and Building Societies generated an average of 0.37%, while investments with Local Councils generated an average of 0.69%.

The Council's budgeted investment income for the year is £0.028m with forecast returns predicted to be £0.064m. Investment income in respect of Hinkley S106 funds are ring-fenced and added to the S106 Account.

Compliance

The Assistant Director – Strategic Finance is pleased to report that all treasury management activities undertaken during the first half of 2018/19 complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table below.

Table 6: Investment Limits

	30.09.18 Actual	2018/19 Limit	Complied
Any single organisation, including Supernational and Sovereign Agencies, except the UK Government and UK Local Authorities	£1.5m	£2m	✓
UK Government	£14.21m	Unlimited	✓
Any group of organisations under the same ownership (Except UK Government)	£0.45m	£2m per Group	✓
Any group of pooled funds under the same management	£0m	£2m per Manager	✓
Negotiable instruments held in a broker's nominated account	£0m	£5m per Broker	✓
Foreign Banks (Excluding Supernational Organisations)	£0m	£2m per Country	✓
Registered providers	£0m	£5m in Total	✓
Loans to unrated corporates	£0m	£2m in Total	✓
Money Market Funds	£4.25m	£10m in Total	✓

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

Table 7: Debt Limits

	30.09.18 Actual £m	2018/19 Operational Boundary £m	2018/19 Authorised Limit £m	Complied
Borrowing	0	12	24	✓
Total Debt	0	12	24	✓

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure. However, it can be confirmed that total debt did not breach the operational boundary during the six-month period to 30th September 2018.

Treasury Management Indicators

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

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

	30.09.18 Actual	2018/19 Target	Complied
Portfolio Average Credit Rating	AA	A-	✓

Liquidity: The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without borrowing.

	30.09.18 Actual	2018/19 Target	Complied
Total cash available within 3 months	£10.2m	£15.0m	✓

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

	30.09.18 Actual %	2018/19 Limit %	Complied
Upper limit on fixed interest rate exposure	31	100	✓
Upper limit on variable interest rate exposure	69	100	✓

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

Principal Sums Invested for Periods Longer than 365 days: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2018/19 £m	2019/20 £m	2020/21 £m
Actual principal invested beyond year end	4.0	0.0	0.0
Limit on principal invested beyond year end	10.0	6.0	6.0
Complied	✓	✓	✓

Outlook for the remainder of 2018/19

Having raised policy rates in August 2018 to 0.75%, the Bank of England's Monetary Policy Committee (MPC) has maintained expectations of a slow rise in interest rates over the forecast horizon.

The MPC has a definite bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. While policymakers are wary of domestic inflationary pressures over the next two years, it is believed that the MPC members consider both that (a) ultra-low interest rates result in other economic problems, and that (b) higher Bank Rate will be a more effective weapon should downside Brexit risks crystallise and cuts are required.

Arlingclose's central case is for Bank Rate to rise twice in 2019. The risks are weighted to the downside. The UK economic environment is relatively soft, despite seemingly strong labour market data. GDP growth recovered somewhat in Q2 2018, but the annual growth rate of 1.2% remains well below the long term average

The view is that the UK economy still faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union.

Central bank actions and geopolitical risks, such as prospective trade wars, have and will continue to produce significant volatility in financial markets, including bond markets.

	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Official Bank Rate													
Upside risk	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Cas	0.75	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
Downside risk	0.00	0.00	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75

Report Number: WSC 87/18

West Somerset District Council

Audit Committee – 3 December 2018

GDPR Action Plan Update

This matter is the responsibility of Cllr Martin Dewdney Portfolio Holder for Resources and Central Support

Report Author: Richard Doyle, Corporate Strategy & Performance Officer

1 Purpose of the Report

1.1 This report provides an update on the actions taken by the Council following the implementation of the new (EU) General Data Protection Regulations (GDPR) and the UK Data Protection Act 2018 which came into force on 25 May 2018.

1.2 The report follows on from the GDPR report provided to the Members of the Committee at the March 2018 meeting.

Recommendations

1.3 To note the actions being taken in order to comply with GDPR.

2 Risk Assessment

2.1 GDPR compliance is recognised as a key corporate risk and is recorded on the Corporate Risk Register. The GDPR Compliance Action Plan and associated activities are the key mitigating actions for that risk.

3 GDPR – Background and Key Changes

3.1 The General Data Protection Regulations and the UK Data Protection Act came into force on 25 May 2018.

3.2 This new legislation covers virtually any organisation or individual who is collecting and processing personal data. So it applies to the Council, but also covers personal data that Elected Members collect as part of their role as a councillor.

