

# AUDIT COMMITTEE (VIRTUAL MEETINGS TO COMMENCE FROM JUNE 2020 DUE TO CORONAVIRUS)



Thursday 18 June 2020

10.00 am Luttrell Room - County Hall,  
Taunton

To: The members of the Audit Committee (virtual meetings to commence  
from June 2020 due to Coronavirus)

Cllr M Lewis (Chair), Cllr M Caswell, Cllr H Davies, Cllr B Filmer, Cllr L Leyshon, Cllr G Noel, Cllr  
M Rigby; 1 vacancy.

All Somerset County Council Members are invited to attend.

Issued By Scott Wooldridge, Strategic Manager - Governance and Democratic Services - 10  
June 2020

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 and is available at  
(LINK)

This meeting will be open to the public and press, subject to the passing of any resolution  
under Regulation 4 of the Local Authorities (Executive Arrangements) (Meetings and Access to  
Information) (England) Regulations 2012.

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**Are you considering how your conversation today and the actions  
you propose to take contribute towards making Somerset Carbon  
Neutral by 2030?**



**RNID typetalk**

# AGENDA

Item        Audit Committee (virtual meetings to commence from June 2020 due to Coronavirus) - 10.00 am Thursday 18 June 2020

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

**1            Apologies for absence**

**2            Declarations of Interest**

Details of Members' interests in District, Town and Parish Councils can be viewed on the Council's website at

<https://democracy.somerset.gov.uk/ieListDocuments.aspx?CIId=399&MIId=1106&Ver=4> and this will also be displayed in the meeting room (where relevant).

The Statutory Register of Member's Interests can be inspected via request to the Democratic Service team.

**3            Minutes from the previous meeting** (Pages 9 - 20)

The Committee is asked to confirm the minutes are accurate.

**4            Public Question Time**

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

**5            External Audit Update** (Pages 21 - 96)

To consider these reports: the Somerset County Council and Somerset Pension Fund – Updated Audit Plans; the Audit Scope Letter Somerset County Council and Somerset Pension Fund 2019-20; the Updated Audit Scope Letter for Somerset County Council and Somerset Pension Fund 2019-20; and the completed risk assessments for Somerset County Council and SCC Pension Fund.

**6            Internal Audit Update** (Pages 97 - 116)

**7            Internal Audit Opinion** (Pages 117 - 136)

**8            Value For Money Tracker** (Pages 137 - 142)

**9            Annual Governance Statement** (Pages 143 - 192)

Item      Audit Committee (virtual meetings to commence from June 2020 due to  
Coronavirus) - 10.00 am Thursday 18 June 2020

10      **Debtor Management Update** (Pages 193 - 200)

11      **Committee Future Workplan** (Pages 201 - 204)

To consider this report

12      **Any other urgent items of business**

The Chair may raise any items of urgent business.

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## Guidance notes for the meeting

### 1. Council Public Meetings

The Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020 have given local authorities new powers to hold public meetings virtually by using video or telephone conferencing technology.

### 2. Inspection of Papers

Any person wishing to inspect minutes, reports, or the background papers for any item on the agenda should contact Democratic Services at [democraticservices@somerset.gov.uk](mailto:democraticservices@somerset.gov.uk) or telephone 07790577336/ 07811 313837/ 07790577232 They can also be accessed via the council's website on [www.somerset.gov.uk/agendasandpapers](http://www.somerset.gov.uk/agendasandpapers) Printed copies will not be available for inspection at the Council's offices and this requirement was removed by the Regulations.

### 3. 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.

### 4. 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.

### 5. Public Question Time

If you wish to speak, please contact Democratic Services by 5pm 3 clear working days before the meeting. Email: [democraticservices@somerset.gov.uk](mailto:democraticservices@somerset.gov.uk) or telephone 07790577336/ 07811 313837/ 07790577232.

At the Chair'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 agreed. However, questions or statements about any matter on the agenda for this meeting may be taken at the time when each matter is considered.

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

If there are many people present at the meeting for one particular item, the Chair may adjourn the meeting to allow views to be expressed more freely. If an item on the agenda is

contentious, with a large number of people attending the meeting, a representative should be nominated to present the views of a group.

An issue will not be deferred just because you cannot be present for the meeting. Remember that the amount of time you speak will be restricted, to three minutes only. In line with the council's procedural rules, if any member of the public interrupts a meeting the Chair will warn them accordingly.

If that person continues to interrupt or disrupt proceedings the Chair can ask the Democratic Services Officer to remove them as a participant from the meeting.

## **6. Meeting Etiquette**

Mute your microphone when you are not talking.

Switch off video if you are not speaking.

Only speak when invited to do so by the Chair.

Speak clearly (if you are not using video then please state your name)

If you're referring to a specific page, mention the page number.

Switch off your video and microphone after you have spoken.

## **7. 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.

If there are members of the public and press listening to the open part of the meeting, then the Democratic Services Officer will, at the appropriate time, remove the participant from the meeting.

## **8. 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. No filming or recording may take place when the press and public are excluded for that part of the meeting. As a matter of courtesy to the public, anyone wishing to film or record proceedings is asked to provide reasonable notice to the Committee Administrator so that the relevant Chair can inform those present at the start of the meeting.

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

A copy of the Council's Recording of Meetings Protocol is available from the Committee Administrator for the meeting.

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

### **Reports**

The reports should be clearly and concisely written. The report template available to officers on the intranet will be used.

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.

No report should contain a recommendation "to note" the report.

Any report, which outlines clear priorities for improvement, should contain recommendations and a detailed action plan with timescales and resources.

### **Members**

Members should be clear about cost and resourcing issues highlighted in clearly and concisely written reports.

Members should seek to understand the impact of reports on Council performance.

Members can refer reports / issues back to the Cabinet where there are constructive concerns about services and/or performance.

## **10. The Role of the Audit Committee**

Approves (but not directs) internal audit's strategy, plan and performance;

Reviews summary internal audit reports and the main issues arising, and seeks assurance that action has been taken where necessary;

Considers the reports of external audit and inspection agencies;

Ensures that the Council's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it;

Ensures that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process and effective financial governance is actively promoted;

Reviews the financial statements, external auditor's opinion and reports to Members, and monitors management action in response to the issues raised by external audit;

Approves the annual accounts of the Council and the Annual Governance Statement, together with considering the Matters Arising from the Accounts Audit.

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## AUDIT COMMITTEE

Minutes of a Meeting of the Audit Committee held in the Taunton Library meeting room, on Thursday 30 January 2020 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 T Munt.

**Other Members present:** Cllr M Chilcott and Cllr F Nicholson.

**Apologies for absence:** Cllr M Rigby.

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

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

There were no questions asked, statements made or petitions presented.

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

There were no questions asked, petitions presented, or statements made.

169 **Partial Audit update - Education of Children in Care** - Agenda Item 5

The Committee considered this report, introduced by the Virtual Head teacher for Children Looked After (CLA) and the Head of Service for CLA, that provided details of a follow up audit to review progress made on recommendations arising from a partial audit. It was noted that good progress had been made and the report reflected the current situation and provided context around the progress being made on the 7 required outcomes identified by the auditors.

Members heard that the Virtual School was now known as the Virtual School and Learning Support Team, and comprised a team of advisory teachers and learning mentors, under the leadership of a Virtual School Head along with two full time equivalent Deputy Heads, one with a SEND focus and the other with a CLA focus.

It was reported that Inclusion Somerset now had permanent strategic managers for Statutory SEND, Access and Additional Learning Needs, SEND Advisory Services, and Virtual School and held regular meetings. In addition, the alignment of the Learning Support Team, IT for SEN and the Virtual School had further strengthened the links between services.

In response to a question it was noted that a secondment post had been established for a member of the Statutory SEND Team to sit within the Virtual School to facilitate and support understanding of the Education, Health Care Plan (EHCP) process for CLA. Also regular meetings between strategic and operational managers had helped to ensure that teams were all working towards the same objectives for those children accessing multiple services.

There was a brief discussion about the recommendation concerning Personal Education Plans (PEPs) and it was explained that since last September the PEP process and documentation had been completely revised and therefore a 'settling in' period was anticipated. However, there was now a clear escalation process that was now embedded and owned by the admin team of the Virtual School. That team oversaw the escalation of non-submitted PEPs including liaising with social workers, team managers, Head teachers, and Chairs of Governors. If a PEP had not been received in the final two weeks of a school term, each setting would be telephoned twice a week to follow up.

There was a question about the 'designated teacher' and it was noted that each school/setting would have a named designated teacher. It was noted that the joint funded post in the placement team would help ensure the voice of the child was reflected, particularly when moving between settings. It was explained in response to a question on funding and the transition of money with a child that PEP funded was termly and had not proved to be problematic. It was noted that detailed consideration was being given to making PEP's electronic and the merits of such a transition were provided and after an initial one-off cost the subsequent on costs would fall within virtual school budget.

It was noted that the audit had proved helpful to the service in aiding them to improve the service and highlight other issues. The Committee accepted the report.

#### 170 **Partial Audit update - Supplier Resilience - Agenda Item 6**

The Committee considered this report that provided an update following a partial opinion audit of Supplier Resilience which had reviewed the processes in place to mitigate against supplier chain failure and to identify the high-risk contracts. The Head of Commercial and Procurement began by correcting a minor error in the report and she noted that 343 contracts were currently held by the Council.

It was noted that the Council provided a wide variety of services, many of which were delivered by contracted suppliers. There was a requirement to establish a supplier's ability to deliver not only at the initial stages, but throughout the life of the contract and the nature of this due diligence and level of investigation should match that of the contract.

Due diligence is the process of independently verifying a supplier's capability to deliver fully against their contract and ensuring that the risks associated with their failure are mitigated. High-risk, high-value, complex or unique procurement activities would require a comprehensive due diligence, while some basic checks may be enough for simple, routine procurement activities.

In response to the audit findings the Council had implemented a Contract Management Planner and Contract Management Toolkit, which both aim to make operational contract management standardised across the authority. The toolkit was a practical guide for contract managers, with template documents for key contractual activities and its standards drew on current best practice, with one of the key objectives being to improve supplier performance and maximise resources through proactive contract management. A key part of that

process included monitoring supplier resilience to help ensure the Council had supplier resilience during the lifetime of each contract.

Regarding the recommendation concerning business and disaster recovery it was noted that the Commercial & Procurement team and the Civil Contingencies Unit (CCU) had agreed a series of actions that would be completed to ensure: that there was a clear Business Continuity Policy for all suppliers; that the CCU support consideration and assessment of all supplier business continuity arrangements; and, appropriate Council staff were trained and supported in the business continuity aspects of contract management.

Members noted that the outcomes identified would now be re-visited as part of programmed work to produce a Contract Management Framework and review the existing Planner and Tiering Toolkit. Commercial and Procurement team and CCU had addressed the business continuity actions, and work was also taking place to ensure. The Contract Management Planner would be relaunched to highlight how often resilience checks should be undertaken, including checking of key suppliers financial standing, insurances and business continuity plans and review the facility for credit checks would continue.

There was a discussion of the report and the support and guidance currently provide to officers and it was noted that a programme to roll out contract management training to all managers was progressing well. It was explained that new advice being written would be very clear and specific, to ensure that post contract award meetings were taking place to address issues before they become a problem and this would assist in how the Council could best use the contract management training modules, recently published by the government. It was also acknowledged that there were various important elements to contract management, such as environmental and sustainability issues and social value aspects and not just financial, and these would become more important and would be reflected.

It was noted that there were 4 tiers of contract with tier 1 being the most critical, and the Council currently held 28 such contracts. In response to a question it was stated that should a contractor fail there was not a specific backup for each contract. However, each contract had clear requirements and if they were failing or not delivering the Council could enact clauses. Regular meetings and good contract management would ensure that any problems did not suddenly arise.

The Committee accepted the report.

#### 171 **Treasury Management Strategy** - Agenda Item 7

The Committee considered this report about the Treasury Management Strategy (TMS) that provided details of the Council's treasury management activities to achieve its business and service objectives and maintain its financial reputation. This concerned the management of the Council's cash flows, borrowing and treasury investments and associated risks.

It was reported that the Council currently held £324.55m of debt as part of its TMS for funding previous years' capital programmes. Of this, £159.05m was

Public Works Loan Board (PWLB) debt, approximately £108m was Lender Option Borrower Option (LOBO) debt, and a further £57.5m of fixed rate bank loans. It was noted that at year end analysis showed the average rate paid on all debt to be 4.66%. Also, for the same period it was noted that investment balances which had averaged £222m had yielded an annual income of £1.86, meaning an investment return of 1.11%.

There was a brief discussion and in response to a question about maximising investment yield it was explained that officers had to take account of expected and possible balances, the availability and accessibility of the various instruments to be used and their security, liquidity and yield characteristics in that specific order.

In response to a question it confirmed that the Director of Finance was required to undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and prudential indicators. Responsibility for implementing the policy, using only the agreed investment instruments and credit criteria, was delegated to treasury management officers. The Committee sought and received assurance that this was continuously and rigorously monitored.

There was a discussion of the report and it was explained that the Council would not borrow money for investment as this was prohibited under the prudential code, and that as borrowing was now cheaper this would help reduce the overall level of borrowing.

The Committee noted and accepted the report, that would be presented to the February meeting of Cabinet for approval.

## 172 **Capital Strategy 2020/21 to 2022/23 - Agenda Item 8**

The Committee considered this report that set out the Council's proposed Capital Strategy which provided an overview of Capital Expenditure, Capital Financing and Treasury Management. It also contained details of a non-Treasury investment strategy options, designed to produce a positive net revenue income stream for the Council to help towards delivery of objectives.

It was explained that the Capital Strategy 2020/23 offered a high-level overview of how capital expenditure, capital financing and treasury management activity would contribute to the provision of services, with an overview of how associated risk would be managed and the implications for future financial sustainability.

The report noted that the proposed non-treasury investments strategy had been endorsed at the meeting of Cabinet last December, and to secure financial gain the Council would explore other investment opportunities that may arise from time to time subject to appropriate due diligence and governance arrangements being in place.

It was also stated that the report provided details on the treasury management prudential indicators in respect of external debt and the capital financing requirement in addition to the authorised limit and operational boundary for



external debt. Also, the prudential indicators for the proportion of financing costs to net revenue and the investments for service purposes and for commercial activities were noted.

Capital spend 133m through 57m borrowing, can hold off going to market to borrow, borrow 122m, capital receipts not used back in to rev budgets  
Prudential indicators and for adoption at full council

The Committee accepted the report.

**173 Minimum Revenue Provision - Agenda Item 9**

The Committee considered this report that set out details of how the Council planned to finance capital expenditure by debt and how it would repay that debt in later years. It was noted that the amount charged to the revenue budget for the repayment of debt was known as Minimum Revenue Provision (MRP).

Attached to the report was the Minimum Revenue Provision Statement 2019/20 and the impact this would have on the revenue budget. It was reported that the MRP statement had been considered by Grant Thornton and they had not challenged the proposed policy. Members did in addition note that it remained subject to full audit review during the 2019/20 statement of accounts inspection.

There was a brief discussion of the MRP and how it could be best reasonably calculated, and it was noted that the Council had aligned the time period of the MRP to one that was commensurate with the period over which capital expenditure provided benefits.

The report was accepted.

**174 External Audit update report - Agenda Item 10**

The Chair invited Mr Morris, the external auditors Engagement Lead to the Council, to introduce their report and he provided an overview of the report, noting Grant Thornton were in the second year of 5-year contract, and he reminded the Committee that the Council's financial statements had received an unqualified opinion and the value for money conclusion had received an except for opinion.

The report also noted that the external auditors had continued to meet regularly with the Interim Director of Finance and other officers to assess how the Council was addressing its budgetary challenges and the value for money (VFM) conclusions. The good progress made on previous recommendations was noted, including that the base budget for each service area was realistic and achievable and that savings plans though stretched were fully costed and deliverable.

It was noted that the review into local government financial reporting and auditing, being led by Sir Tony Redmond, was expected to report in the Spring. The terms of reference focussed on identifying an 'expectation gap' between the purpose of external audit and what it currently delivered. There was a brief discussion about audit fees, and it was explained that the Council had

responded to the Public Sector Audit Appointments Limited (PSAA) request for views as part of its process of setting a scale of future fees.

On the topic of fees, it was noted that the Financial Reporting Council (FRC), as the UK's audit regulator had recently launched a consultation on a revised auditing standard for identifying and assessing risks of material misstatement, and it was likely that lowering the materiality level would necessitate an increased amount of testing and therefore increased fees.

There was a brief discussion about an FRC inspection of the external auditors and it was noted that this was not to be viewed as a negative. It was also noted that future audits would include an increased focus on the financial outlook of the Council and the auditors remained confident of delivering the completed by 31 July. There was a question that referred to the land valuation disputes that had arisen during the last audit and it was stated that the Council continued to work with the auditors and valuers.

The Committee accepted the report and the Chair noted the reassurance provided by the auditors that the scheduled work would be delivered.

#### 175 **Value for Money Tracker update** - Agenda Item 11

The Committee considered this report, the second since the 'qualified, except for' opinion value for money (VFM) conclusion for the 2018/19 financial year had been presented last September. The external auditors remained clear that although the more positive opinion reflected the progress the Council had made that further improvements were required.

It was noted that to recognise the importance of those actions the updated VFM tracker provided details of new recommendations and previous ones where relevant, including updates on progress of the last few weeks. The up-dated tracker demonstrated the numerous areas of improvement made in the Council's budget setting process for 2020-23 which had included reports to the Scrutiny Committees and Cabinet before the Budget setting meeting of the Council next month.

Members also noted and welcomed the continuous improvement to the quality of financial reporting, which included from the month 7 budget monitoring report the addition of tables to reconcile the narrative explanations of variances against the overall service variances. This improved approach, to help explain to members of the public all the main variations, would continue in future reports.

Attention turned to Appendix A of the report and the VFM tracker and there was a discussion of progress completion rate percentage. Members heard that it related to action required and as it was not a mandatory field for completion it was often missed. The Interim Director of Finance noted that for each risk the percentage field had been reviewed, but this could not be made a mandatory field though officers would be encouraged, when updating the VFM tracker, to ensure progress was accurately recorded and therefore able to be better demonstrated and more easily measured.

The Committee accepted the report and the Chair welcomed that an update report was brought to each meeting with identified actions. The Chair noted that continued progress would be required to ensure the improvements seen over the past year were maintained and financial resilience continued to improve throughout 2019/20 and future years.

## 176 **Risk Management updates** - Agenda Item 12

The Committee considered this report, introduced by the Interim Director of Finance, that provided an update on the latest information regarding the actions taken to mitigate the Council's identified strategic risks. It was noted that strategic risk management was the process of identifying, quantifying, and mitigating any risk that affected or was inherent to the Council's business strategy, strategic objectives, and strategy execution.

In respect of ORG0043 it was noted that the Month 8 revenue report, presented to Cabinet last week, had confirmed that £6.2m of the corporate contingency remained unallocated. If those funds remained unallocated at the end of the year the funds would help further enhance the Council's financial resilience.

There was a question about the risk rating of ORG0043 and it was noted that the uncertainty of service demands and the absence of a Comprehensive Spending Review (CSR) beyond 2020/21 and a proposed review of Local Government Funding from 2021/22, meant the current risk score should remain 'very high'. The process of evaluating each risk would be considered again in the Section 25 report (on the robustness of reserve and balances), to be considered at the Council's budget setting meeting in February 2020.

It was noted that all services were reviewing their service plans for 2020/21 alongside updating budgets as part of the new rigorous budget planning process and this would include reviewing associated risks with Directorate and service risk registers being updated. The Council's Senior Leadership Team would then subsequently review the overall organisation strategic risk register and an update would be provided at a future meeting.

Attention turned to Appendix A of the report, the Strategic Risk report that provided an update on each of the Council's 11 identified current strategic risks and the actions being taken to mitigate against them. Members also noted Appendix B of the report which contained the updated Management of Risk Pathway documents, that had been agreed by the Cabinet last December.

It was noted that as the budget planning process comes to an end all strategic managers across the Council had been preparing their service plans for 2020/21 and would be reviewing their risk registers in the coming weeks to reflect any changes. The Interim Director of Finance noted that the risk training sessions provided by the Strategic Risk Manager had been well attended and well received, including by the Cabinet.

There was a brief discussion about the risk management system JCAD, and it was noted that it was cloud based and externally hosted with good support and had never been offline. Capacity in risk management had been bolstered

through the arrival of an apprentice who had quickly mastered the JCAD system.

The Committee accepted the report.

**177 Internal Audit update - Agenda Item 13**

The Committee considered this report, introduced by the Assistant Director of the South West Audit Partnership (SWAP), that provided a thorough overview and general update of the progress made against the 2019/20 Audit Plan. It was noted that no significant corporate risk had been identified and there had been 2 partial opinion reports finalised in the quarter.

It was noted that the report provided details on the progress of the plan and this was broadly in line with that of the SWAP average. It was noted that some follow-up work had been delayed, to allow further time to embed recommendations, but this work had been scheduled for completion in quarter 4. It was noted there had been some removal of audits from the plan and 2 replacement audits had been agreed for quarter 4.

Members heard from the Assistant Director of SWAP that most audits were on course, the exception continued to be in respect of the IT plan, and this was due to the Council's loss of resource. In response to a question it was noted that alternative options continued to be explored, including more training but assurance was provided that all follow ups in respect of IT plan would be delivered.

It was noted that 4 audits had been completed and there was a brief discussion and overview provided of the 2 partial opinion audits, and they were in respect of 'Mental Health Financial Decision Making' and '2019/20 Cash Handling' and it was agreed that both would be asked to provide an update at a future meeting.

Members heard that following the last meeting it had been agreed that SWAP had now rearranged the SEN Data management audit and that the days allocated for the Organisational redesign audit would now be used in an advisory capacity.

It was noted that overall SWAP performance was good and that the next Audit Plan was currently being prepared in conjunction with the Council's senior leadership team and various service areas. In response to a question it was stated that SWAP continued to grow and now had 38 partners covering the Southwest of England and beyond, including different Police constabularies.

It was suggested and agreed to invite the new Chief Executive of SWAP to a future meeting, to discuss his plans. The Committee accepted the report and the Chair noted the measures being taken to resolve SWAP's IT audit issues.

**178 Debtor Management - Agenda Item 14**

The Committee considered this report that provided information on the latest debt position and performance to help maintain effective financial control.

Members attention turned to the report that provided details on the recovery of outstanding debts and it was reported that as at 31 December 2019 the total net outstanding on the accounts receivable system stood at £9.730m, this compared to £12.832m at the same time last year.

The report also provided information about the type of debt and debtors by category, including payment days, and the Members were reassured by the reported actions being undertaken to ensure prompt collection. Members were pleased to note that the percentage of debts over 90 days as at 31 December 2019 stood at 12.89%, which represented an improvement from July 2019 when the figure stood at 19.02%.

In response to a question it was confirmed that the total amount of debt outstanding, after initially rising had steadily fallen over the last few months of the 2019/20 financial year which indicated that debts were now being collected more efficiently. It was noted that legal debt recovery officers, working alongside the accounts recoverable team, continued to help support areas across all aspects of debt management with more consistent, pro-active intervention on a quarterly basis for areas of non-compliance.

There was a brief discussion and questions asked and answers provided in respect of raising invoices and paying VAT and it was explained that both were done promptly at the appropriate time. In response to a question it was noted that the number of large (over £10,000) and older debts had remained low in recent months, and stood at 31, having previously reached a total of 94.

It was also reported that debts outstanding from other local authorities and utilities had been reduced and this was welcomed. Members heard that the debt team had moved last year and were now located in the same location and had benefitted from better service engagement and training was mandatory for all debt chasers.

The Chair thanked the officers on behalf of the Committee, noting that invoices were raised for sums in excess of £120m annually. The Committee accepted the report.

#### 179 **Anti-Fraud and Corruption** - Agenda Item 15

The Committee considered and discussed this report that provided information following the annual review of all the measures being undertaken across the Council aimed at prevention, detection and reporting of fraud and corruption.

Members noted that anti-fraud and corruption work formed an important part of the Council's corporate governance and internal control framework. Working with colleagues from the South West Audit Partnership (SWAP) Officers had made a comparison of the Council's systems and processes against typical fraud target areas and when reviewed against national trends and guidance.

It was noted that the report contained the conclusion of the review and this judged that the Council had a sound framework in place, although more could be done to continue raise awareness. There had been a small number of fraud

allegations, some leading to more formal investigations from SWAP, and it was suggested that such incidents should be considered when the Committee set the Internal Audit Plan for 2020/2021.

Attention turned to Appendix A, the Anti-Fraud and Corruption Policy and Appendix B the Anti-Bribery and Anti-Money Laundering Policy. The report also provided, at Appendix C, details of 4 cases (all closed) that had been investigated during 2019 and the case notes provided a non-specific overview of each case.

In summary the Committee noted that the review had provided assurance, and Members re-confirmed that the Anti-Fraud and Corruption Policy, Anti-Bribery Policy and Anti-Money Laundering Policy, were fit for purpose.

There was a brief discussion that included:

- The Council's work on liaising with District Council regarding Council Tax fraud and considering this issue after a proposal from Powys Council and discussion with the internal auditors;
- The Council's Whistleblowing policy and Members heard from the Monitoring Officer who noted the policy was displayed on the website, and that the Constitution and Standards Committee had reviewed the policy and looked at similar policies in other areas and the Staff survey last Autumn had gauged staff awareness of the whistleblowing policy and a review report would be presented to the Constitution and Standards May meeting;
- The Council endeavoured to respond effectively and promptly to reported Fraud, making an assessment if further checking/details were required and consideration by the relevant lead officer and it was stated that such matters were taken seriously.

Members thanked officers for their work and noted their continued support for adhering to and enforcing a zero-tolerance policy regarding fraud. The Committee agreed the Anti-Fraud and Corruption policy and the Anti-Bribery and Anti-Money Laundering policies.

#### 180 **Committee Future Workplan** - Agenda Item 16

The Chair noted that she had discussed with lead officers, the frequency and number of meetings and how best to manage and schedule an appropriate amount of agenda items for consideration at each meeting. It was noted that the currently scheduled meetings, between now and the end of the quadrennium, would remain in place.

There was a brief discussion about the frequency of some reports, and it was agreed that the Strategic Risk Management update and the Debtor Management update would now be reported quarterly. The Value for Money Tracker would still be considered at each meeting, and an update report following each partial opinion audit would also be reported at an appropriate meeting.

The Committee noted the report that listed future agenda items, including and reports for the next meeting on 26 March 2020 and future meeting dates in 2020, and the report was accepted.

181 **Any other urgent items of business - Agenda Item 17**

The Chair noted that this would be the last meeting attended by Mrs Collins, the Interim Director of Finance. The Chair reflected the Committee's thanks to the Interim Director for her support and work in assisting and contributing to the Council's journey in improving its financial position and wished Mrs Collins well for the future and this was greeted with a round of applause.

The Chair noted that Mr Vaughan would become the Council's new Section 151 Officer and Director of Finance, and he would attend future meetings of the Committee.

The Chair, after ascertaining there were no other items of business, thanked all those present for attending and closed the meeting at 12.33pm.

**(The meeting ended at 12.33 pm)**

**CHAIRMAN**

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# External Audit Plan

*Year ending 31 March 2020*

## DRAFT

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report. This draft has been created from the template dated DD MMM YYYY



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# DRAFT



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# 1. Introduction & headlines

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## Purpose

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

## Respective responsibilities

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

## Scope of our audit

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

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

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

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

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## Significant risks

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

- Management override of controls
- Valuation of land and buildings
- Valuation of net pension fund liability
- Covid-19

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

## Materiality

We have determined planning materiality to be £12.450m (PY £14.300m) for the Authority, which equates to 1.5% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £620k (PY £755k).

## Value for Money arrangements

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

- Sustainable Resource Deployment: Future Financial sustainability.

## Audit logistics

Our interim visit will take place in March and our final visit will take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A.

Our fee for the audit will be £98,752(PY: £109,702) for the Authority, subject to the Authority meeting our requirements set out on page 13. This fee is subject to approval by PSAA.

## Independence

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

## 2. Key matters impacting our audit

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### Factors

#### The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. For Somerset County Council, the focus on finances and financial sustainability continues. The Council has made significant progress in addressing the underlying challenges and posted a surplus in 2018/19. There continues to be pressure within demand led services and the level of reserves available to the Council is still susceptible to unforeseen events.

At a national level, the government continues its negotiation with the EU over Brexit, and future arrangements remain clouded in uncertainty. The Authority will need to ensure that it is prepared for all outcomes, including in terms of any impact on contracts, on service delivery and on its support for local people and businesses.

#### Financial reporting and audit – raising the bar

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 more robust testing as detailed in Appendix 1.

Our work in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved, with a corresponding increase in audit procedures. We have also identified an increase in the complexity of local government financial transactions which require greater audit scrutiny.

#### Covid-19

The current Covid-19 pandemic is expected to have a dramatic impact on finances across all industries including the public sector.

Specifically, greater challenges to local government finances will be felt within cash flows including income receipts generated by Council Tax and Business Rates collection. Central government has responded to this crisis by providing further funding of £1.6bn to cover potential loss of income and there is an ongoing consideration of providing further assistance.

Aside from the impact on finances it is considered that there will be considerable impact on Local Authority accounts and longer term impacts on the Authorities ability to meet savings targets and close the gap in medium term financial strategies.

### Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to material uncertainty about the going concern of the Authority and will review related disclosures in the financial statements.
- We will continue to review arrangements in place to deliver VfM including financial sustainability including, reviewing the financial outturn against the budget and planned savings and reviewing assumptions to ensure they are robust and fit for purpose. We will review prior year recommendations to check progress from the previous conclusion.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee, as set further in our Audit Plan, has been agreed with the Director of Finance and is subject to PSAA agreement.

- We identified a significant audit risk relating to Covid19 and the potential impact on the statement of accounts. We outline the audit response on pages 5 and 8
- We will continue to review arrangements in place to deliver VfM including financial sustainability and the impact Covid-19 will have on future financial assumptions

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## 3. Covid -19

### The current environment

In addition to the audit risks communicated to those charged with governance in our Audit Plan, recent events have led us to update our planning risk assessment and reconsider our audit and value for money (VfM) approach to reflect the unprecedented global response to the Covid-19 pandemic. The significance of the situation cannot be underestimated and the implications for individuals, organisations and communities remains highly uncertain. For our public sector audited bodies, we appreciate the significant responsibility and burden your staff have to ensure vital public services are provided. As far we can, our aim is to work with you in these unprecedented times, ensuring up to date communication and flexibility where possible in our audit procedures.

### Impact on our audit and VfM work

Management and those charged with governance are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020, however we will liaise with management to agree appropriate timescales. We continue to be responsible for forming and expressing an opinion on the Authority and group's financial statements and VfM arrangements.

In order to fulfil our responsibilities under International Auditing Standards (ISA's (UK)) we have revisited our planning risk assessment. We may also need to consider implementing changes to the procedures we had planned to reflect current restrictions to working practices, such as the application of technology to allow remote working. Additionally, it has been confirmed that the implementation of IFRS 16 has been delayed for the public sector until 2020/21.

### Changes to our audit approach

To date we have:

- Identified a new significant financial statement risk, as described overleaf
- Reviewed the materiality levels we determined for the audit. We did not identify any changes to our materiality assessment as a result of the risk identified due to Covid-19

### Changes to our VfM approach

We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19,

### Conclusion

We will ensure any further changes in our audit and VfM approach and procedures are communicated with management and reported in our Audit Findings Report. We wish to thank management for their timely collaboration in this difficult time.

## 4. Significant risks identified

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Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<b>The revenue cycle includes fraudulent transactions (rebutted)</b>	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Somerset County Council, mean that all forms of fraud are seen as unacceptable</li> </ul>	<p>Therefore we do not consider this to be a significant risk for Somerset County Council.</p>
<b>Management over-ride of controls</b>	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate the design effectiveness of management controls over journals</li> <li>• analyse the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>• test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>• gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence</li> <li>• evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>

# Significant risks identified

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Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Valuation of land and buildings (Annual revaluation)</b>	<p>The Council revalues its land and buildings on a rolling basis, with assets physically inspected at least every five years, to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets) at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>Management have engaged the services of a valuer to estimate the current value as at 31 March 2020.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work</li> <li>• evaluate the competence, capabilities and objectivity of the valuation expert</li> <li>• discuss with the valuer the basis on which the valuations were carried out</li> <li>• challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding</li> <li>• test, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Council's asset register</li> <li>• evaluate the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.</li> </ul>
<b>Valuation of the pension fund net liability</b>	<p>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£801.7 million in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls;</li> <li>• evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>• assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;</li> <li>• assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;</li> <li>• test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;</li> <li>• undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and</li> <li>• obtain assurances from the auditor of Somerset Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.</li> </ul>

# Significant risks identified – Covid – 19 pandemic

# DRAFT

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Covid – 19	<p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;</p> <ul style="list-style-type: none"> <li>- Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation</li> <li>- Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates</li> <li>- Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and</li> <li>- Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.</li> </ul> <p>We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Work with management to understand the implications the response to the Covid-19 pandemic has on the organisation’s ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach</li> <li>• Liaise with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise</li> <li>• Evaluate the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic.</li> <li>• Evaluate whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely</li> <li>• Evaluate whether sufficient audit evidence can be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances</li> <li>• Evaluate management’s assumptions that underpin the revised financial forecasts and the impact on management’s going concern assessment</li> <li>• Discuss with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence</li> </ul>

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We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in November 2020.



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## 5. Other matters

### Other work

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

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements] to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Authority
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions

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We consider our other duties under the Local Audit and Accountability Act 2014 (the Act) and the Code, as and when required, including:

- Giving electors the opportunity to raise questions about your 2019/20 financial statements, consider and decide upon any objections received in relation to the 2019/20 financial statements
- Issue of a report in the public interest or written recommendations to the Authority under section 24 of the Act, copied to the Secretary of State
- Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act or
- Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

### Other material balances and transactions

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

### Going concern

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

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## 6. Materiality

### The concept of materiality

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

### Materiality for planning purposes

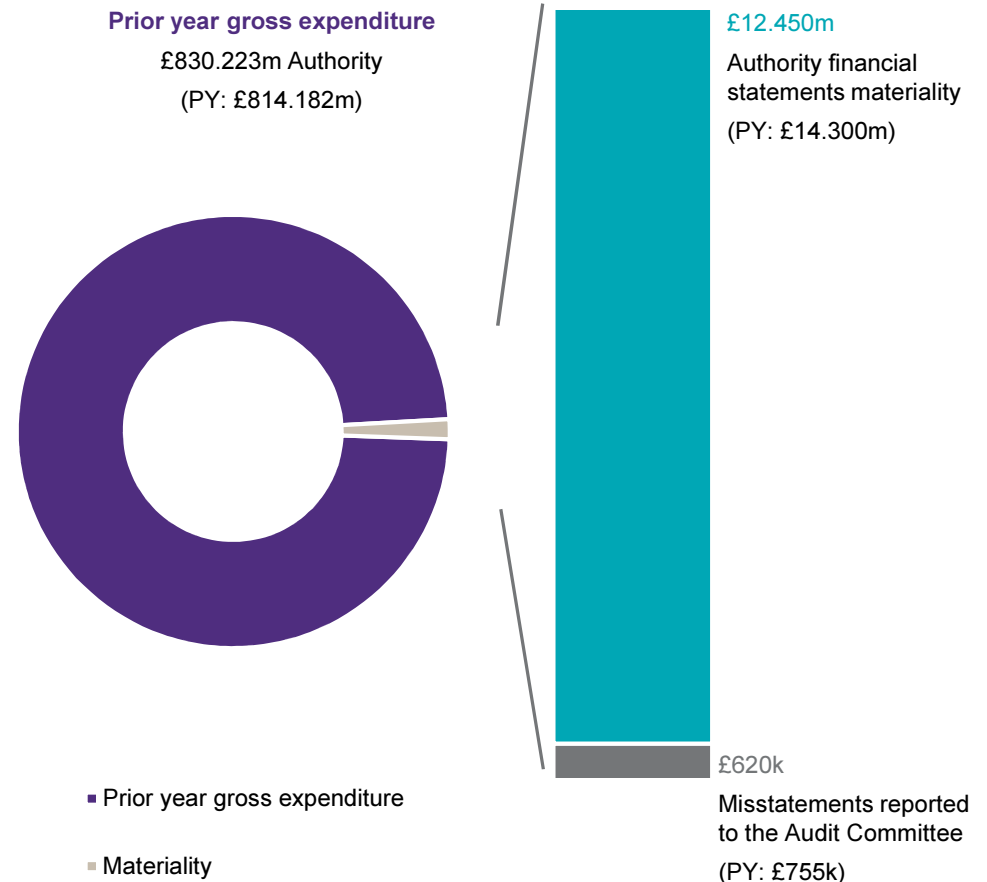
We have determined financial statement materiality based on a proportion of the gross expenditure of the Authority for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £12.450m (PY £14.3m) for the Authority, which equates to 1.5% of your prior year gross expenditure for the year. The reduction in materiality compared to the previous year reflects the higher profile of local audit following external reviews such as those led by Sir John Kingman and Sir Tony Edman. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £20,000 for Senior officer remuneration.

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

### Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £620k (PY £755k).

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



# 7. Value for Money arrangements

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## Background to our VFM approach

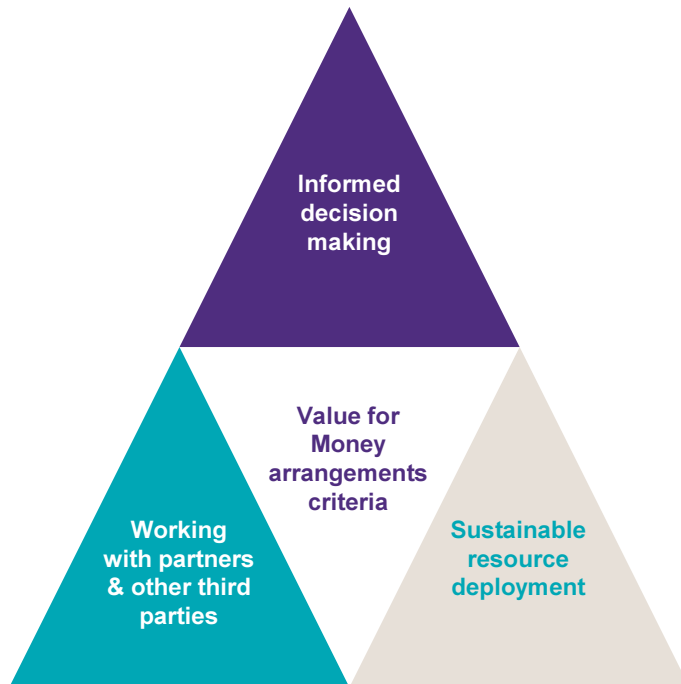
The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

The guidance identifies one single criterion for auditors to evaluate:

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

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

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## Significant VFM risks

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



### Sustainable Resource Deployment: Future Financial Sustainability

The Council has made significant progress since we issued an adverse qualified conclusion in 2017/18 due to poor budget management, failure to set and achieve realistic savings targets and an unsustainable level of reserves. 2018/19 saw the Council post a surplus and achieve over 95% of all savings targets, although this did necessitate a rebasing of the budget in September 2018 to allow for the unsustainable Adult and Children’s social service expenditure levels.

Demand led services continue to provide pressure on the Council’s finances and a review undertaken by Public Service Advisory in 2018/19 identified some areas for improvement, especially within Children’s services. The Council continues to look to increase reserves which are still vulnerable to any significant unforeseen event as well as identifying savings through service delivery.

Significant challenges remain and an element of savings and budget delivery is still reliant on non recurrent savings and one off funding. At month 9 the 2019/20 forecast is for £62k surplus after a transfer of £4.55m to reserves from contingency. The 2020/21 budget is balanced and has identified an estimated further £xxx in savings that requires delivering in order to achieve the balanced budget.

We will review the actions taken in response to the 2018/19 recommendations. We will review the monitoring arrangements, including the robustness of the Council’s Medium Term Financial Plan, the delivery of the 2019/20 budget and the action taken when plans are not being delivered.

# 8. Audit logistics & team

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**Barrie Morris, Key Audit Partner**

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



**David Johnson, Audit Manager**

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



**Aditi Chandramouli, Audit Incharge**

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

**Client responsibilities**

Where clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

**Our requirements**

To minimise the risk of a delayed audit, you need to ensure that you:

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

## 9. Audit fees

# DRAFT

### Planned audit fees 2019/20

Across all sectors and firms, the 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. Within the public sector, where the FRC has recently assumed responsibility for the inspection of local government audit, the regulator requires that all audits achieve a 2A (few improvements needed) rating.

Our work across the sector in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved. We have also identified an increase in the complexity of local government financial transactions. Combined with the FRC requirement that 100% of audits achieve a 2A rating this means that additional audit work is required. We have set out below the expected impact on our audit fee. The table overleaf provides more details about the areas where we will be undertaking further testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee for 2019/20 at the planning stage, as set out below and with further analysis overleaf, has been agreed with the Director of Finance and is subject to PSAA agreement.

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	Actual Fee 2017/18	Actual Fee 2018/19	Proposed fee 2019/20
<b>Council Audit</b>	£123,832	£109,702	£76,902
<b>Total audit fees (excluding VAT)</b>	<b>£123,832</b>	<b>£109,702</b>	<b>£76,902</b>

### Assumptions:

In setting the above fees, we have assumed that the Authority will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

### Relevant professional standards:

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with staff of appropriate skills, time and abilities to deliver an audit to the required professional standard.

# Audit fee variations – Further analysis

# DRAFT

## Planned audit fees

The table below shows the planned variations to the original scale (contracted in the case of non PSAA) fee for 2019/20 based on our best estimate at the audit planning stage. Further issues identified during the course of the audit may incur additional fees. In agreement with PSAA (where applicable) we will be seeking approval to secure these additional fees for the remainder of the contract via a formal rebasing of your scale fee to reflect the increased level of audit work required to enable us to discharge our responsibilities. Should any further issues arise during the course of the audit that necessitate further audit work additional fees will be incurred, subject to PSAA approval.

Audit area	£	Rationale for fee variation
Scale/ original contract fee	76,902	
Raising the bar	4,500	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity. As outlined earlier in the Plan, we have also reduced the materiality level, reflecting the higher profile of local audit. This will entail increased scoping and sampling.
Pensions – valuation of net pension liabilities under International Auditing Standard (IAS) 19	2,500	We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
PPE Valuation – work of experts	7,350	We have therefore engaged our own audit expert – (Wilks Head and Eve) and increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations. The increase includes an estimate for the fee payable to the auditor's expert. We estimate that the cost of the auditors expert will be in the region of £5,000.
Additional VfM work	5,000	The FRC inspection also encompasses the VFM conclusion and this is an area of particular focus at Somerset County Council. In 2018/19 we issued an 'except for' qualified opinion within sustainable resource deployment paying particular attention to financial resilience. A number of recommendations have been identified as part of this process that will require monitoring and whilst significant progress has been made over the past twelve months, this remains and area of increased focus for 2019/20
New Standards – IFRS 16	2,000	This year we will both be responding to the introduction of IFRS16. IFRS16 requires a leased asset, previously accounted for as an operating lease off balance sheet, to be recognised as a 'right of use' asset with a corresponding liability on the balance sheet from 1 April 2020. There is a requirement, under IAS8, to disclose the expected impact of this change in accounting treatment in the 2019/20 financial statements. We must ensure our audit work in these new areas is robust
<b>Revised scale fee (to be approved by PSAA)</b>	<b>98,752</b>	

# 11. Independence & non-audit services

# DRAFT

## Auditor independence

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

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

## Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. The following other services were identified.

Service	£	Threats	Safeguards
<b>Audit related:</b>			
Certification of Teacher's Pension return for 2018/19 for Somerset County Council	£4,200	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £4,200 in comparison to the total fee for the audit of £109,702 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

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

None of the services provided are subject to contingent fees.

The firm is committed to improving our audit quality – please see our transparency report - <https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/annual-reports/interim-transparency-report-2019.pdf>

# Appendices

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A. Audit Quality – national context



# Appendix A: Audit Quality – national context

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## What has the FRC said about Audit Quality?

The Financial Reporting Council (FRC) publishes an annual Quality Inspection of our firm, alongside our competitors. The Annual Quality Review (AQR) monitors the quality of UK Public Interest Entity audits to promote continuous improvement in audit quality.

All of the major audit firms are subject to an annual review process in which the FRC inspects a small sample of audits performed from each of the firms to see if they fully conform to required standards.

The most recent report, published in July 2019, shows that the results of commercial audits taken across all the firms have worsened this year. The FRC has identified the need for auditors to:

- Page 37.
- improve the extent and rigour of challenge of management in areas of judgement
  - improve the consistency of audit teams' application of professional scepticism
  - strengthen the effectiveness of the audit of revenue
  - improve the audit of going concern
  - improve the audit of the completeness and evaluation of prior year adjustments.

The FRC has also set all firms the target of achieving a grading of '2a' (limited improvements required) or better on all FTSE 350 audits. We have set ourselves the same target for public sector audits from 2019/20.

## Other sector wide reviews

Alongside the FRC, other key stakeholders including the Department for Business, energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. A number of key reviews into the profession have been undertaken or are in progress. These include the review by Sir John Kingman of the Financial Reporting Council (Dec 2018), the review by the Competition and Markets authority of competition within the audit market, the ongoing review by Sir Donald Brydon of external audit, and specifically for public services, the Review by Sir Tony Redmond of local authority financial reporting and external audit. As a firm, we are contributing to all these reviews and keen to be at the forefront of developments and improvements in public audit.

## What are we doing to address FRC findings?

In response to the FRC's findings, the firm is responding vigorously and with purpose. As part of our Audit Investment Programme (AIP), we are establishing a new Quality Board, commissioning an independent review of our audit function, and strengthening our senior leadership at the highest levels of the firm, for example through the appointment of Fiona Baldwin as Head of Audit. We are confident these investments will make a real difference.

We have also undertaken a root cause analysis and put in place processes to address the issues raised by the FRC. We have already implemented new training material that will reinforce the need for our engagement teams to challenge management and demonstrate how they have applied professional scepticism as part of the audit. Further guidance on auditing areas such as revenue has also been disseminated to all audit teams and we will continue to evolve our training and review processes on an ongoing basis.

## What will be different in this audit?

We will continue working collaboratively with you to deliver the audit to the agreed timetable whilst improving our audit quality. In achieving this you may see, for example, an increased expectation for management to develop properly articulated papers for any new accounting standard, or unusual or complex transactions. In addition, you should expect engagement teams to exercise even greater challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. As a result you may find the audit process even more challenging than previous audits. These changes will give the audit committee – which has overall responsibility for governance - and senior management greater confidence that we have delivered a high quality audit and that the financial statements are not materially misstated. Even greater challenge of management will also enable us to provide greater insights into the quality of your finance function and internal control environment and provide those charged with governance confidence that a material misstatement due to fraud will have been detected.

We will still plan for a smooth audit and ensure this is completed to the timetable agreed. However, there may be instances where we may require additional time for both the audit work to be completed to the standard required and to ensure management have appropriate time to consider any matters raised. This may require us to agree with you a delay in signing the announcement and financial statements. To minimise this risk, we will keep you informed of progress and risks to the timetable as the audit progresses.

We are absolutely committed to delivering audit of the highest quality and we should be happy to provide further detail about our improvement plans should you require it.

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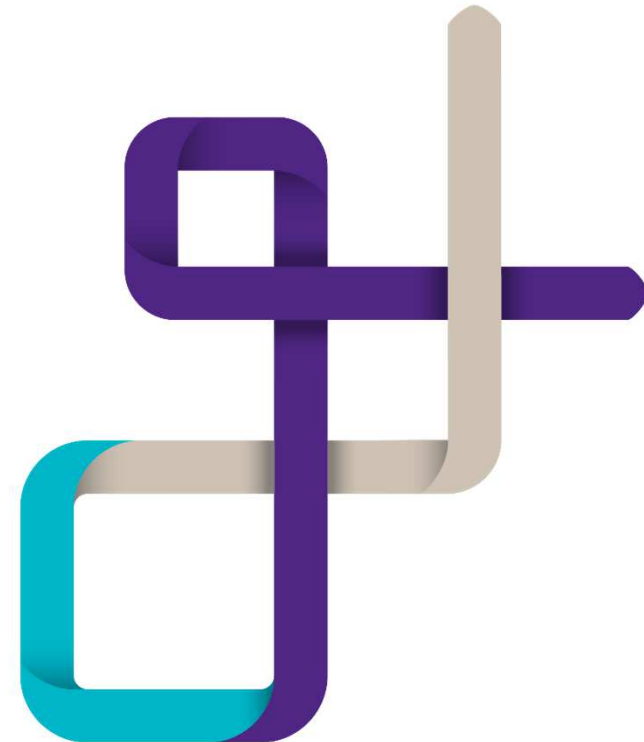
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# External Audit Plan

Year ending 31 March 2020

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report. This draft has been created from the template dated DD MMM YYYY



# Contents



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Pension Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# 1. Introduction & headlines

## Purpose

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

## Respective responsibilities

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

## Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Pension Fund's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit Committee).