3.3 The purpose behind the new GDPR Regulations is to provide a consistent approach across the EU to data protection, to keep pace with technological changes and to attempt to redress the balance between the rights of the individual and the

organisations that use and process their personal data. GDPR seeks to give back individuals control of their personal data.

4 GDPR – Our Compliance Action Plan

4.1 In the autumn of 2017 we devised a GDPR Action Plan based on the Information Commissioners Office's 12 recommended steps to GDPR compliance. This identified the key actions we needed to take and also to seek alignment with delivery of our broader transformation changes. This was to ensure that we implement a data and information management approach for the future, which both meets the needs of GDPR and our new ways of working.

4.2 Whilst we did not deliver the entire plan by 25 May 2018, we have delivered the basic changes required to enable compliance and we can demonstrate that we have a clear roadmap to a robust future approach to data and information management.

4.3 Please see our GDPR Action Plan at Appendix A which gives a progress report on where we currently are with each action.

5 Links to Corporate Aims / Priorities

5.1 There are no direct links to corporate aims/priorities

6 Finance / Resource Implications

6.1 There are potentially going to be costs associated with implementing software changes to our existing line of business systems, developing our broader information architecture and in providing training in order to ensure GDPR compliance. In particular we need to be able to easily identify, disclose, amend and delete data in future. We are in the process of identifying these costs.

6.2 Additionally, the penalties we can be charged for data breaches are potentially a lot higher (£m's) than under the current legislation, which makes this a higher risk area. Consequently we have identified the detailed Action Plan to deliver compliance and a comprehensive approach to information and data management in future in order to mitigate this risk.

7 Legal Implications

7.1 The GDPR Regulations and new Data Protection Act are significant pieces of new legislation, which we need to fully understand and implement.

8 Environmental Impact Implications

8.1 There are no environmental impact implications associated with this report.

9 Safeguarding and/or Community Safety Implications

9.1 There are no direct safeguarding or community safety implications associated with this report.

10 Equality and Diversity Implications

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

11 Social Value Implications

11.1 There are no direct social value implications associated with this report.

12 Partnership Implications

12.1 We will need to review our data sharing and processing arrangements with any partner organisations with whom we share personal data.

13 Health and Wellbeing Implications

13.1 There are no health and well-being implications associated with this report.

14 Asset Management Implications

14.1 There are no asset management implications associated with this report.

15 Consultation Implications

15.1 There are no consultation implications associated with this report.

Democratic Path:

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

Reporting Frequency: 6 monthly

List of Appendices (delete if not applicable)

Appendix A GDPR Action Plan

Contact Officers

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Appendix A - GDPR Action Plan

Outcomes	Key Tasks	Progress to Date
Communication/Awareness/Training		
Staff and members are aware of the key changes and revised procedures and their responsibilities. A regular training approach & programme identified to ensure ongoing training.	Organise the delivery of training in the legislative changes, new procedures and responsibilities to all staff & members	GDPR Presentations made to managers at manager's meetings. GDPR training and additional guidance delivered to all members. GDPR E-Learning modules rolled out to all staff. To date 384 staff have completed the on-line training out of a possible 650 (150 staff are manual workers with little access to personal data). HR have produced a list of staff who have not completed the E-Learning modules so they can be chased.
Data Protection Officer Role		
Appoint a Data Protection Officer (reports directly to senior management, has no conflict of interests, can be provided by an outside body).	Work with SLT to identify how & where the DPO role fits within the new operating model.	DPO role now being shared with South Somerset District Council (SSDC) from 1st October 2018. Our new DPO is Jan Gamon who is based at SSDC.
Information Assets		
A detailed and up to date record of: WHAT information data we hold (personal and special categories of data) WHY we hold it (legal basis) WHERE we hold it and in what form HOW LONG (retention period)	Document and implement procedures to ensure the regular review and update of the IAR.	An IAR has been set up and we have started to complete this. The completion of the IAR has now been picked up by the Information Management Project which is being managed by our ICT Manager Fiona Kirkham.
Information Management Future Approach		
A new approach to Information Management which supports the delivery of the new operating model & GDPR compliance and which delivers a simple, intuitive and easy to manage approach to creating, storing accessing, disclosing, retaining and deleting ALL information and data held by the councils.	Implement our new approach to Information Management including procedural and technology changes including a new Document Management System.	Separate Info Man project commissioned & being managed by Fiona Kirkham
	Identify and implement a plan for all legacy information and data.	Separate Info Man project commissioned & being managed by Fiona Kirkham
Consent		
We have a clear and transparent approach to consent which: > Identifies where we are relying on implied consent > Allows customers to give and withdraw consent, where necessary > Enables and aligns with our new ways of working	Review, update and implement our privacy and Fair Processing Notices to comply with GDPR and to align with our future ways of working (NB will need to be undertaken in conjunction with the Transformation Team)	Main Privacy Notice on WSC website has been updated and amended for GDPR. Some specific privacy notices for our different functions (ie Revenue and Benefits, Elections, Planning and one for councillors) have also been added. More will be added in the coming weeks and months.
	Implement procedural and technical changes to ensure we are obtaining positive consent (where consent is required) to allow us to process personal data	Initial areas where specific consent is required (Comms, Ec Dev, Tourism etc have been identified and consulted. Comms sent letters out to all contacts asking if they wanted to remain on our contact list. Tourism have set up an 'Opt In' facility on their web site. Business Processing Re-engineering (BPR) team have been made aware of the need for consent on specific processes.
	Implement procedural and technical changes to allow us to automatically cease the processing of personal data where consent is withdrawn (NB this may require the removal of links to certain data or the deletion of data)	To be delivered as part of the development of Firmstep through the BPR process.