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

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

## Significant risks

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

- management override of controls
- the revenue transactions include fraudulent transactions (this is rebutted, please see page 5)
- valuation of level 3 investments

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

## Materiality

We have determined materiality at the planning stage of our audit to be £21.790m (PY £20.600m) for the Pension Fund, which equates to 1% of your prior year net assets for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £1.05m (PY £1m).

## Audit logistics

Our interim visit will take place in March and our final visit will take place in June and July 2020. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A.

Our fee for the audit will be £18,731 (PY: £18,731) for the Pension Fund, subject to the Pension Fund meeting our requirements set out on page 11. These fees are subject to approval by PSAA.

## Independence

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

## 2. Key matters impacting our audit

### Factors

#### The wider picture and political uncertainty

- Local Government funding continues to be stretched with increasing cost pressures.
- The market value of LGPS funds at end of March 2019 was £287.2 billion (an increase of £16.3 billion or 6.0%) but for the first time, the LGPS in England & Wales is now cashflow negative, with benefit payments rising to £10.4bn while contributions fell to £9.3bn. There are now over 18,000 employers. Local authorities represent around 18.3% of these but have 74% of the members.
- The UK is set to leave the EU on 31 January 2020. The economic impact of this remains uncertain as is the wider global economic picture. The Pension Fund will need to ensure that its investment strategy has considered potential outcomes.
- The current Covid-19 and coronavirus outbreak is having a significant impact on worldwide stock markets and the value of pension fund assets may be significantly impacted by falls in investment values.

#### Governance

- The Scheme Advisory Board (SAB) has published the *Good Governance – Phase II Report*. Proposals include having a single named officer responsible for the delivery of LGPS related activity for a fund, an enhanced annual governance compliance statement and establishing a set of key performance indicators.
- SAB is also consulting on Responsible Investment guidance to assist and help investment decision makers.
- The Pensions Regulator continues to apply pressure on pension schemes to improve the quality of scheme member data. The 2019 valuation process will likely have thrown up some data issues (large or small) that need addressing.

#### Financial reporting and audit – raising the bar

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 more robust testing as detailed in Appendix 1.

Our work in 2018/19 has highlighted areas where financial reporting, in particular Level 3 and Financial Instrument investment valuations and disclosures, needs to be improved, with a corresponding increase in audit procedures.

### Our response

We will consider whether your financial position leads to material uncertainty about the going concern of the Pension Fund and will review related disclosures in the financial statements.

- We will consider the Pension Fund's responses to the SAB initiatives and whether they impact upon our risk assessment.
- We will consider the impact of any data issues raised as part of the 2019 on the risks identified as part of our 2019/20 audit.

- As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and financial reporting. Our proposed work and fee, as set further in our Audit Plan, has been agreed with the Director of Finance and is subject to PSAA agreement.

## 3. Covid-19

### The current environment

In addition to the audit risks communicated to those charged with governance in our Audit Plan, recent events have led us to update our planning risk assessment and reconsider our audit approach to reflect the unprecedented global response to the Covid-19 pandemic. The significance of the situation cannot be underestimated and the implications for individuals, organisations and communities remains highly uncertain. For our public sector audited bodies, we appreciate the significant responsibility and burden your staff have to ensure vital public services are provided. The Fund will also be specifically facing a number of tough challenges around covenant strengths, funding, investment, governance and communications to members. As far we can, our aim is to work with you in these unprecedented times, ensuring up to date communication and flexibility where possible in our audit procedures.

### Impact on our audit

Management and those charged with governance are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020, however we will liaise with management to agree appropriate timescales. We continue to be responsible for forming and expressing an opinion on the Fund's financial statements.

In order to fulfil our responsibilities under International Auditing Standards (ISA's (UK)) we have revisited our planning risk assessment. We may also need to consider implementing changes to the procedures we had planned and reported in our Audit Plan to reflect current restrictions to working practices, such as the application of technology to allow remote working

### Changes to our audit approach

To date we have:

- Identified a new significant financial statement risk, as described overleaf
- Reviewed the materiality levels we determined for the audit. We did not identify any changes to our materiality assessment as a result of the risk identified due to Covid-19

### Conclusion

We will ensure any further changes in our audit approach and procedures are communicated with management and reported in our Audit Findings Report. We wish to thank management for their timely collaboration in this difficult time.

## 4. Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p><b>The revenue cycle includes fraudulent transactions (rebutted)</b></p>	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Somerset Pension Fund mean that all forms of fraud are seen as unacceptable</li> </ul> <p>Therefore we do not consider this to be a significant risk for Somerset Pension Fund.</p>	<p>Therefore we do not consider this to be a significant risk for Somerset Pension Fund</p>
<p><b>Management over-ride of controls</b></p>	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate the design effectiveness of management controls over journals</li> <li>• analyse the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>• test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>• gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence</li> <li>• evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>

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## Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Valuation of Level 3 Investments</b>	<p>The Fund revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date.</p> <p>By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>Management utilise the services of investment managers and custodians as valuation experts to estimate the fair value as at 31 March 2020.</p> <p>We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate management's processes for valuing Level 3 investments</li> <li>• review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met</li> <li>• independently request year-end confirmations from investment managers and custodians</li> <li>• for a sample of investments, test the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2020 with reference to known movements in the intervening period and</li> <li>• in the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert</li> <li>• test revaluations made during the year to see if they had been input correctly into the Pension Fund's asset register</li> <li>• where available review investment manager service auditor report on design effectiveness of internal controls.</li> </ul>

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We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2020.

## Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Covid-19	<p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;</p> <ul style="list-style-type: none"> <li>• Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation</li> <li>• Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation, and the reliability of evidence we can obtain to corroborate management estimates</li> <li>• For instruments classified as fair value through profit and loss there may be a need to review the Level 1-3 classification of the instruments if trading may have reduced to such an extent that quoted prices are not readily and regularly available and therefore do not represent actual and regularly occurring market transactions.</li> <li>• Whilst the nature of the Fund and its funding position (i.e. not in a winding up position or no cessation event) means the going concern basis of preparation remains appropriate management may need to consider whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and</li> <li>• Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.</li> </ul>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Work with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach</li> <li>• Liaise with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise</li> <li>• Evaluate the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic. Including management's assessment of the impact of Covid 19 upon employer covenants and forecast cashflows.</li> <li>• Evaluate whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely</li> <li>• Evaluate whether sufficient audit evidence can be obtained to corroborate management's fair value hierarchy disclosure.</li> <li>• Evaluate whether sufficient audit evidence can be obtained to corroborate significant management estimates such as Level 3 asset valuations.</li> <li>• Discuss with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence</li> </ul>
<p>We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>		

## 5. Other matters

### Other work

The Pension Fund is administered by Somerset County Council (the 'Council'), and the Pension Fund's accounts form part of the Council's financial statements.

Therefore, as well as our general responsibilities under the Code of Practice a number of other audit responsibilities also follow in respect of the Pension Fund, such as:

- We read any other information published alongside the Council's financial statements to check that it is consistent with the Pension Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority.
- We consider our other duties under legislation and the Code, as and when required, including:
  - Giving electors the opportunity to raise questions about your 2018/19 financial statements, consider and decide upon any objections received in relation to the 2018/19 financial statements;
  - Issue of a report in the public interest or written recommendations to the Fund under section 24 of the Act, copied to the Secretary of State.
  - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
  - Issuing an advisory notice under Section 29 of the Act.
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited Fund accounts.

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### Other material balances and transactions

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

### Going concern

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

Currently, the accounts of the Pension Fund are expected to be prepared on a going concern basis. We will review management's assessment of the going concern assumption and any material uncertainties, and evaluate the disclosures in the financial statements.

## 6. Materiality

### The concept of materiality

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

### Materiality for planning purposes

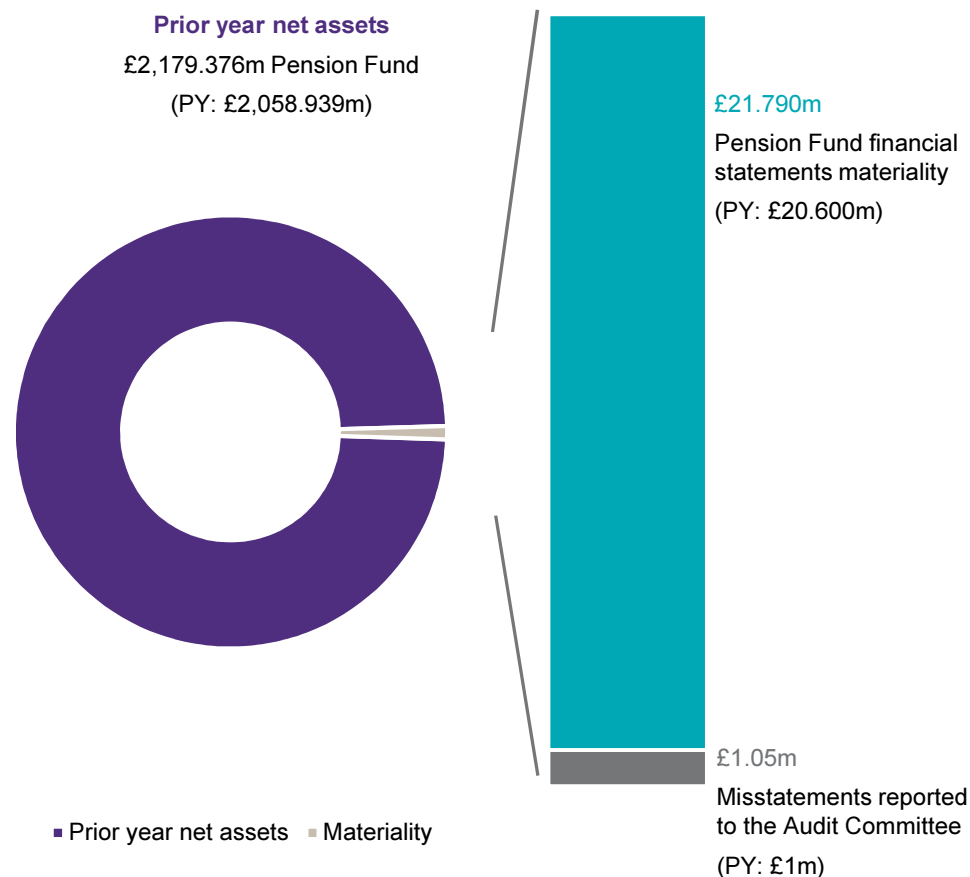
We have determined financial statement materiality based on a proportion of the net assets of the Pension Fund for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £21.790m (PY £20.600m) for the Pension Fund, which equates to 1% of your prior year net assets for the year.

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

### Matters we will report to the Audit Committee

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

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



## 7. Audit logistics & team



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### Barrie Morris, Key Audit Partner

Barrie’s role will be to lead our relationship with you. He will take overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value to the Pension Fund.



### David Johnson, Audit Manager

David’s role will be to be a key contact with the senior management and the Audit and Governance Committee



### Steph Thayer, Audit Incharge

Steph’s role will be to act as the day-to-day contact for the Fund Finance staff. She will take responsibility for ensuring there is effective communication and understanding of audit requirements

### Client responsibilities

Where clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

### Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

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

## 8. Audit fees

### Planned audit fees 2019/20

Across all sectors and firms, the 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. Within the public sector, where the FRC has recently assumed responsibility for the inspection of local government audit, the regulator requires that all audits achieve a 2A (few improvements needed) rating.

Our work across the sector in 2018/19 has highlighted areas where local government pension fund financial reporting, in particular, scrutiny of the valuation of hard to value investments needs to be improved. Combined with the FRC requirement that 100% of audits achieve a 2A rating this means that additional audit work is required. We have set out below the expected impact on our audit fee. The table overleaf provides more details about the areas where we will be undertaking further testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee at the planning stage, as set out below and with further analysis overleaf, has been discussed with the Director of Finance and is subject to PSAA approval.

	Actual Fee 2017/18	Actual Fee 2018/19	Proposed fee 2019/20
<b>Pension Fund Audit</b>	£23,859	£18,371	£18,371
<b>Additional Fees</b>			£3,750
<b>Total audit fees (excluding VAT)</b>	<b>£23,859</b>	<b>£18,371</b>	<b>£22,121</b>

### Assumptions:

In setting the above fees, we have assumed that the Pension Fund will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

### Relevant professional standards:

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with staff of appropriate skills, time and abilities to deliver an audit to the required professional standard.

## Audit fee variations – Further analysis

### Planned audit fees

The table below shows the planned variations to the original scale fee for 2019/20 based on our best estimate at the audit planning stage. Further issues identified during the course of the audit may incur additional fees.

Audit area	£	Rationale for fee variation
Scale fee	18,371	
Raising the bar	2,000	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.
Valuation of level 3 investments	1,750	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms in respect of valuations of hard to value investments needs to improve across the sector. Accordingly, we plan to enhance the scope and coverage of our work to ensure an adequate level of audit scrutiny and challenge over the assumptions and evidence that underpin the valuations of level 3 investments this year to reflect the expectations of the FRC and ensure we issue a safe audit opinion.
<b>Revised scale fee (to be approved by PSAA)</b>	<b>22,121</b>	

## 9. Independence & non-audit services

### Auditor independence

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

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

### Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. The following other services were identified.

Service	£	Threats	Safeguards
<b>Audit related:</b>			
Provision of IAS 19 Assurances to Scheme Employer auditors	6,000	None	We are required to respond to requests received from other auditors of admitted bodies for assurance in respect of information held by the Fund and provided to the actuary to support their individual IAS 19 calculations.  Our estimate is that the fee for this will be £3,000 plus an additional £500 for each local government body which requests a letter of assurance.
Audit of Brunel Pension Partnership Limited (BPP)	40,000	None	We do not consider the audit of BPP as a threat to our independence as Gloucestershire Pension Fund cannot exercise control over BPP.  The audit of BPP is carried out by a specialist team, authorised by the Financial Standards Authority.  The fee of £40,000 is not significant compared to the audit fees of the ten participating pension funds.  Please note this fee is not included in the financial statements of Gloucestershire Pension Fund as it is payable by BPP.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Pension Fund's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit. None of the services provided are subject to contingent fees.

The firm is committed to improving our audit quality – please see our transparency report - <https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/annual-reports/interim-transparency-report-2019.pdf>



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# Appendices

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A. Audit Quality – national context

## Appendix A: Audit Quality – national context

### What has the FRC said about Audit Quality?

The Financial Reporting Council (FRC) publishes an annual Quality Inspection of our firm, alongside our competitors. The Annual Quality Review (AQR) monitors the quality of UK Public Interest Entity audits to promote continuous improvement in audit quality.

All of the major audit firms are subject to an annual review process in which the FRC inspects a small sample of audits performed from each of the firms to see if they fully conform to required standards.

The most recent report, published in July 2019, shows that the results of commercial audits taken across all the firms have worsened this year. The FRC has identified the need for auditors to:

- Page 54
- improve the extent and rigour of challenge of management in areas of judgement
  - improve the consistency of audit teams' application of professional scepticism
  - strengthen the effectiveness of the audit of revenue
  - improve the audit of going concern
  - improve the audit of the completeness and evaluation of prior year adjustments.

The FRC has also set all firms the target of achieving a grading of '2a' (limited improvements required) or better on all FTSE 350 audits. We have set ourselves the same target for public sector audits from 2019/20.

### Other sector wide reviews

Alongside the FRC, other key stakeholders including the Department for Business, energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. A number of key reviews into the profession have been undertaken or are in progress. These include the review by Sir John Kingman of the Financial Reporting Council (Dec 2018), the review by the Competition and Markets Pension Fund of competition within the audit market, the ongoing review by Sir Donald Brydon of external audit, and specifically for public services, the Review by Sir Tony Redmond of local Pension Fund financial reporting and external audit. As a firm, we are contributing to all these reviews and keen to be at the forefront of developments and improvements in public audit.

### What are we doing to address FRC findings?

In response to the FRC's findings, the firm is responding vigorously and with purpose. As part of our Audit Investment Programme (AIP), we are establishing a new Quality Board, commissioning an independent review of our audit function, and strengthening our senior leadership at the highest levels of the firm, for example through the appointment of Fiona Baldwin as Head of Audit. We are confident these investments will make a real difference.

We have also undertaken a root cause analysis and put in place processes to address the issues raised by the FRC. We have already implemented new training material that will reinforce the need for our engagement teams to challenge management and demonstrate how they have applied professional scepticism as part of the audit. Further guidance on auditing areas such as revenue has also been disseminated to all audit teams and we will continue to evolve our training and review processes on an ongoing basis.

### What will be different in this audit?

We will continue working collaboratively with you to deliver the audit to the agreed timetable whilst improving our audit quality. In achieving this you may see, for example, an increased expectation for management to develop properly articulated papers for any new accounting standard, or unusual or complex transactions. In addition, you should expect engagement teams to exercise even greater challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. As a result you may find the audit process even more challenging than previous audits. These changes will give the audit committee – which has overall responsibility for governance - and senior management greater confidence that we have delivered a high quality audit and that the financial statements are not materially misstated. Even greater challenge of management will also enable us to provide greater insights into the quality of your finance function and internal control environment and provide those charged with governance confidence that a material misstatement due to fraud will have been detected.

We will still plan for a smooth audit and ensure this is completed to the timetable agreed. However, there may be instances where we may require additional time for both the audit work to be completed to the standard required and to ensure management have appropriate time to consider any matters raised. This may require us to agree with you a delay in signing the announcement and financial statements. To minimise this risk, we will keep you informed of progress and risks to the timetable as the audit progresses.

We are absolutely committed to delivering audit of the highest quality and we should be happy to provide further detail about our improvement plans should you require it.



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Sheila Collins  
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5 February 2020

4

Dear Sheila

## Audit scope and additional work 2019/20

In recent conversations, including at Somerset County Council's Audit Committee, we have discussed the increased regulatory focus facing all audit suppliers and the impact this will have on the scope of our work for 2019/20 and beyond. You will have also recently received a letter via email from Tony Crawley of PSAA explaining the changing regulatory landscape. In his letter, Mr Crawley highlights: *"significantly greater pressure on firms to deliver higher quality audits by requiring auditors to demonstrate greater professional scepticism when carrying out their work across all sectors – and this includes local audit. This has resulted in auditors needing to exercise greater challenge to the areas where management makes judgements or relies upon advisers, for example, in relation to estimates and related assumptions within the accounts. As a result, audit firms have updated their work programmes and reinforced their internal processes and will continue to do so to enable them to meet the current expectations."*

At the Audit Committee meeting on 30 January 2020 I promised I would set out in more detail the likely impact of this on our audit, and I am pleased to do so in this letter. Should further matters arise during the course of the audit they could also have fee and timetable implications that we would need to address at that point.

Across all suppliers, and sectors (public and private), 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, as well as to undertake additional and more robust testing. There is a general 'raising of the quality bar' following a number of recent, high-profile company failures that have also been attributed to audit performance. Alongside the FRC, other key stakeholders including the Department for Business, Energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. The FRC has been clear to us that it expects audit quality in local audit to meet the same standards as in the corporate world and the current level of financial risk within local audit bodies supports this position.

As a firm, we are absolutely committed to meeting the expectations of the FRC and other key stakeholders with regard to audit quality and public sector financial reporting. To ensure the increased regulatory focus and expectations are fully met, we anticipate that, as first seen in 2018/19, we will need to commit more time in discharging our statutory responsibilities, which will necessitate an increase in costs. I set out below the implications of this for your Council's and Pension Fund's audits.

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### Increased challenge and depth of work – raising the quality bar

The FRC has raised the threshold of what it assesses as a good quality audit. The FRC currently uses a four-point scale to describe the quality of the files it reviews, as follows:

Score	Description
1 or 2a	Acceptable with Limited Improvements Required
2b	Improvements required
3	Significant Improvements Required

Historically, the FRC's definition for 2b was 'acceptable but with improvements required' and, as such, both the Audit Commission and PSAA considered a '2b' to represent an acceptance level of audit quality for contract delivery purposes. The FRC has now set a 100% target for all audits (including local audits) to achieve a '2a'. Its threshold for achieving a '2a' is challenging and failure to achieve this level is reputationally damaging for individual engagement leads and their firm. Non-achievement of the standard can result in enforcement action, including fines and disqualification, by the FRC. Inevitably, we need to increase the managerial oversight to manage this risk. In addition, you should expect the audit team to exercise even greater challenge of management in areas that are complex, significant or highly judgmental. We will be required to undertake additional work in the following areas, amongst others:

- use of specialists
- information provided by the entity (IPE)
- journals
- management review of controls
- revenue
- accounting estimates
- financial resilience and going concern
- related parties and similar areas.

As part of our planning, we have also reflected on the level of materiality which is appropriate for your audit. As outlined above, the profile of local audit has increased considerably over the past year. The reviews led by Sir John Kingman, Sir Donald Brydon and Sir Tony Redmond are focusing attention on the work of auditors everywhere. Parliament, through the work of its Scrutiny Committees, has made clear its expectations that auditors will increase the quality of their work.

As a result, you may find the audit process for 2019/20 and beyond even more challenging than previous audits. This mirrors the changes we are seeing in the commercial sectors.

### Council Specific Property, plant and equipment (PPE or 'Fixed Assets')

The FRC has highlighted that auditors need to improve the quality of audit challenge on Property, Plant and Equipment (PPE) valuations across the sector. We will therefore increase the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations. We have also determined that, for major local audits including Somerset County Council with your large asset base, we will now be engaging our own external valuer to provide appropriate assurance to the standards expected by the FRC for an authority of your size.

### Pensions (IAS 19)

The FRC has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Specifically, for the following areas, we will increase the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting. Our planned additional procedures include:

- verification of the accuracy and completeness of the data provided to the actuary by both the admitted body and the administering authority.
- checking the value of the Pension Fund Assets at 31 March per the Council's financial statements against the share of assets in the Pension Fund statements
- review and assess whether the significant assumptions applied by the actuary are reasonable and are followed up on areas identified by either our review or PwC as outliers.
- ensuring that the instructions from the audit team to the Pension Fund auditor include enquiries in respect of service organisation reports as well as testing in respect of material level 3 pension assets (please note that this is outside the scope of PSAA's fee variation process).

### Local issues – VFM issues

The FRC inspection also encompasses the VFM conclusion and this is an area of particular focus at Somerset. In 2018/19 we issued an 'except for' qualified opinion within sustainable resource deployment paying particular attention to financial resilience. This required monthly meetings and the use of Auditor's experts, giving specific focus to demand led services. Whilst significant progress has been made over the past twelve months, this remains an area of increased focus for 2019/20 requiring additional work, although to a lesser extent than in previous years. We will:

- Hold regular meetings with the Director of Finance and senior management to discuss progress
- Review the VfM tracker and the progress made against the recommendations
- Undertake a deep dive on the assumptions used within the Medium Term Financial Plan (MTFP) and savings plans
- Liaise with senior management in both adult and children's social service to review processes in place for identifying and formulating cost models that drive figures within the MTFP.

### Complex accounting issues and new accounting standards

You are required to respond effectively to new accounting standards and we must ensure our audit work in these new areas is robust. This year we will both be responding to the introduction of IFRS16. IFRS16 requires a leased asset, previously accounted for as an operating lease off balance sheet, to be recognised as a 'right of use' asset with a corresponding liability on the balance sheet from 1 April 2020. There is a requirement, under IAS8, to disclose the expected impact of this change in accounting treatment in the 2019/20 financial statements.

We know the Council has appreciated our responsiveness in the past and we would wish to continue to be able to do this in the future.

### Pension Specific Level 3 Investments

The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms in respect of valuations of hard to value investments needs to improve across the sector. Accordingly, we plan to enhance the scope and coverage of our work to ensure an adequate level of audit scrutiny and challenge over the assumptions and evidence that underpin the valuations of level 3 investments this year to reflect the expectations of the FRC and ensure we issue a safe audit opinion.

### Impact on the audit and associated costs

You will note we did not raise additional fees across the sector as a whole in 2018/19 in respect of the additional work required in response to the implementation of IFRS9 and IFRS15. This was a goodwill decision we took in support of the strong relationship we have with the sector. However, the volume of additional work now being required, as set out above, means we are no longer able to sustain that position. This is an issue not just across public services but also in the private sector where fees are being increased by all of the major suppliers by more than 20%.

We benefit from effective and constructive working relationships which we have established during our engagement with you to date. This allows us to absorb some of the impact of these changes. Using our strong working knowledge of you and efficiencies that we are continuously seeking to implement as part of our focus on continued collaborative working with you, we have sought to contain the impact as much as possible to below the market average.

We have assessed the impact of the above as follows for 2019/20, with the comparative position for the two previous years shown. Please note these are subject to approval by PSAA in line with PSAA's normal process. Should other risks arise during the course of the audit which we have not envisaged, we may need to make a further adjustment to the fee.

#### The Council

Area	Cost £		
	2019/20	2018/19	2017/18
Scale Fee	76,902	76,902	99,873
Increased challenge and depth of work	4,500	0	0
PPE	2,350	3,000	0
Pensions (IAS19)	2,500	3,000	0
McCloud	0	3,000	0
New standards/ developments	2,500	0	0
Additional work on VFM	5,000	23,800	11,336
<b>Total</b>	<b>93,752</b>	<b>109,702</b>	<b>111,209</b>
PPE Valuation – cost of auditor's expert	5,000	0	0
<b>Total including valuer</b>	<b>98,752</b>	<b>109,702</b>	<b>123,832</b>

This would give a scale fee for the statutory Council's accounts audit for 2019/20 of £76,902 plus VAT plus a variation of £21,850 plus VAT, giving a total of £98,752 plus VAT. This includes the cost of the external valuer which we have determined to be necessary to support our audit work in this area.

#### The Pension Fund

Area	Cost £		
	2019/20	2018/19	2017/18
Scale Fee	18,371	18,371	23,859
Increased challenge and depth of work	2,000	0	0
Level 3 investments	1,750	0	0
McCloud	0	1,500	0



<b>Total</b>	<b>22,121</b>	<b>19,871</b>	<b>23,859</b>
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This would give a scale fee for the statutory Pension Fund's accounts audit for 2019/20 of £18,371 plus VAT plus a variation of £3,750 plus VAT, giving a total of £22,121 plus VAT.

Please note that PSAA's arrangements require a separation of fees and remuneration, which means that Grant Thornton does not receive 100% of the current fees charged.

The additional work we are now planning across the whole of our portfolio will inevitably have an impact on the audit timetable and whether or not your audit can be delivered to appropriate quality standards by the 31 July 2020. Grant Thornton remains the largest trainer of CIPFA qualified accountants in the UK and is committed to continue to resource its local audits with suitably specialised and experienced staff but the pool of such staff is relatively finite in the short-term. I will be happy to explain the impact of the further work we are planning to undertake on our delivery timetable for your audit.

### Future changes to audit scope

As I have previously mentioned in meetings and at the Corporate Governance Committee, the National Audit Office is currently consulting on revisions to the Code of Audit Practice and has also indicated its intention to consult on the accompanying Auditor Guidance Notes. This defines the scope of audit work in the public sector. The most significant change is 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:

- a) Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- b) Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- c) 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.

Under each of these criteria, statutory guidance will set out the procedures that auditors will need to undertake. An initial review of arrangements will consist of mandatory procedures to be undertaken at every local public body plus any local risk-based work. The consultation closed on 22 November 2019. A new Code will be laid before Parliament in April 2020 and will apply from audits of local bodies' 2020/21 financial statements onwards.

Until the consultation is finalised and more details emerge of what is expected of auditors, it is difficult to cost the impact. However, as soon as the requirements are finalised and it is clear exactly what the expectations will be, I will share with you further thoughts on the potential impact on the audit and associated costs.

I hope this is helpful and allows you to plan accordingly for the 2019/20 audit. Should you wish to discuss this further, please do not hesitate to contact me. We will be sharing our detailed Audit Plan with you in due course. We look forward to working with you again this year.

Yours sincerely

### Engagement Lead and Key Audit Partner

For and on behalf of Grant Thornton UK LLP

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Jason Vaughan  
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7 May 2020

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Dear Jason

**Audit scope and additional work 2019/20**

I hope you and your colleagues are all keeping safe and well in these very unusual and difficult times. In this letter, I want to update you on our plans to work with you over the coming months, and to ensure that we plan our audit effectively, to provide assurance for those charged with governance, and to deliver a high quality audit to all users of the audit, whilst also seeking to maintain our fee within the envelope which we discussed previously.

I wrote to Sheila, previously regarding our detailed audit proposals on 5 February 2020, to outline how the increased regulatory focus facing all audit suppliers was impacting on our planned audit programme. I set out in my letter my expectation of what this would mean for our audit coverage for 2019/20, as well as for the audit fee. Items I highlighted in particular included the impact of 'raising the bar' to meet the FRC's expectation that all audits would now achieve a level of 2a (acceptable with limited improvements only) or above. I explained that we would need to increase our managerial oversight to achieve this audit standard. In addition, I outlined how you should expect the audit team to exercise even greater challenge of management in areas that are complex, significant or highly judgmental. I also outlined the specific additional work which we would need to undertake in complex areas of the accounts with high estimation uncertainty, such as Property, Plant and Equipment and Pensions valuations. I also outlined our planned use of an auditor's expert for PPE valuation. I set out full details in my audit plan dated 28 April 2020, where I advised that my estimate was that an additional fee of £21,850 for the County Council and £3,750 for the Pension Fund would be required to complete the audits.

Subsequent to the above, global events have moved in an unexpected and tragic direction. None of us could have foreseen in January the impact that the Covid19 crisis has had on the world. As a local government body, you are at the forefront of efforts to support local people, and clearly the focus of the Authority will be directed to supporting local communities as best you can in these exceptionally difficult circumstances. As your auditors, we absolutely understand the challenges that you and your teams are facing and we have already been discussing with you and your team how we can work with you as effectively as we can. At these challenging times it is even more important to ensure that we can deliver a high quality audit, focused on good governance and the application of relevant accounting and auditing standards, whilst recognising the day to day pressures you face.

With this in mind we have updated our Audit Plan for 2019/20 and David shared this with you on 28 April 2020. The following are the key points which I particularly wish to highlight for your attention.

**Addition of a significant audit risk in respect of Covid 19:**

The crisis has increased audit risk factors in the following areas:

- Remote working arrangements and redeployment of staff to critical front-line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation;
- Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management's estimates;
- Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and their overall financial resilience and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and
- Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.

We have set out in the Audit Plan update the additional work we propose to undertake in respect of this new significant risk. Fundamental to our response will be working with you to understand the arrangements the Authority has in place to address relevant risks in respect of Covid 19 in its accounts preparation. We will also review the appropriateness of your disclosures, including in respect of any estimation uncertainties around for example PPE and Pensions asset valuations.

#### **Value for Money and Financial Standing**

As part of our VfM work we will ensure we understand the arrangements you are putting in place to manage risks around business continuity in the current crisis. We do not envisage this will be a significant audit risk for 2019/20, although we will keep this under review for 2020/21. We will also review your assessment of going concern and financial stability in the light of increased uncertainties around for example demand led services and revenue. We envisage linking the additional VfM work around financial standing with our Going Concern opinion work.

#### **Regulatory changes.**

As you will be aware, earlier this month, CIPFA decided to adopt a small number of presentational changes to its Accounting Code of Practice for 2019/20. The changes which are now proposed to the Code, for example around disclosure, will have only a marginal impact on the audit. The additional audit risk factors that I highlighted in my January 2020 letter regarding raising the bar, PPE and Pensions work, for example, will therefore all still be required this year. You will also be aware that the Government accounting Financial Reporting Advisory Board (FRAB) has deferred the implementation of IFRS 16 by a year. Whilst IAS 8 disclosures will be required, this change will lead to some reduction in preparatory work required by both you and us, for this year at least.

Finally, MHCLG has revised the publication date for the draft accounts to 31 August and set a target date for publication of audited accounts of 30 November. Whilst flexibility in moving away from July is welcome, a number of authorities have highlighted the risk that a delayed closedown process could impact on their budget programme for 2021/22. We are keen to agree a timetable that works for you, and that we can both commit to and we have recently liaised on this.

#### **Fee impact**

As I set out in my previous letter, final audit fees are determined by PSAA, after the audit has been completed. At this stage, it is difficult to quantify the impact of the additional work required in respect of Covid19. My best estimate is that, taking into account increased work in respect of Covid 19, and reduced work on IFRS 16, the fee set out in our Audit Plan of 288 April 2020, totalling £98,752 for the County Council and £22,121 for the pension Fund remain appropriate, and we will do our best to work within this envelope. Should circumstances change, we will let you know.

I hope this is helpful and allows you to plan accordingly for the 2019/20 audit. Should you wish to discuss this further, please do not hesitate to contact me. I appreciate that these are really challenging times and the efforts that you and your finance team are taking in supporting front line staff alongside the preparation of the financial statements. Thank you for your ongoing support as we work together to deliver the audit in the coming months.

Yours sincerely

*Barrie Morris*

**Engagement Lead and Key Audit Partner**

For and on behalf of Grant Thornton UK LLP

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# Informing the audit risk assessment for Somerset County Council and Pension Fund - 2019/20



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.



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## Purpose

The purpose of this report is to contribute towards the effective two-way communication between Somerset County Council and Pension Fund's (The Council and Pension Fund) external auditors and the Council's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Committee under auditing standards.

## Background

Under International Standards on Auditing (UK) (ISA(UK)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Committee and supports the Committee in fulfilling its responsibilities in relation to the financial reporting process.

## Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Council and Pension Fund's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Going Concern,
- Related Parties, and
- Accounting Estimates.

## Purpose

This report includes a series of questions on each of these areas and the response we have received from the Council's management. The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

## General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2019/20?	The impact of COVID-19 and the associated funding, service delivery/demand pressures and valuation issues.
2. Have you considered the appropriateness of the accounting policies adopted by the Council and Pension Fund? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	In light of the annual revisions to the CIPFA Code of Practice and other “best practice” guidance, we continually review our accounting policies and consider how they affect the Council’s and Pension Fund Accounts. Compliance with the CIPFA Code will mean that we use appropriate accounting policies. In addition, we continually assess the Group Accounts boundary in the light of prevalent guidance and to accommodate any changes to governance arrangements at the County Council through a flowcharting process.
3. Is there any use of financial instruments, including derivatives?	All financial instruments are disclosed in our notes to the accounts within our Statement of Accounts. During 2018/19 we invested a further £5m in the CCLA Property Fund (bringing our total investment in the Fund to £15m) and the investment in this fund will be disclosed within the Statement of Accounts. There is no use derivatives by SCC.
4. Are you aware of any significant transaction outside the normal course of business?	No

## General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	<p>An assessment is made annually by our valuers of our non-current assets and whether any impairment has occurred in the year.</p> <p>The impact of COVID-19 has clearly brought with it some uncertainties. We have opened dialogue with Grant Thornton to agree on the best way to consider any potential impairments given these unprecedented times.</p>
6. Are you aware of any guarantee contracts?	Guarantee bonds that are in place have been assessed as not material.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	Yes, we are aware of all outstanding legal cases which are assessed for any loss contingencies as part of our Statement of Accounts processes.
8. Other than in house solicitors, can you provide details of those solicitors utilised by the Council and Pension Fund during the year. Please indicate where they are working on open litigation or contingencies from prior years?	Legal Services on behalf of SCC have instructed DAC Beachcroft, Michelmores, Foot Anstey, Mendip District Council, Carbon Law Partnership and DWF in 2019/20. None of these instructions relate to litigation from prior years.
9. Have any of the Council or Pension Fund's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	No
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	The council has regularly used advisors / consultants across various services on a range of issues to provide expert advice. For finance, we use advice for various specialisms such as specific VAT advice, insurance brokers, treasury advisors and LG Futures for financial forecasting & modelling. If there is a particular area that further details are required this can be provided.

## Fraud Issue

### Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As the Council and Pension Fund's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from the Council's management.

## Fraud risk assessment

Question	Management response
<p>1. Have the Council and Pension Fund assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Council and Pension Fund's risk management processes link to financial reporting?</p>	<p>We do not believe this to be an issue as no material frauds have been identified during the year. We believe that the risk of unknown material fraud to be low.</p> <p>Our control environment around fraud control has not changed from previous years. A key part of our arrangements is the use SWAP Ltd as our Internal auditors. Their processes have not identified any frauds during 2019/20.</p> <p>There is robust medium term financial plan in place to ensure a sound budget is set for the year. Comprehensive monthly budget monitoring ensures the risks of over or underspending are well managed and projects remain on track. Budget monitoring is part of the overall system of internal controls designed to mitigate against risks of incorrect financial reporting.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Account payable and payroll</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within the Council and Pension Fund as a whole or within specific departments since 1 April 2019? As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>No instances of fraud since 1 April 2019.</p> <p>Regular risk updates are presented to the Audit Committee and each January an Anti-Fraud and Corruption Paper is also presented to this committee. This paper includes a summary of actual, suspected and alleged frauds over the previous year.</p>

## Fraud risk assessment

Question	Management response
<p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within the Council where fraud is more likely to occur?</p>	<p>Areas at risk of fraud are identified by:</p> <ul style="list-style-type: none"> <li>• CIPFA fraud survey</li> <li>• SWAP audit work</li> <li>• Staff allegations</li> <li>• Risk register/assessments</li> </ul>
<p>5. What processes do the Council and Pension Fund have in place to identify and respond to risks of fraud?</p>	<p>Identification through:</p> <ul style="list-style-type: none"> <li>• National Commentaries including CIPFA</li> <li>• NFI work</li> <li>• SWAP Audit work – fraud is considered when scoping audit work, annually financial audits undertaken and fraud related themed audits undertaken.</li> </ul> <p>Response:</p> <ul style="list-style-type: none"> <li>• SWAP trained auditors investigate allegations as they arise.</li> </ul>
<p>6. How would you assess the overall control environment for the Council and Pension Fund, including: the process for reviewing the effectiveness the system of internal control; internal controls, including segregation of duties; exist and work effectively?</p> <p>If not where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>Received a reasonable opinion for the overall adequacy and effectiveness of SCC's governance, risk management and internal control environment. This includes the potential for the occurrence of fraud and how the Council manages fraud risk.</p> <p>Fraud and Corruption Policy that is annually reviewed by Audit Committee</p> <p>No</p>



## Fraud risk assessment

Question	Management response
7. Are there any areas where there is potential for misreporting?	There is always going to be some risk of this but we believe it is very small given the overall control environment.
8. How do the Council and Pension Fund communicate and encourage ethical behaviours and business processes of it's staff and contractors?  How do you encourage staff to report their concerns about fraud?  What concerns are staff expected to report about fraud? Have any significant issues been reported?	Through the use of CORE brief, staff induction & training. All outside organisations contracted are bound by strict ethical behaviours contained within their contract.  Reporting procedures laid out in Anti-Fraud and Corruption Policy. Also through the Council's whistleblowing policy.  Staff must report any concerns they may have regarding fraud and corruption, whether it relates to dishonest behaviours by Council employees, Members, Contractors or by others. No significant issues have been reported during the financial year 2019/20.
9. From a fraud and corruption perspective, what are considered to be high-risk posts?  How are the risks relating to these posts identified, assessed and managed?	Because of the overall governance framework and internal control environment there are no posts that are considered to be high-risk.
10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?  How do you mitigate the risks associated with fraud related to related party relationships and transactions?	All elected members and senior officers are required to provide details of any related party relationships on an annual basis.  SCC staff are bound by the Council's Contract Standing Orders to ensure proper procurement practices are followed at all times.

## Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Audit Committee? How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What has been the outcome of these arrangements so far this year?</p>	<p>The Anti-Fraud and Corruption Policy sets out the ways to report and investigate fraud. These are all reported to Audit Committee through SWAP Ltd.</p> <p>No instances of fraud have been reported in 2019/20.</p>
<p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>No</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>No</p>

## Law and regulations

### Issue

#### Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that the Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditors, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

## Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements do the Council and Pension Fund have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Council or Pension Fund regulatory environment that may have a significant impact on the financial statements?</p>	<p>Somerset County Council's constitution and scheme of delegation outlines the rights, responsibilities and duties of the Council and it's officers. The Monitoring Officer oversees compliance with the constitution and scheme of delegation, and reports on matters he believes are or are likely to be illegal or amount to maladministration. The Monitoring Officer seeks legal advice should he require it, additionally he checks that Legal Services are consulted as part of any decision making process</p>
<p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>All committee report require sign off by statutory officers and other key officers and there is a clear section on legislation</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2019 with an on-going impact on the 2019/2020 financial statements?</p>	<p>No</p>
<p>4. Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>Legal Services have 2 pieces of litigation outstanding which may affect the financial statements. One relates to claims against a builder in relation to 5 children's centres, one of which has already been re-built and the second piece of litigation is a Land Tribunal claim based upon a compulsory purchase order. A sum of money has already been paid to the claimant which SCC believes amounts to 90% of the value however the claimant seeks an additional sum approximately twice the value already paid.</p>

## Impact of laws and regulations

Question	Management response
5. What arrangements do the Council and Pension Fund have in place to identify, evaluate and account for litigation or claims?	Generally speaking within Legal Services, we are instigating claims rather than defending them. Claims are assessed on an individual basis as they are known.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No

# Going Concern

## Issue

### Matters in relation to going concern

ISA (UK) 570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

Going concern considerations have been set out below and management has provided its response.

## Going concern considerations

Question	Management response
<p>1. Has the management team carried out an assessment of the going concern basis for preparing the financial statements for Somerset County Council? What was the outcome of that assessment?</p>	<p>The 2019/20 CIPFA Code of Practice (paragraph 2.1.2.9) sets out the “underlying assumption” around going concern, namely that “an authority’s financial statements shall be prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future”.</p> <p>There are, to our knowledge, no proposed changes to the “machinery of government” that would necessitate a change to the financial Statements, and even if that were to be a change, the Code confirms that “Transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption of going concern”.</p>
<p>2. Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the Council’s Medium Term Financial Plan and the financial information provided to the Audit Committee throughout the year?</p>	<p>Yes</p>

## Going concern considerations

Question	Management response
3. Are the implications of statutory or policy changes appropriately reflected in the Medium Term Financial Plan, financial forecasts and report on going concern?	Yes
4. Have there been any significant issues raised with the Audit Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).	No
5. Does a review of available financial information identify any adverse financial indicators including negative cash flow or poor or deteriorating performance against the better payment practice code? If so, what action is being taken to improve financial performance?	No



## Going concern considerations

Question	Management response
6. Does the Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives? If not, what action is being taken to obtain those skills?	Yes
7. Does the Council have procedures in place to assess their ability to continue as a going concern?	Yes
8. Is management aware of the existence of events or conditions that may cast doubt on the Council's ability to continue as a going concern?	No

## Going concern considerations

Question	Management response
<p>9. Are arrangements in place to report the going concern assessment to the Audit Committee ?</p> <p>How has the Audit Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing financial statements?</p>	<p>The 2019/20 CIPFA Code of Practice (paragraph 2.1.2.9) sets out the “underlying assumption” around going concern, namely that “an authority’s financial statements shall be prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future”.</p> <p>There are, to our knowledge, no proposed changes to the “machinery of government” that would necessitate a change to the financial Statements, and even if that were to be a change, the Code confirms that “Transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption of going concern”.</p>

# Related Parties

## Issue

### Matters in relation to Related Parties

Somerset County Council and Somerset Pension Fund are required to comply with IAS 24 and disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the Council
- associates;
- joint ventures;
- an entity that has an interest in the Council that gives it significant influence over the Council
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any entity that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Council perspective but material from a related party viewpoint then Council must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

## Related Parties

Question	Management response
<p>1. What controls do the Council and Pension Fund have in place to identify, account for and disclose related party transactions and relationships ?</p>	<p>The authorities elected Members are sent an annual questionnaire to identify any material related party transactions, and the findings from the responses are disclosed in the published accounts.</p> <p>The authority reviews existing contractual arrangements to determine whether the authority has significant influence over the other parties due to the considerable proportion of business provided to them by the authority. Any material findings are disclosed in the published accounts.</p>

# Accounting estimates

## Issue

### Matters in relation to Related Accounting estimates

Somerset County Council apply appropriate estimates in the preparation of their financial statements. ISA (UK) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Combined Council identifies the transactions, events and conditions that may give rise to the need for an accounting estimate.

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that the Combined Council is using as part of its accounts preparation; these are detailed in appendix 1 to this report. The audit procedures we conduct on the accounting estimate will demonstrate that:

- the estimate is reasonable; and
- estimates have been calculated consistently with other accounting estimates within the financial statements.

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

## Accounting Estimates

Question	Management response
1. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	Disclosure of existing critical judgements is made within the notes to the accounts within our Statement of Accounts. The impact of COVID-19 will give rise to further disclosure this year, given the level of material uncertainty.
2. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes, where the authority does not have the in-house knowledge to form a reasonable assessment, suitably experienced external professionals are commissioned to assist with the assessment.
3. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Appropriately qualified staff and advisors are used for providing estimates.

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property, plant & equipment Valuations	Current value for land/buildings at depreciated replacement cost/existing use value/fair value	Valuations are performed on a 5 year cyclical basis to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.	Yes	Degree of uncertainty inherent with any revaluation. We employ professional valuers and rely on expert opinion.	No
Estimated remaining useful lives of PPE	Each part of an item of property, plant and equipment with a significant cost in relation to the total cost is depreciated separately. Depreciation methods, useful lives and residual values are reviewed each financial year and adjusted if appropriate.	See left box	Discussion with the Estates team	Depreciation is calculated on a straight line basis as this reflects consumption of assets and is a reasonable assumption.	No

## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation and Amortisation	See above	See above	See above	See above	No
Impairments	Review of all assets undertaken annually	See left.	Discussion with internal asset team as appropriate.	N/A.	No.
Measurement of Financial Instruments	Financial instruments consist of investments and loans. Measured initially at cost and subsequently at amortised cost using the effective interest method.	Knowledge by the Investment team who manages the portfolio in assessing the potential risk in credit losses.	Fund advisers – Arlingclose	The assumptions used are undertaken by Arlingclose as part of the fair value measurement of financial instruments	No



## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions for liabilities	Provisions are identified through detailed monthly management accounts which flags any potential issues to management.	Each provision is separately reviewed by financial accounts and a working is put together to support the calculation.	As necessary on an individual basis	Each provision is assessed on an individual basis to ensure that it meets the criteria of a provision per IAS 37. The degree of uncertainty is assessed when determining whether a provision is the correct treatment for an item.	No.
Bad Debt Provision	Debts are reviewed monthly and any debts that are deemed to be irrecoverable are provided for	Knowledge by the Accounts Receivables team in likelihood of recoverability and the aging of the debts.	N/A	N/A	No.

## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Accruals	The Council use standard accruals accounting –accruals are based on expenses incurred that have not yet been paid.	Monthly management accounts provides rigorous analysis so that any accruals are highlighted and actioned throughout the year.	N/A.	N/A.	No.
Non Adjusting events – events after the balance sheet date	Monthly management accounts prepared would flag any adjusting/non-adjusting events.	See left.	N/A.	N/A.	No.

## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Pension Fund (LGPS) Actuarial gains/losses	The actuarial gains and losses figures are calculated by the actuarial expert Barnett Waddingham. These figures are based on making % adjustments to the closing values of assets/liabilities.	The Council responds to queries raised by the administering body, Somerset Pension Fund.	The Council are provided with an actuarial report by Hymans Roberson (LGPS).	The nature of these figures forecasting into the future are based upon the best information held at the current time and are developed by experts in their field.	No.



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# Somerset County Council

## 2020-21 Internal Audit Plan and Internal Audit Charter

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Agenda item 6

# The Internal Audit Plan: Summary

The internal audit plan represents a summary of the proposed audit coverage that the internal audit team will deliver throughout the 2020/21 financial year.

Delivery of an internal audit programme of work that provides sufficient and appropriate coverage, will enable us to provide a well-informed and comprehensive year-end annual internal audit opinion.

## Introduction and Objective of the Internal Audit Plan

Internal audit provides an independent and objective opinion on the Authority's risk management, governance, and control environment by evaluating its effectiveness.

Prior to the start of each financial year, SWAP, in conjunction with senior management, put together a proposed plan of audit work. The objective of our planning process and subsequent plan is to put us in a position to provide a well-informed and comprehensive annual audit opinion, based on sufficient and appropriate coverage of key business objectives, associated risks, and risk management processes.

The outcomes of each of the audits in our planned programme of work, will provide senior management and Members with assurance that the current risks faced by the Authority in these areas are adequately controlled and managed.