Outcomes	Key Tasks	Progress to Date
Data Retention & Deletion		
We are clear on how long we should retain each piece of personal data and have procedures in place for the proactive deletion of data once the retention period has expired	Work with each of our line of business system providers to identify and implement any changes required to ensure compliance with our retention & deletion obligations. (NB. This exercise will include identifying any costs associated with making these changes)	Info Man Project now commissioned which has picked this up.
	Identify data held in other areas i.e. paper records, e-mails, network drives etc. & implement procedural & technology changes to ensure compliance with our retention & deletion obligations. (NB. The solutions for these other areas will be identified as part of our future approach to Information Management as outlined above)	Info Man Project now commissioned which has picked this up.
Privacy by Design (Privacy Impact Assessments)		
Clear procedures in place which ensure that Privacy Impact Assessments are undertaken in respect of any new projects or procedural changes that involve personal data to ensure that the use of this data is appropriate, complies with GDPR and that proper safeguards are in place	Draft and implement a procedure (including a procedure to ensure ongoing compliance) to ensure that Privacy Impact Assessments are pro-actively carried out for any changes involving the processing of personal data (NB this will need to be built into the Transformation Project BPR process)	DPIA form produced & added to the intranet along with a DPIA toolkit to help managers complete these. Completed DPIA forms are now kept on the intranet.
Subject Access Requests		
The SAR process complies with the new legislation (ie no fee and 1 month response time). In the longer term to develop this as a self-service function.	Monitoring SAR's & our responses post 24 May 2018	New and separate SAR Database/record created on Intranet. New response letters created with revised reply times. Only received about 7 SARs so far since GDPR came in on 25th May 2018.
	Work with the Transformation Project Team to develop as a self-service function in the longer term.	Currently working with BPR Team regarding a new self-serving function via Firmstep.
Contracts		
Ensure that future and renewed contracts comply with the new regulations and provide sufficient protection for the councils.	Identifying all existing contractors and/or organisations processing data on our behalf an ensuring that we have appropriate contractual arrangements in place	All known contractors/suppliers contacted by standard letter re new GDPR guidelines in May and replies received. Procurement Team were currently working through these responses.
Information Sharing		

Outcomes	Key Tasks	Progress to Date
<p>Ensure that we have a clear data sharing agreements in place with every organisation with whom we share personal data and that these agreements:</p> <ul style="list-style-type: none"> > Are clearly written > Comply with GDPR > Set out what data is being shared and what it is used for > Clearly defined roles 	<p>Review, update and agree with suppliers/third parties revised data sharing agreements.</p>	<p>Partnership Register updated. Currently working through this and our existing Data Sharing Agreement and Contract list to identify any gaps. Where gaps exist then DSAs will need to be drawn up with the relevant organisations. Any new organisations that are identified where we share personal data will require a DSA.</p>
Data Breach Management		
<p>Implement changes to the data breach procedure to ensure compliance with the new legislation (i.e. the 72 hour timeline).</p>	<p>Update our procedures and communicate to staff, members and third party organisations.</p>	<p>Data Breach Policy has been updated and communicated to staff and is now on the intranet.</p>
	<p>Review the scoring mechanism in the Breach Procedure to ensure it reflects the GDPR requirements</p>	<p>The current scoring mechanism used to assess data breaches is currently being revised so it is compliant with GDPR.</p>
Data Protection Policy		
<p>Our Data Protection Policy and associated procedures are compliant with the new regulations.</p>	<p>Review and update the Data Protection Policy and procedures to ensure compliance with the new regulations (NB need to ensure alignment with our future operating model and Information Management Architecture)</p>	<p>A new Data Protection Policy was published for both councils back in June 2018.</p>