It should be noted that internal audit is only one source of assurance, and the outcomes of internal audit reviews should be considered alongside other sources, as part of the 'three lines of defence' assurance model. Key findings from our internal audit work should also be considered in conjunction with completion of the Authority's AGS.

**It is the responsibility of the Authority's Leadership Team, and the Audit Committee, to determine that the audit coverage contained within the proposed audit plan is sufficient and appropriate in providing independent assurance against the key risks faced by the organisation.**

When reviewing the proposed internal audit plan (as set out in Appendix 1), key questions to consider include:

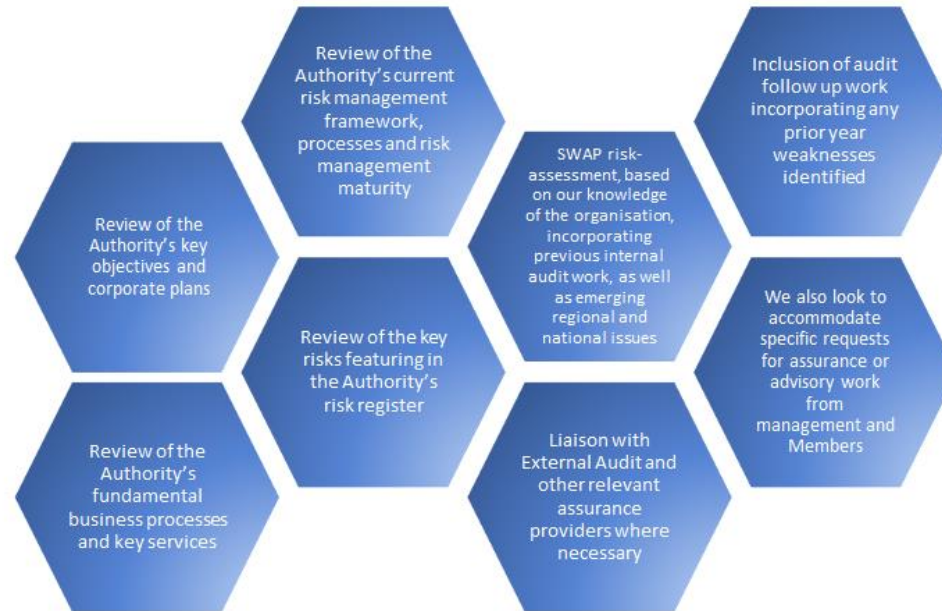
- Are the areas selected for coverage this coming year appropriate?
- Does the internal audit plan cover the organisation's key risks as they are recognised by the Leadership Team and Audit Committee?
- Is sufficient assurance being received within our annual plan to monitor the organisation's risk profile effectively?

# The Internal Audit Plan: Approach

To develop an appropriate risk-based audit plan, SWAP have consulted with senior management, as well as reviewing key documentation, in order to obtain an understanding of the organisation's strategies, key business objectives, associated risks, and risk management processes.

## Approach to Internal Audit Planning 2020/21

The factors considered in putting together the 2020/21 internal audit plan have been set out below:



Due to the pace of change, transition and transformation within Somerset County Council, it is getting more difficult to accurately predict longer-term organisational risks within a fixed twelve month plan. This year we are already needing to make changes in response to the Covid-19 pandemic. It is important that we are flexible in our planning approach and responsive to changing organisational risk. This year we have therefore prepared an agile, risk-assessed work plan, containing key areas of coverage, that will be updated as the year progresses. We will regularly re-visit and adjust our programme of audit work to ensure that it matches the changing risk profile of the organisation's operations, systems and priorities. This will ensure that we are auditing the right areas at the right time.



# The Internal Audit Plan: Risk Assessment

A documented risk assessment prior to developing an internal audit plan, ensures that sufficient and appropriate areas are identified for consideration.

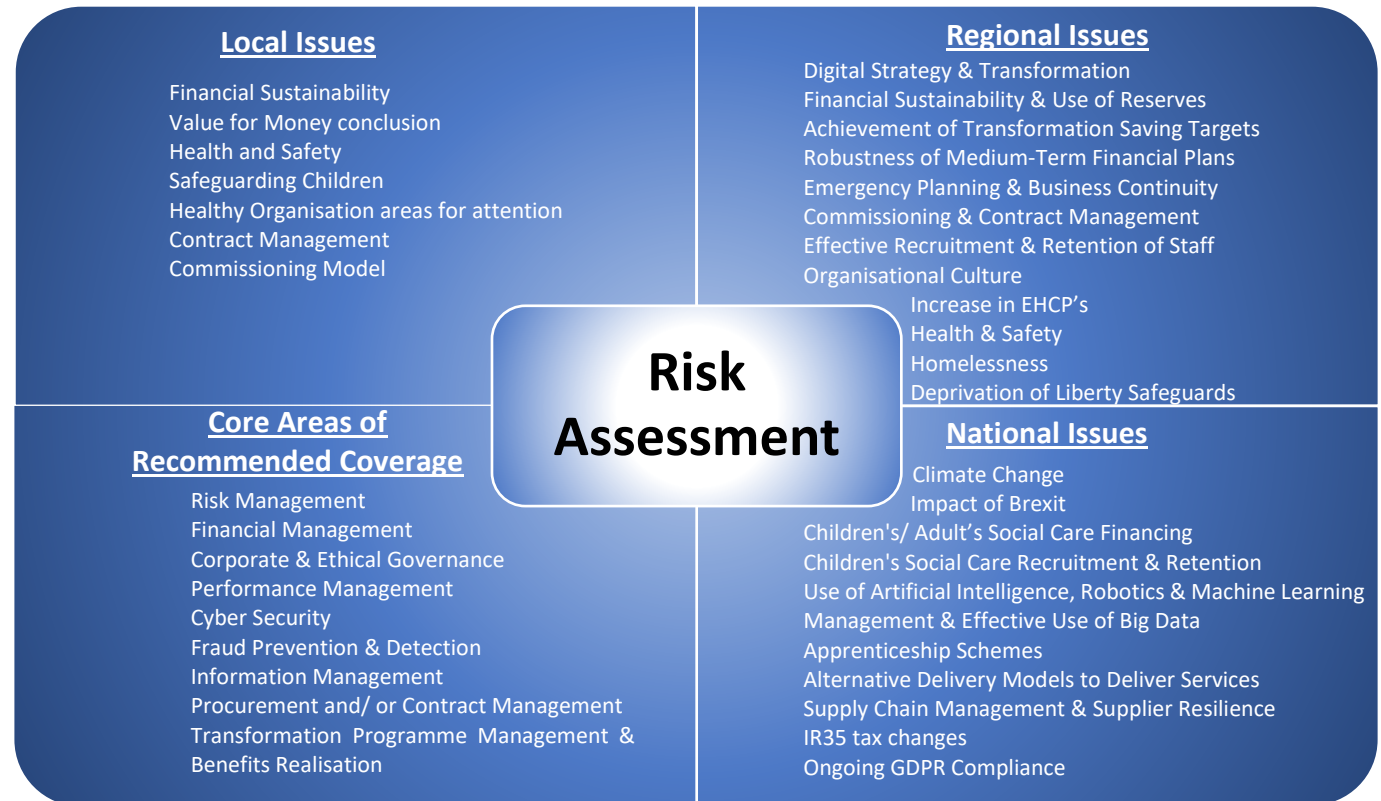
As above, it is the responsibility of the Authority's Leadership Team, and the Audit Committee to ensure that, following our risk assessment, the proposed plan contains sufficient and appropriate coverage.

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## Internal Audit Annual Risk Assessment

Our 2020/21 internal audit programme of work is based on a documented risk assessment, which SWAP will revisit regularly, but at least annually. The input of senior management as well as review of the Authority's risk register will be considered in this process.

Below we have set out a summary of the outcomes of the risk assessment for Somerset County Council:





# The Internal Audit Plan: Risk Assessment

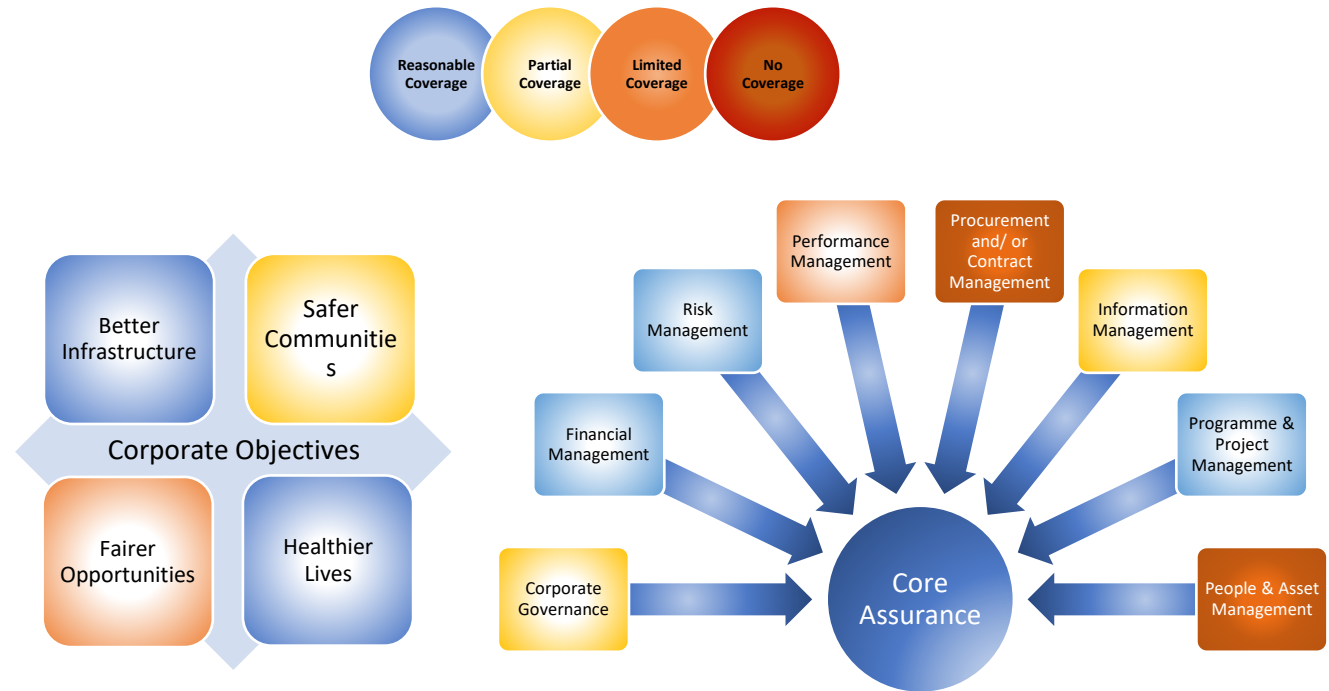
Following our SWAP Risk Assessment above, we have set out how the proposed 20/21 plan presented in Appendix 1 provides coverage of the Authority's key corporate objectives and risks, as well as our core areas of recommended audit coverage.

Internal audit is only one source of assurance; therefore, where we have highlighted gaps in our coverage, assurance should be sought from other sources where possible in order to ensure sufficient and appropriate assurances are received.

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## Internal Audit Coverage in 2020/21

Following our SWAP risk assessment, we have set out below the extent to which the proposed plan presented in Appendix 1 provides coverage of the Authority's key corporate objectives and risks, as well as our core areas of recommended audit coverage. Where we have highlighted limited or no coverage, Senior Management and Audit Committee should seek and document assurance from alternative sources, or consider re-focussing internal audit resource to provide coverage of these areas:



*Internal audit coverage can never be absolute and responsibility for risk management, governance and internal control arrangements will always remain fully with management. As such, internal audit cannot provide complete assurance over any area, and equally cannot provide any guarantee against material errors, loss or fraud.*

## The Internal Audit Plan: SWAP

SWAP Internal Audit Services is a public sector, not-for-profit partnership, owned by the public sector partners that it serves. The SWAP Partnership now includes 24 public sector partners, crossing eight Counties, but also providing services throughout the UK.

As a company, SWAP has adopted the following values, which we ask our clients to assess us against following every piece of work that we do:

- Candid
- Relevant
- Inclusive
- Innovative
- Dedicated

### Your Internal Audit Service

#### Audit Resources

The 2020/21 internal audit programme of work will be equivalent to 1,400 days. The current internal audit resources available represent a sufficient and appropriate mix of seniority and skill to be effectively deployed to deliver the planned work. The key contacts in respect of your internal audit service for Somerset County Council are:

**Lisa Fryer, Assistant Director – [Lisa.Fryer@swapaudit.co.uk](mailto:Lisa.Fryer@swapaudit.co.uk) 07720 312465**

**Jenny Frowde, Principal Auditor – [Jenny.Frowde@swapaudit.co.uk](mailto:Jenny.Frowde@swapaudit.co.uk) 07920 014084**

**Darren Roberts, Assistant Director ICT – [Darren.Roberts@swapaudit.co.uk](mailto:Darren.Roberts@swapaudit.co.uk), 07720 312466**

#### External Quality Assurance

SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note.

Every three years, SWAP is subject to an External Quality Assessment of Internal Audit Activity. The last of these was carried out in March 2016 which confirmed conformance with the Public Sector Internal Audit Standards.

#### Conflicts of Interest

We are not aware of any conflicts of interest within Somerset County Council that would present an impairment to our independence or objectivity. Furthermore, we are satisfied that we will conform with our IIA Code of Ethics in relation to Integrity, Objectivity, Confidentiality, & Competency.

#### Consultancy Engagements

As part of our internal audit service, we may accept proposed consultancy engagements, based on the engagement's potential to improve management of risk, add value and improve the organisation's operations. Consultancy work that is accepted, will contribute to our annual opinion and will be included in our plan of work.

#### Approach to Fraud

Internal audit may assess the adequacy of the arrangements to prevent and detect irregularities, fraud and corruption. We have dedicated counter fraud resource available to undertake specific investigations if required. However, the primary responsibility for preventing and detecting corruption, fraud and irregularities rests with management who should institute adequate systems of internal control, including clear objectives, segregation of duties and proper authorisation procedures.

# The Internal Audit Plan: Approach

Over and above our internal audit service delivery, SWAP will look to add value throughout the year wherever possible. This will include:

- Benchmarking and sharing of best-practice between our public-sector Partners
- Regular newsletters and bulletins containing emerging issues and significant risks identified across the SWAP partnership
- Communication of fraud alerts received both regionally and nationally
- Annual Member training sessions

## Our Reporting

A summary of internal audit activity will be reported quarterly to senior management and the Audit Committee. This reporting will include any significant risk and control issues (including fraud risks), governance issues and other matters that require the attention of senior management and/or the Audit Committee. We will also report any response from management to a risk we have highlighted that, in our view, may be unacceptable to the organisation.

## Internal Audit Performance:

As part of our regular reporting to senior management and the Audit Committee, we will report on internal audit performance. The following performance targets will be used to measure the performance of our audit activity:

Performance Measure	Performance Target
<p style="text-align: center;"><b><u>Delivery of Annual Internal Audit Plan</u></b> Completed at year end</p>	>90%
<p style="text-align: center;"><b><u>Quality of Audit Work</u></b> Overall Client Satisfaction <i>(did our audit work meet or exceed expectations, when looking at our Communication, Auditor Professionalism and Competence, and Value to the Organisation)</i></p>	>95%
<p style="text-align: center;"><b><u>Outcomes from Audit Work</u></b> Value to the Organisation <i>(client view of whether our audit work met or exceeded expectations, in terms of value to their area)</i></p>	>95%

# Somerset County Council Proposed Internal Audit Plan 2020/21

## APPENDIX 1

*It should be noted that the audit titles and high-level scopes included below are only indicative at this stage for planning our resources. At the start of each audit, an initial discussion will be held to agree the specific terms of reference for the piece of work, which includes the objective and scope for the review.*

Link to Corporate Objective/ Corporate Risk Register or Healthy Organisation Theme	Areas of Coverage and Brief Rationale	Audit Sponsor/ Senior Management Lead	Priority (H,M,L) & Proposed Timing (Earlier, Later)
<b>Better Infrastructure</b> <i>A county infrastructure that drives productivity, supports economic prosperity and sustainable public services</i>	<b>Adults - Budget Management</b> To focus on compliance with budget management/monitoring requirements across the service.	Director of Adult Social Care	High/Earlier
	<b>Adults - Workforce Planning</b> To review effectiveness of workforce planning initiatives and consider whether gaps exist.	Director of Adult Social Care	High/Later
	<b>Property Services - Corporate Landlord Model</b> Properties are now being managed centrally. This review will consider the effectiveness of these new arrangements.	Lead Director of ECI and Commissioning	High/Later
	<b>Community Asset Transfers</b> Consultancy review to inform future approach.	Lead Director of ECI and Commissioning	Medium/Earlier
	<b>Compliance with CDM (Construction Design Management) Regulations</b> Focus on maintenance and infrastructure in highways/transport commissioning.	Lead Director of ECI and Commissioning	Medium/Later
	<b>School Transport Commissioning - Big Bus Initiative</b> SCC have purchased buses for school bus routes. Advisory review of this new initiative.	Lead Director of ECI and Commissioning	High/Later
	<b>Enterprise Centre Design and Build</b> Assurance in relation to significant area of investment for SCC.	Lead Director of ECI and Commissioning	Medium/Later

Link to Corporate Objective/ Corporate Risk Register or Healthy Organisation Theme	Areas of Coverage and Brief Rationale	Audit Sponsor/ Senior Management Lead	Priority (H,M,L) & Proposed Timing (Earlier, Later)
	<p><b>Governance of the LEP</b> Inclusion reflective of fact that SCC is the accountable body for the LEP.</p> <p><b>Business Continuity</b> Focus on plans for longer term incidents.</p>	<p>Lead Director of ECI and Commissioning</p> <p>Lead Director of ECI and Commissioning/Director of Public Health</p>	<p>High/Earlier</p> <p>High/Later</p>
<p><b>Safer Communities</b> <i>Safe, vibrant and well-balanced communities able to enjoy and benefit from the natural environment.</i></p>	<p><b>Early Help Assessments</b> Early help teams have been brought together. New processes have been introduced and the audit will consider whether these are being complied with.</p> <p>Somerset Waste Partnership has its own internal audit plan. This will include contract management review of new collection contract.</p>	<p>Director of Children's Services</p>	<p>High/Later</p>
<p><b>Fairer Opportunities</b> <i>Fairer life chances and opportunity for all.</i></p>	<p><b>Apprenticeship Scheme</b> Compliance with scheme. Will consider retention of the apprentices and integration into the organisation.</p> <p><b>SEN – Caseloads</b> No minimum standards currently exist.</p> <p><b>Children's – Education, Health and Care Plan Reviews (EHCPs)</b> Consider the effectiveness of the review process in achieving outcomes.</p> <p><b>The Impact of the Exclusions and Attendance Protocol</b> Review effectiveness of new protocol.</p> <p><b>Children's Independent Placements - Financial Controls &amp; Contract Management</b> Covering both fostering and educational placements and contracts.</p>	<p>Director of HR &amp; OD</p> <p>Director of Children's Services</p> <p>Director of Children's Services</p> <p>Director of Children's Services</p> <p>Director of Children's Services</p>	<p>High/Earlier</p> <p>High/Earlier</p> <p>High/Later</p> <p>High/Later</p> <p>High/Later</p>

Link to Corporate Objective/ Corporate Risk Register or Healthy Organisation Theme	Areas of Coverage and Brief Rationale	Audit Sponsor/ Senior Management Lead	Priority (H,M,L) & Proposed Timing (Earlier, Later)
<b>Healthier Lives</b> <i>Improved health and wellbeing and more people living healthy and independent lives for longer.</i>	<b>Adults Commissioning</b> Expect to focus on Home First delivery. To involve benchmarking work.  <b>Adults Use of Eclipse</b> Eclipse implementation planned for Q1 2020/21. Agree scope once system has embedded.	Director of Adult Social Care  Director of Adult Social Care	High/Later  High/Later
<b>Healthy Organisation</b> <i>Improved health and wellbeing and more people living healthy and independent lives for longer.</i>	This review gives a strategic overview across all areas of governance and is carried out every two years.	Governance Board	High/Later
<b>Corporate Governance</b> <i>Corporate Governance refers to the strategic management practices and values and beliefs by which the Council operates.</i>	<b>Whistleblowing</b> Review of revised protocol.	Monitoring Officer	Medium/Later

Link to Corporate Objective/ Corporate Risk Register or Healthy Organisation Theme	Areas of Coverage and Brief Rationale	Audit Sponsor/ Senior Management Lead	Priority (H,M,L) & Proposed Timing (Earlier, Later)
<p><b>Financial Management</b> <i>Effective Financial Management is the bedrock of any successful organisation and is vital to the ongoing ability of local authorities to deliver services that the public wants.</i></p>	<p><b>Financial Procedures</b> Review to provide assurance that these are up to date and readily assessable.</p> <p><b>Staff Expenses</b> Review to provide assurance in relation to the validity of expenses.</p> <p><b>Parking Income</b> Financial controls compliance of this important income stream.</p>	<p>Finance Director</p> <p>Finance Director</p> <p>Lead Director of ECI and Commissioning/Finance Director</p>	<p>High/Later</p> <p>Medium/Earlier</p> <p>Medium/Earlier</p>
<p><b>Risk Management</b> <i>Organisations which operate under a structured and active risk management approach, are far more likely to be able to focus upon their key priorities and outcomes and, in doing so, take informed and robust decisions.</i></p>	<p><b>Insurance Claims</b> Assurance over validity of claims</p>	<p>Finance Director</p>	<p>Medium/Earlier</p>
<p><b>Performance Management</b> <i>Performance management provides a transparent platform upon which the service is accountable to its citizens and service users for the effectiveness of its service provision and delivery of its objectives.</i></p>	<p>No specific audits scheduled – overview will be provided by Healthy Organisation Review.</p>		

Link to Corporate Objective/ Corporate Risk Register or Healthy Organisation Theme	Areas of Coverage and Brief Rationale	Audit Sponsor/ Senior Management Lead	Priority (H,M,L) & Proposed Timing (Earlier, Later)
<p><b>Commissioning &amp; Procurement</b> <i>Assessing Procurement &amp; Commissioning activity of a Local Authority is a critical determinant in establishing its effectiveness in both being able to deliver benefit for its community, but also in showing whether it can maximise value for money for its taxpayers.</i></p>	<p><b>Corporate Contract Management</b> This audit will review the updated Contract Management framework. Consistency of approach will be a consideration.</p> <p><b>Commissioning</b> No specific audits scheduled – overview will be provided by Healthy Organisation Review.</p>	Corporate Affairs Director	High/Earlier
<p><b>ICT/Information Management</b> <i>Effective ICT will facilitate and support effective working, better decision-making, improved customer service and business transformation.</i></p>	<p><b>Cyber Security Framework Review</b> Review of 20 key controls to provide assurance and to focus future risk based reviews.</p> <p><b>ICT Governance Risk Scope Review</b> Position statement covering key areas of risk across SCC ICT enterprise and infrastructure.</p> <p><b>Detailed Cyber Security Reviews</b> Full risk based audit work. Scope will be determined from outcomes of the cyber security framework review.</p> <p><b>Information Asset Register</b> Review of updated register.</p>	Corporate Affairs Director	High/Earlier  High/Earlier  High/Later  High/Later



Link to Corporate Objective/ Corporate Risk Register or Healthy Organisation Theme	Areas of Coverage and Brief Rationale	Audit Sponsor/ Senior Management Lead	Priority (H,M,L) & Proposed Timing (Earlier, Later)
<p><b>Programme &amp; Project Management</b> <i>Organisations which can demonstrate and operate under a structured and active approach are far more likely to be able to focus their efforts and successfully achieve the delivery of anticipated outcomes.</i></p>	<p><b>Project Management - use of Project Mobilisation Toolkit</b> Review of new Project Mobilisation Toolkit. To include benefits realisation.</p>	Strategic Manager – Business Change	Medium/Later
<p><b>People Management</b> <i>Organisations which can demonstrate and operate under a structured and active approach are far more likely to be able to focus resources against key priorities and, as a direct result, deliver improved outcomes.</i></p>	<p>See also above already covered within corporate priorities:</p> <ul style="list-style-type: none"> <li>• Apprenticeship schemes</li> </ul>	Director of HR & OD	
<p><b>Asset Management</b> <i>Organisations which can demonstrate and operate under a structured and active approach are far more likely to be able to focus resources against key priorities and, as a direct result, deliver improved outcomes.</i></p>	<p>See also above already covered within corporate priorities:</p> <ul style="list-style-type: none"> <li>• Corporate Landlord Model</li> <li>• Community asset transfers</li> </ul>	Lead Director of ECI and Commissioning	

Link to Corporate Objective/ Corporate Risk Register or Healthy Organisation Theme	Areas of Coverage and Brief Rationale	Audit Sponsor/ Senior Management Lead	Priority (H,M,L) & Proposed Timing (Earlier, Later)
<b>School Themes</b> <i>Visits are made to schools for all themes covered and overall findings reported.</i>	<b>Schools Safeguarding</b> Scope to be informed by recent internal review.  <b>Schools Financial Value Standard (SFVS)</b> First year of revised scheme.  <b>Early Years Funding</b> Compliance with Somerset Code of Practice.	Director of Children's Services	High/Earlier  Medium/Later  High/Later
<b>Grant Certification</b> <i>As required by funding stream.</i>	<b>Troubled Families</b> Internal audit requirement of DCLG to review claims submitted. Expect to audit six claim periods per year. Programme due to run until 2021.  <b>BDUK Audit Certification</b> Annual certification is a requirement of BDUK to assess funding.  <b>Local Transport Capital Block Funding</b> Annual certification is a requirement of Department of Transport.	Director of Children's Services  Lead Director of ECI and Commissioning  Lead Director of ECI and Commissioning	Across the year  Later  Earlier
<b>Other</b>	<b>Treasury Management Processes</b> Advisory review to support move to digitalise Treasury Management functions.  <b>Organisational Redesign</b> Advisory time to be used as required across the year.  <b>Provision for Fraud and Corruption</b> Advice and review as required across the year.	Finance Director  SLT  Finance Director	Earlier  As required through the year  As required through the year

Link to Corporate Objective/ Corporate Risk Register or Healthy Organisation Theme	Areas of Coverage and Brief Rationale	Audit Sponsor/ Senior Management Lead	Priority (H,M,L) & Proposed Timing (Earlier, Later)
<p><b>Follow-ups</b> <i>All partial opinion audits are followed up – as agreed with the audit committee.</i></p>	<p><b>Finance</b></p> <ul style="list-style-type: none"> <li>• Cash Handling</li> <li>• Debt Management</li> </ul> <p><b>Risk Management</b></p> <p><b>Performance Management</b></p> <ul style="list-style-type: none"> <li>• Service Planning</li> </ul> <p><b>Procurement</b></p> <ul style="list-style-type: none"> <li>• Supplier Resilience</li> </ul> <p><b>Human Resources</b></p> <ul style="list-style-type: none"> <li>• Lone Working</li> <li>• Corporate Management of Health and Safety</li> <li>• Role of the Somerset Manager</li> </ul> <p><b>Children's</b></p> <ul style="list-style-type: none"> <li>• Education of Children Looked After</li> <li>• Children's Education, Health and Care Plans (EHCPs)</li> </ul> <p><b>Adults</b></p> <ul style="list-style-type: none"> <li>• FAB Assessments</li> <li>• Mental Health - Financial Decision Making</li> </ul> <p><b>Public Health</b></p> <ul style="list-style-type: none"> <li>• Transfer of Public Health Nursing Services</li> </ul> <p><b>Corporate Property</b></p> <ul style="list-style-type: none"> <li>• Schools Corporate Property Maintenance</li> </ul>	<p>Finance Director</p> <p>Finance Director</p> <p>Corporate Affairs Director</p> <p>Corporate Affairs Director</p> <p>Director of HR &amp; OD</p> <p>Director of Children's Services</p> <p>Director of Adult Social Care</p> <p>Director of Public Health</p> <p>Lead Director of ECI and Commissioning</p>	<p>Follow-up scheduled across the year</p>

Link to Corporate Objective/ Corporate Risk Register or Healthy Organisation Theme	Areas of Coverage and Brief Rationale	Audit Sponsor/ Senior Management Lead	Priority (H,M,L) & Proposed Timing (Earlier, Later)
<b>Advice and Support</b>	<ul style="list-style-type: none"> <li>• Audit Advice and Planning including Head of Internal Audit role.</li> <li>• Committee Reporting and attendance at other corporate meetings.</li> <li>• Data Analytics – involvement in SWAP wide data analytics work.</li> </ul>		

## The Internal Audit Charter

### Purpose

The purpose of this Charter is to set out the nature, role, responsibility, status and authority of internal auditing within Somerset County Council, and to outline the scope of internal audit work.

### Approval

This Charter was last approved by the Audit Committee on 28<sup>th</sup> March 2019 and is reviewed each year to confirm it remains accurate and up to date.

### Provision of Internal Audit Services

The internal audit service is provided by the SWAP Internal Audit Services (SWAP). This charter should be read in conjunction with the Service Agreement, which forms part of the legal agreement between the SWAP partners.

The budget for the provision of the internal audit service is determined by Somerset County Council in conjunction with the Members Meeting. The general financial provisions are laid down in the legal agreement, including the level of financial contribution by the organisation, and may only be amended by unanimous agreement of the Members Meeting. The budget is based on an audit needs assessment that was carried out when determining the organisation's level of contribution to SWAP. This is reviewed each year by the S151 Officer in consultation with the Chief Executive of SWAP

### Role of Internal Audit

The Accounts and Audit (England) Regulations 2015, state that: *"A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the public sector internal auditing standards or guidance."*

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the Organisation's operations. It helps Somerset County Council accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

### Responsibilities of Management, Audit Committee and Internal Audit

#### Management<sup>1</sup>

Management is responsible for ensuring SWAP:

- has the support of management and the organisation; and
- has direct access and freedom to report to senior management, including the Chief Executive and the Audit Committee
- is notified of suspected or detected fraud, corruption or impropriety.

Management is responsible for maintaining internal controls, including proper accounting records and other management information suitable for running the Organisation. Management is also responsible for the appropriate and effective management of risk.

#### Audit Committee<sup>2</sup>

The audit committee is responsible for approving the scope of internal audit work, receiving communications from the SWAP Assistant Director on the progress of work undertaken, reviewing the

<sup>1</sup> In this instance Management refers to the Senior Management Team and Statutory Officers.

<sup>2</sup> In this instance the Audit Committee relates to "The Board" referred to in the PSIAS.

independence, objectivity, performance, professionalism and effectiveness of the Internal Audit function, and obtaining reassurance from the SWAP Assistant Director as to whether there are any limitations on scope or resources.

### **Internal Audit**

The SWAP Assistant Director, as Head of Internal Audit, is responsible for determining the scope, except where specified by statute, of internal audit work and for recommending the action to be taken on the outcome of, or findings from, their work.

Internal audit is responsible for operating under the policies established by management in line with best practice.

Internal audit is responsible for conducting its work in accordance with the mandatory elements of the Code of Ethics and Standards for the Professional Practice of Internal Auditing as set by the Institute of Internal Auditors and further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note. SWAP has been independently assessed and found to be in Conformance with the Standards.

Internal audit is not responsible for any of the activities which it audits. SWAP staff will not assume responsibility for the design, installation, operation or control of any procedures. SWAP staff who have previously worked for the organisation will not be asked to review any aspects of their previous department's work until one year has passed since they left that area.

### **Relationship with the External Auditors/Other Regulatory Bodies**

Internal Audit will co-ordinate its work with others wherever this is beneficial to the organisation.

### **Status of Internal Audit in the Organisation**

\*The Chief Executive of SWAP is responsible to the SWAP Board of Directors and the Members Meeting. Appointment or removal of the Chief Executive of SWAP is the sole responsibility of the Members Meeting.

The Chief Executive for SWAP, the Executive Director and Assistant Director also report to the Section 151 Officer, and reports to the Audit Committee as set out below.

The Assistant Director will be the first and primary point of contact for the organisation for all matters relating to the Audit Committee, including the provision of periodic reports, as per company policy. The Assistant Director is also responsible for the design, development and delivery of audit plans, subject to the agreement of Somerset County Council.

### **Scope and authority of Internal Audit work**

There are no restrictions placed upon the scope of internal audit's work. SWAP staff engaged on internal audit work are entitled to receive and have access to whatever information or explanations they consider necessary to fulfil their responsibilities to senior management. In this regard, internal audit may have access to any records, personnel or physical property of the organisation.

Internal audit work will normally include, but is not restricted to:

- reviewing the reliability and integrity of financial and operating information used for operational and strategic decision making, and the means used to identify, measure, classify and report such information;
- evaluating and appraising the risks associated with areas under review and make proposals for improving the management and communication of risks;

- appraise the effectiveness and reliability of the enterprise risk management framework and recommend improvements where necessary;
- assist management and Members to identify risks and controls with regard to the objectives of the organisation and its services;
- reviewing the systems established by management to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports, and determining whether the organisation is in compliance;
- reviewing the means of safeguarding assets and, as appropriate, verifying the existence of assets;
- appraising the economy, efficiency and effectiveness with which resources are employed;
- reviewing operations or programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned, with performance and accountabilities established.
- reviewing the operations of the organisation in support of their anti-fraud and corruption policy, ethical expectations and corporate values, investigating where necessary.
- at the specific request of management, internal audit may provide consultancy services (including fraud investigation services) provided:
  - the internal auditor's independence is not compromised
  - the internal audit service has the necessary skills to carry out the assignment, or can obtain such skills without undue cost or delay
  - the scope of the consultancy assignment is clearly defined and management have made proper provision for resources the work.
  - management understand that the work being undertaken is not internal audit work.

### **Planning and Reporting**

SWAP will submit to the Audit Committee for approval, an annual internal audit plan, setting out the recommended scope of their work in the period.

The annual plan will be developed with reference to the risks the organisation will be facing in the forthcoming year, whilst providing a balance of current and on-going risks, reviewed on a cyclical basis. The plan will be reviewed on a quarterly basis to ensure it remains adequately resourced, current and addresses new and emerging risks.

SWAP will carry out the work as agreed, report the outcome and findings, and will make recommendations on the action to be taken as a result to the appropriate manager and Director. SWAP will report at least two times a year to the Audit Committee or as agreed. SWAP will also report a summary of their findings, including any persistent and outstanding issues, to the Audit Committee on a regular basis.

Internal audit reports will normally be by means of a brief presentation to the relevant manager accompanied by a detailed report in writing. The detailed report will be copied to the relevant line management, who will already have been made fully aware of the detail and whose co-operation in preparing the summary report will have been sought.

The Assistant Director will submit an annual report to the Audit Committee providing an overall opinion of the status of risk and internal control within Somerset County Council, based on the internal audit work conducted during the previous year.

In addition to the reporting lines outlined above, the Chief Executive of SWAP and SWAP Directors and Assistant Directors have the unreserved right to report directly to the Leader of the Council, the Chairman of the Audit Committee, the organisation's Chief Executive Officer or the External Audit Manager.





# Somerset County Council

## Annual Report and Opinion 2019-20

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Agenda item 7

Internal Audit ■ Risk ■ Special Investigations ■ Consultancy

Unrestricted

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

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**The Head of Internal Audit is required to provide an opinion to support the Annual Governance Statement.**

## Purpose

The Head of Internal Audit (SWAP Assistant Director) should provide a written annual report to those charged with governance to support the Authority's Annual Governance Statement (AGS). This report should include the following:

- an opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and internal control environment, including an evaluation of the following:
  - the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities.
  - whether the information technology governance of the organisation supports the organisation's strategies and objectives.
  - the effectiveness of risk management processes.
  - the potential for the occurrence of fraud and how the organisation manages fraud risk.
- disclose any qualifications to that opinion, together with the reasons for the qualification;
- present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies;
- draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement;
- compare the work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and criteria; and
- comment on compliance with these standards and communicate the results of the internal audit quality assurance programme.

The purpose of this report is to satisfy this requirement and Members are asked to note its content and the Annual Internal Audit Opinion given.

The Head of Internal Audit is required to provide an opinion to support the Annual Governance Statement.

### Scope

The Internal Audit service for Somerset County Council is provided by SWAP Internal Audit Services. The Team’s work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note. The work of the team is guided by the Internal Audit Charter which is reviewed annually.

Internal Audit provides an independent and objective opinion on the Authority’s control environment by evaluating its effectiveness. Primarily the work of the service is based on the Annual Plan agreed by Senior Management and this Committee (see Appendix 2). This report summarises the activity of the Internal Audit Team for the 2018/19 year against the Internal Audit Plan (approved by the Audit Committee, 28<sup>th</sup> March 2019).

The position of Internal Audit within an organisation’s governance framework is best summarised in the three lines of defence model shown below.



Adapted from ECIIA/FERMA *Guidance on the 8th EU Company Law Directive, article 41*

The Head of Internal Audit is required to provide an opinion to support the Annual Governance Statement.

## Annual Opinion

I have considered the balance of audit work in 2019/20 and the assurance levels provided, together with the response from Senior Management and offer '**Reasonable Assurance**' in respect of the areas reviewed during the year.

Internal Audit has not reviewed all risks and assurances relating to Somerset County Council and cannot provide absolute assurance on the internal control environment. Senior Management and Members through the various committees are ultimately responsible for ensuring an effective system of internal control. Our opinion is derived from the completion of the risk based internal audit plan at **Appendix 2**, and as such it is one source of assurance on the adequacy of the internal control environment. Audit Coverage is considered adequate, however, to be able to provide an overall opinion.

The Annual Opinion is made based on the following sources of information:

- Completed audits (Final & Draft - during the year 2019/20) which evaluate risk exposures relating to the organisation's governance, operations and information systems, reliability and integrity of information, efficiency and effectiveness of operations and programmes, safeguarding of assets and compliance with laws and regulations.
- Observations from consultancy/advisory support.
- Follow up of previous audit activity, including agreed actions.
- Significant/material risk where management has not accepted the need for mitigating action.
- Notable changes to the organisation's strategy, objectives, processes or IT infrastructure.
- Assurances from other providers, including third parties, regulator reports etc.

Opinions are a balanced reflection not a snapshot in time. Information to support this assessment is obtained from multiple engagements and sources. The results of these engagements, when viewed together, provide an understanding of the organisation's risk management processes and their effectiveness.

Over the year, the Internal Audit Team have found Senior Management of Somerset County Council to be generally supportive of Internal Audit findings and responsive to the recommendations made. In addition, there is a good relationship with Management whereby they feel they can approach the Internal Audit Team where they perceive to be potential problems.

Generally, the follow up work confirms the implementation of agreed recommendations to mitigate exposure to areas of significant risk. Follow-up arrangements are also supported by the 'call in' meetings where service managers are questioned on progress against their action plans, providing greater scrutiny and challenge. In 2019/20, twelve follow-up audits were undertaken, nine of which have been finalised. For eight of these the risks have been judged to have been reduced sufficiently to be removed from the risk management system.

A Healthy Organisation follow-up review was completed in the year. There was evidence of a clear effort to address the areas for attention highlighted in 2018/19. Most actions have either been completed or are in progress (see page 10 for breakdown). Future financial sustainability remains a high risk for SCC, it is encouraging that seven of the eight areas of improvement relating to financial management were found to be at least in progress. Assisted by the FIP programme there was a significant improvement in the council's short-term financial prospects and General Fund Reserves increased.

In relation to the 2019/20 internal audit plan a total of 50 reviews have been delivered. In agreement with management, and previously reported to this Committee, some changes have been agreed in the year as the need to respond to new and emerging risks was identified. The 'new' audits and those deferred/removed from the Plan can be identified in **Appendix 2.**

45 of the audits are either at final or draft report stage. Of these, 28 have opinions with one substantial (4%), 14 (50%) reasonable and the remaining given partial assurance. Last year's substantial/reasonable percentage was 62% an improvement on 2017/18 where the proportion was 37%. The focus of the internal audit plan is on high risk areas and therefore this reduction is really encouraging, particularly given the continued focus of the Council during the year has been on addressing the shortfall in financial resources.

There are no specific concerns in relation to fraud risk at this time and there have been no significant fraud investigations during the year.

COVID 19 disrupted the delivery of the 2019-20 Internal Audit Plan in the final few weeks of the financial year. As a result delivery of a small proportion of audits slowed and reductions to scope agreed. I do not consider this impact significant to our work when forming the 2019-20 Annual Internal Audit Opinion.

### High Corporate Risks

Risks that we consider need to be brought to the attention of both senior management and the Audit Committee.

### High Corporate Risk

For those audits which have reached final report stage through the year, a number of audits have been assessed as being a medium corporate risk but none were assessed during the year as 'High'.

## Partial Assurance Audits

Risks that we consider need to be brought to the attention of both senior management and the Audit Committee

## Partial Assurance Summary

The following audits received a Partial assurance opinion in respect of their control environments in 2019/20.

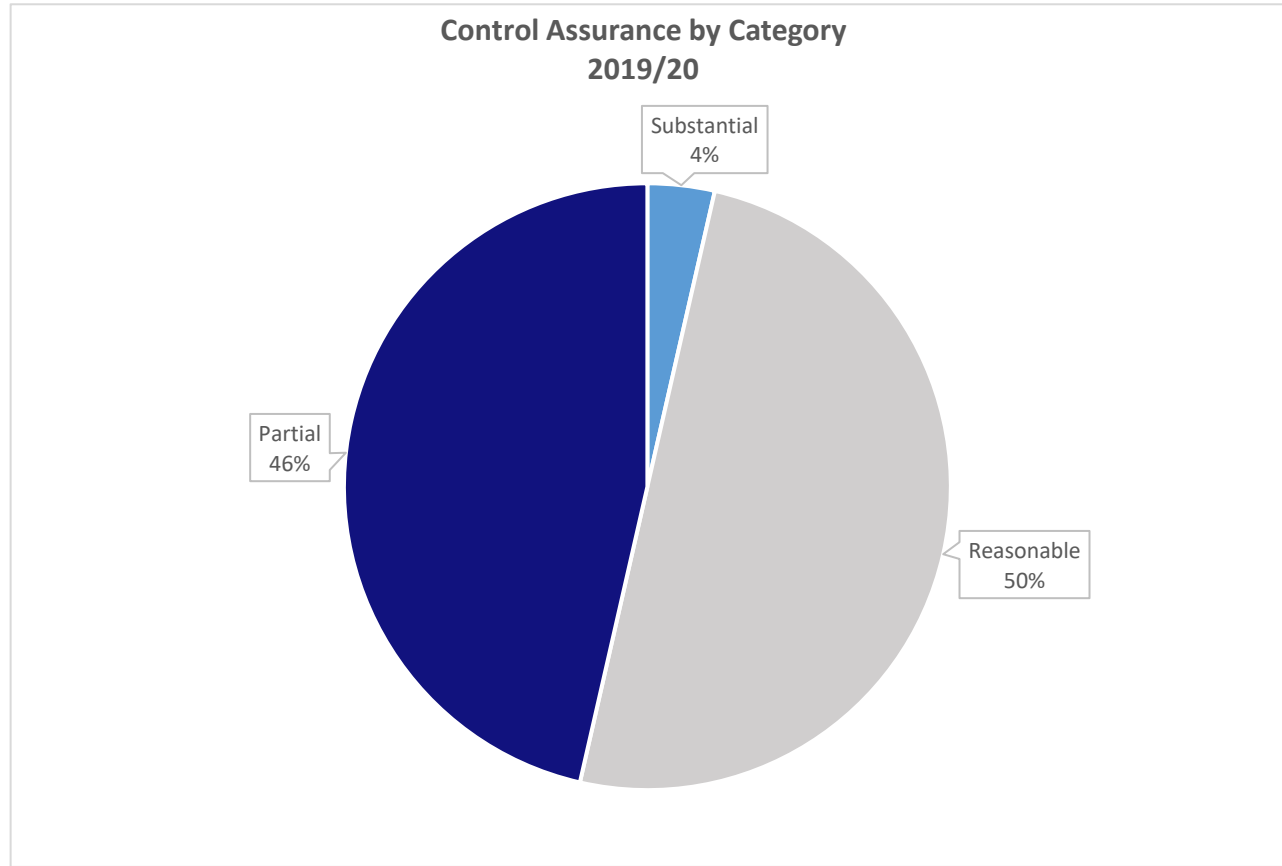
Audit Name	Key Issues
Supplier Resilience	No consistent and co-ordinated approach to supplier resilience across SCC most significantly once the contract has been awarded.
Mental Health – Financial Decision Making	Several significant weaknesses in the processes for recording, agreement and review of mental health care plans were reported.
Cash Handling	Key issues related to maintaining segregation of duties and audit trails.
Service Planning	
Early Years – Compliance with Code of Practice	Non-compliance with the Somerset Local Provider Agreement with some overclaiming reported.
Children’s Education, Health and Care Plans (EHCPs)	High staff turnover and caseloads are key root causes leading to difficulties in meeting statutory timeframes. The shortage of Educational Psychologists, both in the local area and nationally is of real concern.
Public Health Nursing Services CQC Readiness – Governance Arrangements	There are inconsistent levels of awareness and understanding and some inconsistent practice across staff teams.
Financial and Benefits (FAB) Assessments	Client evidence are currently not collected and retained following an assessment, which means there is reduced assurance that the assessment accurately reflects the information submitted.
Debt Management	Low level of compliance with the Income Code of Practice timescales and recording requirements across service areas.
Somerset Virtual School	Personal Education Plan meetings delayed or not held.
Career Development and Pathways	No agreed consistent approach to career development followed across SCC.
Creditors	Ongoing high level of non-purchase orders. Lack of alignment of authorised officers in SAP and agreed levels of delegation.
Compliance with Corporate Purchasing Policy	Non alignment of the Commissioning Gateway, Contract Procedure rules and the 10 Point Plan and contradictory thresholds for spend.



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

### Summary of Control Assurance Opinions

54% of audits results in a substantial or reasonable assurance opinion (2018/19 62%)



## Follow-up Work

### Follow-up Work

All partial opinion reports are subject to a follow-up review to assess progress made in implementing recommendations. All significant findings from these audits are recorded on the corporate risk management system, JCAD, to allow progress to be recorded and monitored, this includes regular review by the Audit Committee. A follow-up audit takes place to confirm that actions have been implemented as agreed and where there is sufficient evidence of this, the audit is removed from JCAD.

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

Follow-up Outcomes	Total
Removed from JCAD	8*
Remaining on JCAD	1
<b>Total</b>	<b>9</b>

In relation to the audits that remain on JCAD further follow-up work will be performed in 2020/21.

A Healthy Organisation follow-up audit was completed in the year. Most actions have either been completed or are in progress.

\* This includes Passenger Transport Driver Training Records where a full audit was needed as a new process had been introduced.

## Follow-up Work -

## Healthy Organisation

## Follow-up Work - Healthy Organisation

A Healthy Organisation follow-up audit was completed in the year. There has been a clear effort to address the areas for attention highlighted in 2018/19. Most actions have either been completed or are in progress as can be seen in the table below:

Theme	2018-19 RAG	Total areas for improvement	Complete	In Progress	Not Started	Not Agreed
Corporate Governance	Green	5	2	3	0	0
Financial Management	Amber	8	3	4	1	0
Risk Management	Amber	4	0	4	0	0
Performance Management	Green	6	3	3	0	0
Commissioning & Procurement	Amber	12	4	6	1	1
Programme & Project Management	Green	3	1	2	0	0
Information Management	Amber	7	1	6	0	0
People Management	Green	5	0	4	0	1
Asset Management	Amber	4	0	4	0	0
<b>TOTAL</b>		<b>54</b>	<b>13</b>	<b>37</b>	<b>2</b>	<b>2</b>

A full Healthy Organisation review is planned for 2020/21 which will fully assess each theme.

## Added Value

**‘Extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something more while adding little or nothing to its cost.’**

## Added Value

Primarily Internal Audit is an assurance function and will remain as such. However, as we complete our audit reviews and through our governance audit programmes across SWAP we seek to bring information and best practice to managers to help support their systems of risk management and control. The SWAP definition of “added value” is; “it refers to extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something "more" while adding little or nothing to its cost”.

In addition to audits undertaken in **Appendix B**, where requested by client officers we look to share risk information, best practice and benchmarking data/information. The following are some of the areas where SCC has requested or participated in enabling us to produce benchmarking reports across the partnership:

- **Fraud Bulletins** – We send out regular fraud bulletins highlighting where there are attempted frauds and what officers need to be on the lookout for.
- **Partners Newsletters** – We produce regular partner newsletters that provides information on topical areas of interest for public sector bodies. We have increased the frequency of our newsflash to weekly during Covid-19 to provide relevant information.
- **An Internal Audit View** – These are quarterly newsletters where SWAP and other Local Authority Audit Partnerships convey key audit matters that Local Authorities should be aware.

**Responsiveness** – we adapt our audit plans to address emerging risks and areas requiring assurance to management, such as the Transformation Lessons learned review and responding to the whistleblowing allegation.

- **Benchmarking and best practice** – we share best practice from our partners wherever possible and undertake benchmarking exercises in a number of audits.
- **Data Analytics** – We are increasing the use of data analytics across all audits to provide a greater level of assurance and insight to trends and themes.

Note: Further areas to add value are contained within our Quality Assurance Improvement Plan and will be rolled out over the next 12 months.

## Internal Audit Performance

## Internal Audit Performance

SWAP performance is subject to regular monitoring review by both their Board and the Member Meetings. The respective outturn performance results for SCC for the 2019/20 year is as follows;

Performance Target	Performance 19/20	Performance 18/19
<p><b><u>Audit Plan – Percentage Progress*</u></b></p> <p>Final, Draft and Discussion</p> <p>Fieldwork Completed awaiting report</p> <p>In progress</p> <p>Not Started</p>	<p>90%</p> <p>10%</p> <p>0%</p> <p>0%</p>	<p>98%</p> <p>0%</p> <p>2%</p> <p>0%</p>
<p><b><u>Quality of Audit Work</u></b></p> <p>**Customer Satisfaction Questionnaire</p>	<p>98%</p>	<p>96%</p>

\*note some work has taken longer to conclude due to Covid-19 lockdown and changes in priorities and officer availability. All opinion based audits have reached final or draft report stage.

\*\*At the close of each audit review a Customer Satisfaction Questionnaire is sent out to the Service Manager or nominated officer. The aim of the questionnaires is to gauge satisfaction against timeliness, quality, professionalism and value added.

## Internal Audit Performance

SWAP work is completed to comply with the International Professional Practices Framework (IPPF) of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note.

Under these standards we are required to be independently externally assessed at least every five years to confirm compliance to the required standards. SWAP was recently assessed in February 2020 and confirmed that we are in conformance to PSIAS.

Attribute Standard 1300 of the IPPF requires heads of internal audit to develop and maintain a Quality Assurance and Improvement Programme (QA&IP). Standard 1310 continues this dual aspect by stating that the programme must include both internal and external assessments. This acknowledges that high standards can be delivered by managers, but it also implies that improvements can be further developed when benchmarking is obtained from outside the organisation and the internal audit function. Following our External Assessment, we have pulled together our QA&IP and included additional improvements and developments identified internally that we want to make, as aligned to SWAP's Business Plan. The QA&IP is a live document and will be regularly reviewed by the SWAP Board to ensure continuous improvement and delivery on our actions.

Control Assurance Definitions

<b>None</b>	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.
<b>Partial</b>	In relation to the areas reviewed and the controls found to be in place, some key risks are not well managed, and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
<b>Reasonable</b>	Most of the areas reviewed were found to be adequately controlled. Generally, risks are well managed, but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
<b>Substantial</b>	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
<b>High</b>	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.
<b>Medium</b>	Issues which should be addressed by management in their areas of responsibility.
<b>Low</b>	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:	
<b>Priority 1</b>	Findings that are fundamental to the integrity of the service’s business processes and require the immediate attention of management.
<b>Priority 2</b>	Important findings that need to be resolved by management.
<b>Priority 3</b>	Finding that requires attention.

The schedule below contains a list of audits agreed for inclusion in the Annual Audit Plan 2018/19 and the final outturn for the financial year. Audits completed that were not in the original plan reported to the Audit Committee are indicated with an \*

Service	Audit Type	Audit Name	Status	Opinion	No of Recs	1 = Major, 2 = Moderate, 3 = Minor			Comments
						Recommendation			
						1	2	3	
<b>Opinion Based Audits</b>									
Finance	Key Control	Treasury Management	Final	Substantial	0				
Finance	Key Control	Payroll	Final	Reasonable	6		1	5	
Human Resources	Governance	Use of Volunteers – Disclosure Barring Service (DBS) checks	Final	Reasonable	5			5	
Human Resources	Governance	Health and Wellbeing – Working Well Programme	Final	Reasonable	15		1	14	
Information Management	Governance	Data Subject Access Requests (DSARs)	Final	Reasonable	7		2	5	
ICT	ICT	Disaster Recovery	Final	Reasonable	4			4	
Adult Services	Operational	Somerset Safeguarding Adults Board	Final	Reasonable	5		2	3	
Children's services	Schools	School Expenditure	Final	Reasonable	6		1	5	
Children's Services	Schools	Schools - Pupil Premium Grant	Final	Reasonable	4		1	3	
Children's Services	Schools	Schools - Unofficial Funds	Final	Reasonable	6		2	4	
Children's Services	Operational	Dillington House – Financial Planning	Final	Reasonable	3		2	1	
ECI	Operational	Passenger Transport – Driver Records	Final	Reasonable	3		1	2	Sufficient progress made to remove this audit from JCAD.



Service	Audit Type	Audit Name	Status	Opinion	No of Recs	1 = Major, 2 = Moderate, 3 = Minor			Comments
						Recommendation			
						1	2	3	
ECI	Operational	Community Library Partnerships	Final	Reasonable	3			3	
Finance	Key Control	Cash Handling	Final	Partial	12			12	
Finance	Key Control	Debt Management	Final	Partial	9		5	4	
Finance	Key Control	Creditors	Final	Partial	6		2	4	
Procurement	Governance	Supplier Resilience	Final	Partial	9		6	3	
Procurement	Governance	Compliance with Corporate Purchasing Policy	Final	Partial	7		3	4	
Performance	Governance	Service Planning	Final	Partial	17		5	12	
Adult Services	Operational	Mental Health – Financial Decision Making	Final	Partial	9		7	2	
Adult Services	Operational	FAB Assessments	Final	Partial	7	1	4	2	
Children's services	Operational	Somerset Virtual School	Final	Partial	7		4	3	
Children Services	Operational	Early Years – Compliance with Code of Practice	Final	Partial	5		2	3	
Children's Services	Operational	Children's Education, Health and Care Plans (EHCPs)	Final	Partial	15		4	11	
Public Health	Operational	Transfer of Public Health Nursing Services	Final	Partial	14		5	9	
Human Resources	Governance	Career Development and Pathways	Draft	Partial	8		3	5	Some scope reduction needed due to Covid-19
ICT	ICT	ICT Strategy and Governance	Draft	Reasonable	4		2	2	
Children's Services	Operational	Children's Services Budget Management	Draft	Reasonable	4			4	

Service	Audit Type	Audit Name	Status	Comments
<b>Follow Ups</b>				
ICT	Follow-up	Software Asset Management	Final	Sufficient progress made to remove from JCAD
ICT	Follow-up	Hardware Asset Management	Final	Sufficient progress made to remove from JCAD
ICT	Follow-up	Active Directory	Final	Sufficient progress made to remove from JCAD
ICT	Follow-up	SAP – General IT Controls	Final	Sufficient progress made to remove from JCAD
Children's Services	Follow-up	Team Around the School	Final	Sufficient progress made to remove from JCAD
Children's Services	Follow-up	Dillington – Financial Controls	Final	Sufficient progress made to remove from JCAD
Adult Services	Follow-up	Better Care Fund	Final	Sufficient progress made to remove from JCAD
Children's & Adults	Operational	Direct Payments	Final	Insufficient progress made to remove from JCAD
Corporate	Follow-up	Healthy Organisation	Final	Overall reasonable progress made
Adult Services	Follow-up	Placements – Financial Related Controls	Preparing Report	Longer to complete due to Covid-19
Finance	Follow-up	Combatting Tax Evasion	Preparing Report	Longer to complete due to Covid-19
Property Services	Follow-up	Premises Management Health and Safety	Preparing Report	Longer to complete due to Covid-19

Service	Audit Type	Audit Name	Status	Comments
<b>Grant Certification Work Completed</b>				
ECI	Grant	Growth Deal – J25 M5 at Henlade	Final	New

Service	Audit Type	Audit Name	Status	Comments
ECI	Grant	Local Transport Capital Funding (including Pothole Action)	Final	New
Children & Families	Grant	Troubled Families – Phase 2 Claims	Final	Certification of claims completed through the year
ECI	Grant	BDUK Grant Certification	Preparing Report	New

Service	Audit Type	Audit Name	Status	Comments
<b>Advisory Work Completed</b>				
ECI	Advisory	Concessionary Fares – Reimbursement Calculation	Final	New
Children's	Advisory	Children's Direct Payment case review	Final	New - Service request
Adult Services	Operational	Residential Homes – contracts	Final	Advisory work to help inform future processes.
Corporate	Advisory	Provision of Advice through changes resulting from Covid-19	Final	New – provision of Ad-hoc advice
Finance	Key control	MTFP	Draft	Changed to Non Opinion – scope reduction agreed due to Covid-19.
PMO	Governance	The Commissioning and Delivery of schools	Preparing Report	Longer to complete due to Covid-19

Service	Audit Type	Audit Name	Status	Comments
<b>Audits Deferred/Removed from the Plan during the year</b>				
Commissioning	Governance	The Commissioning Gateway	Removed	Audit work will be part of the scope of the corporate contract management audit. Day reallocated to grant work required.

Service	Audit Type	Audit Name	Status	Comments
Children's services	Operational	SEN Data Management	Removed	Removed from plan due to lack of client response. In discussion to reinstate.
Human Resources	Operational	Apprenticeship Scheme	Removed	Deferred to 2020/21 to release days for Concessionary Fares work.
Performance	Governance	Value for Money Strategy and Reporting	Removed	Removed as longer needed for strategy to embed. Replaced with corporate purchasing policy review.
Procurement	Governance	Corporate Contract Management	Deferred	The new Contract Management Framework will not be finalised in time for a useful audit to be conducted in 2019-20. Deferred until Q1 2020-21.
All	Advisory	Organisational redesign - MTFP Lessons Learnt– Advisory review	Removed	Removed due to Covid-19.
PMO	Governance	Project Management - Use of Project Mobilisation Toolkit	Deferred	Longer needed for Toolkit to embed
Children's Services	Operational	Independent Placements - Financial Controls & Contract Management	Deferred	Significant organisational changes have taken place.
Adults	Operational	Workforce Planning	Deferred	Replaced with Somerset Safeguarding Adults Board review.
Adult Services	Follow-up	Mental Health – Care Plans	Removed	Superseded by Mental Health Financial Decision Making
Human Resources	Follow-up	Role of the Somerset Manager	Deferred	To provide a longer timeframe to implement overarching recommendation.
ICT	ICT	Vulnerability Management	Removed	Shortage of IT resource – as discussed with Audit Committee and Governance Board.
ICT	ICT	Cloud Service Management	Removed	As above
ICT	ICT	Firewall Management	Removed	As above
ICT	ICT	Agile ICT Audit Project Assurance	Removed	As above

Somerset County Council  
Audit Committee – 18 June 2020

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## **Value for Money Tracker Update**

Lead Officer: Jason Vaughan, Finance Director

Author: Jason Vaughan, Finance Director

Contact Details: JZVaughan@somerset.gov.uk

Cabinet Member: Cllr Mandy Chilcott, Cabinet Member for Resources

Division and Local Member: All

### **1. Introduction**

1.1 At the September 2019 Audit Committee the external auditor, Grant Thornton, presented several recommendations for improvement in value for money (VFM) as part of their 2018/19 overall annual Audit Findings Report. Despite an improved position from an adverse opinion in 2017/18 to a 'qualified, except for' opinion for 2018/19 the auditor was clear that there remained more improvement to make.

1.2 To recognise the importance of these actions, the recommendations for improvement were turned into a VFM tracker and actions are recorded and tracked through JCAD (the Councils risk management tool). This tracker outlined improvements mainly to budget monitoring and the MTFP which have continually improved. This report now takes the next step in assessing the Council's preparedness for an unqualified VFM Audit in the summer of 2020 for the financial year 2019/20.

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

2.1 Members are asked to consider and comment on 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".

3.3 In response, this Committee at its meeting in September 2019 was presented with an up-dated VFM tracker that the Council will maintain through JCAD and report to each Audit committee meeting through 2019/20 to track progress.

3.4 As the Council is now moving towards the VFM conclusion for 2019/20 it is important that the focus of this report is limited to the purpose of the value for money opinion guidance which is that:

"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".

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

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

3.6 In addition to this the Council has also been asked to prepare a Statement of Going Concern.

#### **4. Improvements to Date**

4.1 The background to the Council's financial low point in the early part of 2018/19 with a predicted £12m overspend, low reserves, a budget that was not robust, non-delivery of savings and a track record of overspending is well publicised.

4.2 The Council took decisive action to affect a financial turnaround driven by a new experienced interim S151 officer. This included revising the 2018/19 budget with the Children's Service budget being rebased to a more realistic and sustainable level, identifying significant savings to address the potential in year overspend and putting in place a robust budget monitoring process.

4.3 The 2018/19 outturn showed an underspend of just under £6m which represented a significant turnaround compared to a projected overspend of

£12m. This also reversed the trend of an overspend in both 2016/17 and 2017/18 which had put pressure on the Council's reserves.

- 4.4 As well as improved budget setting, budget monitoring and financial control there were a number of improvements to financial management through such things as financial training for budget holders, LGA Peer Review and a process to track financial savings.

#### **2019/20 Budget Setting**

- 4.5 Building upon the rebasing of the 2018/19 budget the approach to budget setting was modernised and updated to ensure that robust and realistic budgets were set. The previous approach of setting cash limits for each service and requiring services to fund some of their own pressures such as pay awards, inflation etc by making their own service financial savings was stopped. Realistic budgets were set, for example, staff pay was based on the staffing establishment and an estimate for the national pay award and increments
- 4.6 The budget process previously had a significant number of unachievable savings and these were all removed. Savings put forward were scrutinised and their deliverability assessed. If they were deemed as realistic, they were included within the budget proposals. A key part of the improved approach to financial management included monthly tracking and reporting of the progress of delivering the savings which were reported to SLT and Cabinet.
- 4.7 A feature of the 2019/20 budget was a central contingency to cover any unexpected costs and if unspent at year end to help boost reserves.

#### **Budget Monitoring during 2019/20**

- 4.8 The budget monitoring process was revamped and updated with the introduction of monthly budget reporting to both SLT and Cabinet, and with more regular reporting to Scrutiny. The format of the reporting was agreed with the members.
- 4.9 As part of the budget monitoring reporting there was a commentary on the delivery of savings and their progress of being achieved. This was critical to move away from non-delivery of budgeted savings, which was a key feature of the overspending in 2016/17 and 2017/18.
- 4.10 In Month 9 the budget monitoring report showed an overall predicted favourable variance for the year with £6.550m of the contingency still unallocated. Therefore, members agreed to further replenish reserves and address the last remaining negative reserve, whilst still leaving £2m unallocated in contingency.

- 4.11 To help mitigate the uncertainties of Business Rates, Fair Funding and the Comprehensive Spending Review £2.187m was allocated from contingency to create a Funding Volatility reserve to provide resilience for future changes in external funding.
- 4.12 Even after transfers to reserves the final outturn position for 2019/20 shows an underspend of £4.428m against services with £1.996m of unallocated contingency giving an overall underspend of £6.423m for the year.

### **2020/21 Budget Setting**

- 4.13 The 2020/21 budget process built upon the rebased 2018/19 and 2019/20 budgets continuing with the approach of building in realistic assumptions around changes in costs e.g. pay awards; demands in adults & children and, building in realistic savings. Scenario testing was used to understand the financial impacts of changes to assumptions and their impacts upon the MTFP. The process was further improved by a clear strategic financial overview linking Revenue & Capital Budgets and Reserves.
- 4.14 With national funding being a key issue an independent review of the MTFP assumptions was undertaken by LG Futures including modelling around business rates income.
- 4.15 All Budget holders carried out a budget confidence exercise identifying key risks to the delivery of their budgets over the next 3 years. This was used to refine the MTFP and budget assumptions.
- 4.16 There was a 3-day Budget Challenge session in August where all Directors' budget proposals were subject to challenge, scrutiny and review. This was led by Pat Flaherty, Chief Executive with support from Jason Vaughan, Director of Finance and Vikki Hearn, Strategic Manager Business Change. In October there was a full day where SLT carried out a Capital Challenge Session. All budget holders had to outline their bids which were then reviewed and scrutinised by SLT including understanding the alternative options and the impact of not doing the scheme.
- 4.17 A key part of the budget setting process has been wide engagement with budget holders, Directors and Senior Managers across the Council. There has been 3 all member briefings, in addition to briefings to political parties and formal committee processes including the 3 scrutiny committees. There has been on-going updates and briefings with trade unions as well as engagement with the business sector and Growth Board.



- 4.18 In reviewing the 2020/21 Budget and MTFP proposals, use was made of the CIPFA Resilience Index to compare the Council against others which was used in the Section 151 Officers Section 25 Report Statement.
- 4.19 At the end of the process there was a MTFP review & lessons learnt session involving a variety of officers involved in the process and the whole budget setting has been reviewed by SWAP Ltd, the Council's internal auditors who produced a positive report on the process.

### **Reserves**

- 4.20 There has been significant work on improving the level of reserves that the Council holds and also being clear around the reserves held by SCC on behalf of others. All SCC negative reserves have been successfully addressed and eradicated.
- 4.21 The analysis of Reserves now clearly identifies General and Earmarked reserves which are the Council's with any reserves held on behalf of others being clearly and separately identified. The Council's earmarked reserves have notionally been broken down into Resilience Reserves and other reserves.
- 4.22 The level of General Fund Reserve was increased by £2m to £19.690m as part of the 2019/20 budget setting process. The level was reviewed when setting the 2020/21 budget and compared well with other similar authorities using the CIPFA Resilience Index.
- 4.23 The level of Earmarked Reserves has been significantly increased from £25.847m at the end of 2018/19 to £56.482m at the start of 2020/21. There has been a real focus on increasing the 'resilience' reserves element of this and as a result they have been increased to £29.570m from £5.215m over the period.
- 4.24 Overall the level of General and Earmarked Reserves has increased significantly from £43.537m at the end of 2018/19 to £76.172m at the start of 2020/21. This is an increase of £32.635m or 75% over the period and has ensured that the reserves position is more robust.

### **MTFP & Future Years**

- 4.25 The MTFP which Council approved in February 2020 set out modest budget gaps of £5.4m in 2021/22 and then £4.1m in 2022/23. However, these figures were based upon very prudent assumptions around the changes to local government funding through Fair Funding and Business Rates Retention and the Comprehensive Spending Review.

- 4.26 This prudent approach puts the Council in a good position to continue to set balanced robust budgets.

### **Financial Sustainability**

- 4.27 The significant improvements that the Council has made in its approach to financial management and financial control has seen it set robust budgets and significantly build up its level of reserves over the last couple of years. These two areas were a key weakness previously and were highlighted in previous VFM conclusions.
- 4.28 The Council now has a proven track record of not only setting robust budgets, delivery of savings but of underspending with the 2018/19 outturn showing an underspend of £5.909m and 2019/20 being an underspend of £6.423m.

### **Covid-19**

- 4.29 There is no doubt that the financial impact of Covid-19 is substantial and is having an effect upon all Councils including SCC. The Council is closely monitoring spend and loss of income as a result of the pandemic and continues to work with Central Government to address the shortfall in grant.
- 4.30 The significant improvements that the Council has made to its Reserves means that it is not in the position of currently considering a section 114 notice. Work has started on a 'Finance Reset' programme to address any funding shortfalls in the current financial year and to update the MTFP for September.

### **Conclusion**

- 4.31 The Council has made significant improvements in its financial management and financial control processes. As a result, it has set 3 robust budgets, delivered underspends of £5.9m and £6.4m in the last two years and successfully increased its level of reserves by 75%. These improvements fully address the previous concerns raised by the external auditor.

## **5. Consultations undertaken**

- 5.1 Officers will continue to hold regular liaison meetings with the external auditor, the frequency of these will be agreed between the S151 Officer and the External Audit lead and be proportionate to the actions required.

## **6. Implications**

- 6.1 The Council has made significant improvements in its preparation for its VFM conclusion for 2019/20 and will continue and further embed improvements already made.

Somerset County Council  
Audit Committee – 18 June 2020

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## **Draft Annual Governance Statement 2019/20**

Lead Officer: Scott Wooldridge, Monitoring Officer

Author: Scott Wooldridge, Monitoring Officer

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Cabinet Member: Cllr M Chilcott, Cabinet Member for Resources

Division and Local Member: All

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

- 1.1.** This report invites members of the Audit Committee to consider the attached draft Annual Governance Statement (AGS) 2019/20 for the County Council.

Subject to members' comments, this will then be signed by the Leader of the Council and the Chief Executive, and the Statement will form part of the final 2019/20 Statement of Accounts. (Note that due to the timing of the Audit Committee meeting, as has been the case in some years in the past, the draft unsigned version of the AGS has been attached to the Statement of Accounts submitted to the external auditor. The auditors will be up-dated on any amendments made between then and the final signing of the AGS by 30 August 2020).

- 1.2.** Good governance, as evidenced in the Annual Governance Statement, is an essential pre-requisite to any organisation pursuing its vision effectively and underpins that vision with effective control mechanisms and risk management.

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

- 2.1.** Members of the Audit Committee are asked to comment on the content of the draft Annual Governance Statement for 2019/20 (Appendix A) and the supporting evidence set out in the new Corporate Governance Code (Appendix 1).

Note - any relevant changes will be reflected by the Monitoring Officer in the final version before sign-off by the Leader of the Council and the Chief Executive.

### **3. Background**

- 3.1.** The Accounts and Audit (Amendment) (England) Regulations 2015 require the County Council as proper practice to produce an Annual Governance Statement to sit alongside the County Council's Statement of Accounts. The purpose of this statement is to provide assurance that the County Council has a sound governance framework in place to manage the risks that might prevent achievement of its statutory obligations and organisational objectives.

The production of an Annual Governance Statement is therefore a mandatory requirement.

- 3.2. The County Council is also required to carry out, at least annually, a review of effectiveness of its governance framework. This review of internal controls provides additional assurance that the Statement of Accounts gives a true and fair view of the County Council's financial position at the reporting date and its financial performance during the year.

As noted within the Annual Governance Statement itself, this review was informed by a wide range of internal and external sources. The review sought to consider whether there were any serious governance weaknesses and what actions would be needed to deal with them.

Members are reminded that both the format and the review process are heavily prescribed for us. To ensure that all local authorities carry out this process in the same way and to the same standards, there has been specific guidance since 2016 from CIPFA / SOLACE in "**Delivering Good Governance in Local Government**" and through extensive guidance notes.

The circular diagram included in the new Corporate Governance Code (Appendix 1) shows the 7 key principles of governance that authorities are obliged to consider. Beneath each of these principles are a number of sub-principles and beneath the sub-principles are behaviours and actions that would demonstrate evidence of having a suitable governance framework in place. There are also examples of what could be used to demonstrate compliance with CIPFA / SOLACE.

The Annual Governance Statement has been built upon the Corporate Governance Code evidence. Officers have either confirmed that the governance arrangements are adequate or where action is required.

Members may notice the new style and format of the Annual Governance Statement which has been developed by the Council's Governance Board following a review of best practice amongst other local authorities. This new format is designed to be succinct on its findings, assurance and any recommended actions.

- 3.3. There are a very few areas where complete compliance remains to be demonstrated. It is important to note that these have not changed since the previous year's review:
- The framework suggests that "members appraisals" would be one possible example under the "behaving with integrity" principle. There is no mandatory or policy requirement for the Council to undertake an appraisal of the performance of individual councillors, but the Council does have a Members Code of Conduct and a Constitution & Standards Committee, and members can voluntarily request to have a personal development plan (been in place for over two years). The Council is not alone amongst local authorities in not fully meeting the framework in this respect.
  - One behaviour is to ensure that external providers of services are required to act with integrity and high ethical standards. It is very difficult for us to actually "ensure" this. There are a number of ways we try to manage in this area, such as anti-collusion declarations during any tendering process,

qualitative measures in our contract appraisal, agreements in place when we enter into partnerships for service delivery, and our Anti-Fraud & Corruption policy, where “zero tolerance” extends to everyone.

**The conclusions from this latest review are that the Council still has a strong governance framework in place, and that the Council can demonstrate compliance.**

Members should note that having a strong governance framework in place will not fully mitigate the council’s risks, nor can the existence of a framework guarantee full compliance with governance requirements. The existence of “Partial” assurance audits is evidence of this. These are reported to Audit Committee by SWAP. Members of the Committee will be aware of the SWAP Healthy Organisation internal audit report completed in January 2019 which awarded the council an overall medium assurance and the area of Corporate Governance received high assurance / low risk. A follow up audit is scheduled during 2020/21.

- 3.4.** There are other sections of the Annual Governance Statement that are required in order to give the necessary assurance about the Council’s arrangements, either through the Delivering Good Governance in Local Government framework itself or from other CIPFA publications.

For example, the CIPFA Statement of the Role of the Chief Financial Officer in Local Government is a specific requirement. The ability of the S151 Officer to be involved in and influence the strategic direction of the authority is an essential control. This has been especially important during 2019/20 and the financial management section in the Annual Governance Statement confirms the Council’s compliance in this matter for 2019/20.

- 3.5.** In accordance with the CIPFA “disclosure requirements”, following formal approval of the draft Annual Governance Statement, the Governance Board will develop an Action Plan to take forward the remaining outstanding issues aimed at further strengthening the Council’s governance. Many of these will already be known and on-going actions, such as the continual review of the Constitution and key financial and organisational policies.

Throughout 2019/20, the Governance Board has been tracking actions against a Healthy Organisation Governance Scorecard & Value for Money Tracker.

- 3.6.** The main purpose of the Annual Governance Statement is to provide the necessary assurance that a reliable framework was in place for the financial year that aligns to the Statement of Accounts.

However, best practice suggests that the Annual Governance Statement should reflect the unique features and challenges of the County Council, and that it should also anticipate known and potential governance challenges ahead. This year's Statement includes the following significant challenges ahead:

- Sustainable financial position
- Local Governance Reorganisation
- Covid 19 emergency response
- Brexit - managing impacts

By doing so, it also highlights these areas, which if not controlled adequately, could present significant corporate risks during 2020/21 and potentially future financial years.

The external auditors VFM Assessment (which will form part of the Councils Statement of Accounts audit to conclude by 30 August 2020) will also inform the future action plan for 2020/21.

- 3.7.** Ahead of publication of the final accounts for 2019/20, Audit Committee members will have a final opportunity in August to review and confirm any final changes made are in accordance with their understanding.

## **4. Consultations undertaken**

- 4.1.** The Monitoring Officer and the S151 Officer have both been fully involved in the preparation of the Annual Governance Statement. Also, members of Governance Board have been proactively involved in the preparation of the Annual Governance Statement and new Corporate Governance Code given that this reflects the agendas and work of this Board. Further discussions with officers in other key areas, such as Performance and Communications have been held as appropriate.

## **5. Implications**

- 5.1.** All included above.

## **6. Background papers**

- 6.1.**
- Delivering Good Governance in Local Government: a framework (CIPFA/SOLACE)
  - The Role of the Chief Financial Officer in Local Government (CIPFA)
  - 2018/19 Annual Governance Statement

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



# Annual Governance Statement

for year ended 31 March 2020



## Foreword

**“To ensure that Somerset and its people are supported and enabled to fulfil their potential, prosper and achieve a high standard of well-being”.**

**This is the Council’s stated purpose as contained in the Council Plan for 2018-22. The Plan sets out what we will do to achieve this, continuing to look for ways to improve services and, as far as possible, prioritising frontline services against a background of shrinking public sector finances while at the same time, planning for a sustainable future.**

**Effective corporate governance is essential to support the Council in meeting these challenges.**

All who use our services and all who pay for them, together with our suppliers and partners, must be able to have confidence in our governance arrangements - that our ways of working enable us to provide the right services effectively and efficiently and on a consistent basis, and that we take informed, transparent and lawful decisions. They must also be assured that we properly account for the money we receive and spend.

While our corporate governance arrangements have been effective in supporting the Council through the many changes it has gone through in recent years, we will ensure that this continues to be the case in 2019-20 and into future years as we continue to meet our challenges.

As always, there are some opportunities for improvement which have been identified as a result of our monitoring and review arrangements. We will ensure that the necessary action is taken to address these.



**Pat Flaherty,  
Chief Executive**



**Councillor David Fothergill,  
Leader**





## What is Corporate Governance?

Corporate governance refers to the processes by which organisations are directed, controlled, led and held to account. It is also about culture and values - the way that councillors and employees think and act.

The Council's corporate governance arrangements aim to ensure that it does the right things in the right way for the right people in a way that is timely, inclusive, open, honest and accountable.

## What this Statement tells you

This Statement describes the extent to which the Council has, for the year ended 31 March 2020, complied with its Governance Code and the requirements of the Accounts and Audit (Wales) Regulations 2014. It also describes how the effectiveness of the governance arrangements has been monitored and evaluated during the year and sets out any changes planned for the 2019-20 period.

The Statement has been prepared in accordance with guidance produced in 2016 by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives and Senior Managers (SOLACE) - the 'Delivering Good Governance in Local Government Framework'. It embraces the elements of internal control required by the 'Code of Practice on Local Authority Accounting in the United Kingdom'.

# 1. The Council's Governance Responsibilities

The Council is responsible for ensuring it conducts its business in accordance with the law and to proper standards and that public money is properly accounted for and is used economically, efficiently and effectively. It also has a duty to continuously improve the way that it functions, having regard to effectiveness, quality, service availability, fairness, sustainability, efficiency and innovation.

To meet these responsibilities, the Council acknowledges that it has a duty to have in place sound and proper arrangements for the governance of its affairs, including a reliable system of internal control<sup>1</sup>, and for reviewing the effectiveness of those arrangements.

The Council's Governance Code, which was developed in accordance with the governance guidance produced by CIPFA and SOLACE, states the importance to the Council of good corporate governance and sets out its commitment to the principles involved. The Code is on our website ([click here](#)), or can be obtained from the Monitoring Officer or Director of Finance.

## Somerset County Council Governance Code (2017)

### Our commitment to good governance is made across the following core principles:

- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
- B. Ensuring openness and comprehensive stakeholder engagement.
- C. Defining outcomes in terms of sustainable economic, social, and environmental benefits.
- D. Determining the interventions necessary to optimise the achievement of intended outcomes.
- E. Developing the Council's capacity, including the capability of its leadership and the individuals within it.
- F. Managing risks and performance through robust internal control and strong public financial management
- G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

<sup>1</sup>A process to ensure that objectives will be achieved



## 2. The Governance Framework

The governance framework consists of the systems and processes by which the Council is directed and controlled and through which it accounts to, engages with and leads the community. It also includes our values and culture.

It enables us to monitor the achievement of our objectives and to consider whether these have led to the delivery of appropriate, cost effective services. The Framework is summarised in the diagram overleaf.

As the Council improves the way it provides services, it is important that the governance arrangements remain robust but also flexible and proportionate.

In order to review the effectiveness of the governance framework, assurances are provided to, and challenged by, the Senior Leadership Team, the Audit Committee, Constitution & Standards Committee, Scrutiny Committees, the Cabinet or Council as appropriate.

The Healthy Organisation review by our internal auditors accredited the council in 2018/19 with high assurance / low risk in terms of its Corporate Governance.

The Senior Leadership Team is the Senior Officers body which brings together Directors responsible for commissioning, resources, support and customer services and service delivery.

Some of the key elements of the governance framework are highlighted on the next pages.

The Governance Framework cannot eliminate all risk of failure to meet the targets in our policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

**Purpose: 'To ensure that Somerset and its people are supported and enabled to fulfil their potential, prosper and achieve a high standard of well-being'**

**Sources of Assurance**

- Planning principles for services and Somerset Way of Working
- Constitution
- Strategic Leadership and Senior Management structures
- Medium Term Financial Strategy
- Financial Regs and Procedure Rules
- Contract Procedure Rules
- Commissioning Plans and, Procurement Strategy
- Consultation Strategy
- Communications Plans
- Equality Plan
- Organisational Development and Workforce policies and plans
- Corporate Performance
- Information Management policies
- ICT & Digital Strategy
- Health and Safety Policy
- Risk Management Policy
- Partnership Working
- Internal & External Audit and inspection
- Anti Fraud and Corruption Policy & Procedures
- Audit and Constitution & Standards committees
- Codes of Conduct (Employees and Members)
- Whistleblowing Policy
- Performance Review and Development
- Complaints system

**Assurances Received**

- Statement of Accounts
- 'Focused on Our Performance' self-evaluation of progress against Council Plan
- External Audit and Inspection reporting
- Internal Audit reporting
- Risk and Control Registers and Risk Management Reporting
- Directors' Internal Control Assurances
- Anti Fraud and Corruption Annual Report
- Scrutiny Reviews
- Reviews commissioned by management
- Annual review of the Constitution, Contract Standing Orders and Scheme of Delegation
- Peer Reviews
- Ongoing review by Governance Board of Corporate Governance and of gaps in assurance
- Governance Code and Framework review

**Opportunities for Improvement**

- Health & Safety
- Sustaining robust ICT infrastructure

**Assurance Required on:**

- Delivery of Council Plan
- Communication of performance
- Financial management
- Service quality and best use of resources
- Any failures in service delivery addressed effectively
- Councillors and Officers working together effectively
- Compliance with laws and regulations, policies and procedures
- High standards of conduct and behaviour
- Informed and transparent decision making
- Management of risk and effective internal controls
- Developing the capacity and capability of members and employees
- Democratic engagement and robust public accountability

**GOVERNANCE FRAMEWORK**

**Annual Governance Statement**

**Governance Review & Assurance**



## The Council Plan

The Council Plan for 2018-22 sets out our overall purpose - 'to ensure that Somerset and its people are supported and enabled to fulfil their potential, prosper and achieve a high standard of well-being'. It helps us to focus our resources and drive improvement, and sets out where we will focus our energies and our increasingly limited resources and how we will judge our performance.

The Plan sets out seven principles which we consider in the planning and delivery of services (see next page).

The Plan is the means by which the Council sets out how objectives will contribute to the wellbeing goals for Somerset and how they will be achieved. Objectives and target outcomes are set within three strategic themes – Economy, People and Place – and the corporate theme of Organisation. Limited resources mean there is a need to be realistic about how much can be done. This means making difficult choices on where to focus resources so more can be done with less, and we can work together with partners to do more. Key to this are robust financial, commissioning and decision-making processes, good quality data, good governance, performance management, effective technology and a willingness to do things differently.



## Evaluating Performance

The Council's Business Plan was originally approved by Cabinet in June 2018 (and updated at Full Council in May 2019). The Business Plan outlines how we will work with partners and communities to deliver the County Council's 'Vision for Somerset' in the most efficient way possible for Somerset's taxpayers. The Business Plan contains four strategic outcomes that show what the Council will focus on to deliver its Vision and improve lives. Beneath each strategic outcome sits four key priorities and a range of activities. By lining up these activities, priorities and strategic outcomes with the Vision the authority can plan ahead and monitor progress.

Performance is regularly reviewed by Directors and the Senior Leadership Team. Regular performance reports are presented to the Cabinet and available for review by scrutiny committees. An annual performance outturn report is reported to Cabinet.

Both our external and internal auditors assess the Council's arrangements for delivering continuous improvement and subsequent performance.

The Council's schools, education and training services are assessed by Ofsted on an ongoing schedule, and our social services are subject to ongoing review by the Care Quality Commission.

### Social Media - Join The Conversation!

Join the conversation on all aspects of Somerset Council services and activities.

The Council provides its customers access to our services and information in the most appropriate Social Media channels.





# Managing Risk

The management of risk is key to achieving what is set out in the Council Plan and to ensuring that we meet all of our responsibilities.

Our Risk Management Policy is fundamental to the system of internal control and forms part of a sound business operating model. It involves an ongoing process to identify risks and to prioritise them according to likelihood and impact.

Members and senior management identify the principal risks to the Council Plan's outcomes. These, together with the significant risks to planning and delivering services are recorded in risk registers, which also record the controls necessary to manage the risks.

The registers are regularly reviewed and challenged by senior management and by the Audit Committee in order to ensure that, as far as possible all significant risks have been identified and that the controls manage the risks efficiently, effectively and economically.

All members and managers are responsible for ensuring that risk implications are considered in the decisions they take. This is especially important in meeting the Council's financial challenges.

## 'Brexit'

At the time of writing this Statement, the nature of the UK's withdrawal from the European Union is still uncertain. The Council has nevertheless considered the risks of this across its range of services. The risks are regularly reviewed and updated as the situation develops and where necessary, suitable mitigating action will be implemented.

## Principal Risks 2019-20

1. Maintaining a balanced budget and ensuring a sustainable MTFP.
2. Those to whom the Council owes a duty of care suffer a preventable death, serious injury or serious abuse
3. Fail to deliver our statutory service duties in relation to vulnerable children
4. ICT failure of essential business systems
5. Revenue and capital resources are insufficient to achieve stated priorities and meet obligations at a time of increasing demand for services
6. The Council lacks the knowledge, skills, capacity, culture and ability to continue to meet its priorities and responsibilities
7. Failure to effectively monitor and manage our markets for value for money and protect against provider or supply chain failure
8. Data protection and GDPR breaches
9. Inconsistent and inefficient commissioning of services
10. Business continuity failure or a major civil emergency results in loss of life and disruption to services
11. Disruption to services by Brexit

## Decision Making and Responsibilities

The Council consists of 55 elected Members, with a Cabinet of Lead Members who are supported and held to account by three Scrutiny Committees and the Audit Committee.

Our Constitution sets out how the Council operates, how decisions are made and the procedures for ensuring that the Council is efficient, transparent and accountable to local people. It contains the basic rules governing the Council's business, and a section on responsibility for functions, which includes a list of functions which may be exercised by officers. It also contains the rules, protocols and codes of practice under which the Council, its Members and officers operate.

It is updated annually to take account of changing circumstances, legislative changes and business needs.

The Constitution sets out the functions of key governance officers, including the statutory posts of 'Head of Paid Service' (Chief Executive), 'Monitoring Officer' (Strategic Manager – Governance) and 'Section 151 Officer' (Director of Finance) and explains the role of these officers in ensuring that processes are in place for enabling the Council to meet its statutory obligations and also for providing advice to Members, officers and committees on staff management, financial, legal and ethical governance issues.

## Equality

The Council is committed to delivering equality and improving the quality of life for the people of Somerset County. Our Equalities Plan helps us to ensure that we prioritise those who may be vulnerable to discrimination.

Any new Council policy, proposal or service, or any change to these that affects people must be the subject of an Equality Impact Assessment to ensure that equality issues have been consciously considered throughout the decision making processes.

### Open Policy and Decision-making

All Council, Executive Board and Planning Committee meetings can be viewed live on the website's webcasting page ([click here](#)) and the webcasts are accessible for six months.

Also, meetings of the Council, Executive Board and the main Committees are open to the public except where exempt or confidential matters are being discussed, and all reports considered and the minutes of decisions taken are, unless confidential, made available on the Council's website.

The Council's Forward Work Programmes contain information about all matters that are likely to be the subject of a decision taken by the full Council or the Executive Board during the forthcoming four month period. They also contain information about matters that will be considered by the Scrutiny Committees.





## Financial Management

The Director of Finance is responsible for the proper administration of the Council's financial affairs, as required by Section 151 of the Local Government Act 1972, and our financial management arrangements are compliant with the governance requirements set out in the Chartered Institute of Public Finance and Accountancy's 'Statement on the Role of the Chief Financial Officer in Local Government' (2016).

There are robust arrangements for effective financial control through our accounting procedures, key financial systems and the Financial Regulations. These include established budget planning procedures, which are subject to risk assessment, and bi-monthly budget / actual reports to all Members.

Our Treasury Management arrangements, where the Council invests and borrows funds to meet its operating requirements, follow professional practice and are subject to regular review and are reported to Cabinet and the Council.

The Reserves Strategy enables the Council to meet its statutory requirements and sets out the different types of reserve, how they may be used and the monitoring arrangements.

The Medium Term Financial Plan sets out the Council's strategic approach to the management of its finances and outlines some of the financial issues that we will face over the next three years. This Plan is subject to review by the Scrutiny Committees and Cabinet ahead of approval by the Council every February.

Despite our established success in delivering savings, like many councils, the Council faces the challenge of designing a sustainable budget for the future in the face of continuing Government reductions to local government funding. We estimate a funding shortfall of around £9.4m over the period 2019-20 - 2022-23. We have therefore developed a Transformation Programme to improve efficiency and reshape our services whilst maintaining our commitment to the most vulnerable. This involves taking a fundamental look at all areas of the Council's work, reprioritising services, reducing services, ceasing services, considering different ways of delivering services and working more effectively with other organisations.

The current annual budget is available on our website and is regularly reviewed by the Senior Leadership Team, Scrutiny and the Cabinet.



Budget engagement has been conducted for several years to increase public understanding of the scale the financial challenges, explain what is being done to save money and to obtain opinion on proposals for further savings.

The results are taken account of by members when making the final decisions on the budget.

There is regular monitoring, review and management of budgets through the SLT (financial imperative programme), Scrutiny Place and Cabinet. The MTFP process has also been subject to business change and audit review.

# Commissioning and Procurement of Goods and Services

The Council is a commissioning organisation, and its senior officer structure clearly reflects that approach with Lead Commissioner. An officer Strategic Commissioning Group (SCG) is in place to oversee commissioning activity, the group is attended by key commissioning specialists and key officers from support services. The SCG reviews all proposals for new strategic projects, including new contracts, scrutinising and managing Commissioning Gateway activity with a strong focus on financial savings, accountability, evidence led commissioning and delivery outcomes.

The Council recognises the value of considering different service delivery options in delivering our Council Plan. The effective commissioning and procurement of goods, works and services is therefore of strategic importance to our operations, while robust contract management helps to provide value for money and ensure that outcomes and outputs are delivered.

Our Commissioning Plans and Procurement Strategy set out the vision and direction for commissioning, procurement and contract management across the Council.

Operational procedures for tendering, contract letting, contract management and the use of consultants are included in the Contract Procedure Rules which form part of the Council's Constitution.

## Managing Information

In order to set a direction for the effective governance, efficient management and use of information and data under its control, the Council's Information Management Strategy explains how we will deal with the creation, storage, access, protection and lifecycle of information and data.

Information is central to the Council and its decision making processes and it therefore needs to be accurate and accessible to those who need it at the time and place that is required. The Council also recognises that it has a responsibility to safeguard the information it holds and to manage it with care and accountability.

In order to ensure that we are meeting the requirements of the General Data Protection Regulation regarding the collection, use and transfer of personal data, a Corporate Project was established in 2017 to ensure compliance across all parts of the Council's activities and to raise awareness amongst all staff.

### Freedom of Information

Details of how to access information held by the Council and its Freedom of Information Policy are available on the [Council's website](#)

## Audit and Audit Assurances

The Council is externally audited by its External Auditors. Their annual audit includes examining and certifying whether the financial statements are 'true and fair', and assessing our arrangements for securing economy, efficiency and effectiveness in the use of resources. In 2018 the External Auditor gave an unqualified audit opinion on the financial statements.

The Internal Audit Service is a key means of assurance. It is responsible for reviewing the adequacy of the controls throughout all areas of the Council and is managed and delivered in accordance with the Public Sector Internal Audit Standards (PSIAS).

The Audit Committee approve the Internal Audit Plan, which sets out the Internal Audit role and its responsibilities and clarifies its independence, and the planned audit coverage.

The Head of Internal Audit's annual opinion as to the effectiveness of the Council's internal control environment for 2018-19 was:

**"I am able to give assurance to the Audit Committee and management that the Council's control environment is generally effective in achieving the organisation's objectives."**

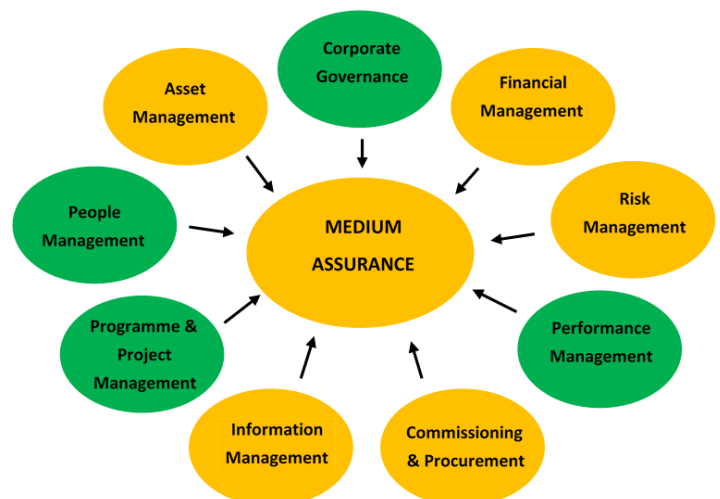
The opinion notes, however, that there is an ongoing need across the Council to ensure awareness of and compliance with corporate policies and procedures and to ensure that governance processes are effective in delivering agreed outcomes in support of the Council Plan.

The **Audit Committee** provides independent assurance on the Council's internal control environment. It is a statutory requirement and consists of 8 Councillors appointed annually on a politically balanced basis by the Council.

Its main functions include:

- Agreeing the Annual Governance Statement and the Annual Statement of Accounts,
- Overseeing Internal Audit's independence, objectivity, performance and professionalism and supporting the effectiveness of Internal Audit
- Considering Internal Audit partial assurance reports and management responses
- Considering the effectiveness of Risk Management, including the risks of bribery, fraud and corruption
- Monitor the effectiveness of value for money arrangements
- Considering the reports of External Auditors and Inspectors.

The Audit Committee reports annually to the Council as part of its assurance.



# Conduct

Our [Codes of Conduct for Members](#) and for Employees set out the standards of conduct and behaviour that are required. They are regularly reviewed and updated as necessary and both groups are regularly reminded of the requirements.

These include the need for Members and Officers to register personal interests and the requirements for registering offers or acceptance of gifts and hospitality, outside commitments and personal interests.

# Whistleblowing

People who work for or with the Council are often the first to realise that there may be something wrong within the Council. However, they may feel unable to express their concerns for various reasons, including the fear of victimisation.

The Council has a Whistleblowing Policy that advises staff and others who work for the Council how to raise concerns about activities in the workplace. Full details are provided on the Council's website.

# Anti-Fraud and Corruption

We recognise that as well as causing financial loss, fraud and corruption also detrimentally impact service provision and morale, and undermine confidence in the Council's governance and that of public bodies generally.

There is little evidence that the *incidence* of fraud is currently a major issue for the Council, but the *risk* is increasing nationally. We therefore regularly assess how vulnerable our services are to fraud and corruption risks and we update our counter fraud arrangements accordingly.

The Council reviews its Anti Fraud and Corruption Policy on an annual basis and has adopted a 'zero tolerance' in relation to fraud and corruption. Our policy sets out what we will do to maintain this commitment in light of the risk

The results of our risk-based Anti Fraud approach are reported annually to the Audit Committee, and the resources available for investigation are subject to ongoing review to ensure that they remain appropriate to the risk of fraud.

Our website tells you how you can report suspected fraud against the Council.

The Nolan Principles for conduct and behaviour:

- **Selflessness**
- **Integrity**
- **Objectivity**
- **Accountability**
- **Openness**
- **Honesty**
- **Leadership**

## 'zero tolerance'

Whenever the Council identifies instances of fraud, bribery or corruption against it, it will always take legal and / or disciplinary action against the perpetrator and seek recovery and redress.

### 3. Improving Governance

The progress made during 2019- 20 on the significant issues identified in our 2018-19 Annual Governance Statement is shown below:

1.	<p><b>The Council's Financial Position</b> - recognition of the significant progress in turning around the financial position in 2018/19. More to be done to secure financial sustainability.</p> <p>Ongoing review and management actions to address the recommendations from the Value for Money external audit opinion</p>	<p>The Council set a balanced budget for 2020/21 and agreed a Medium Term Financial Plan with a modest budget gap over a three year period. Will continue to lobby as part of CSR 2020.</p> <p>VfM tracker regular reviewed and actions progressed to deliver recommendations. Progress monitored by Audit Committee.</p>
2.	<p><b>Local Government Reorganisation</b> Preliminary work carried out with partners and the need to establish a way forward.</p>	<p>Leader of the Council approved work to be undertaken to develop a Business Case for a potential unitary bid submission in 2020/21.</p>
3.	<p><b>Healthy Organisation</b> Recognition of the improvements required to improve upon medium level of assurance from Internal Auditors.</p>	<p>Governance Board maintaining oversight and review with Internal Audit support regarding the necessary improvements and actions required.</p>
4.	<p><b>Improving Lives Programme</b> During 2019/20 the council will work together as one organisation and in partnership with other organisations across Somerset to prioritise early intervention and prevention, encourage self-help and commission creatively and to ensure value for money and better outcomes.</p>	<p>Transformation programme and project governance in place utilising Finance Imperative Programme approach with regular oversight from Senior Leadership Team.</p>

**Based on our review of the governance framework, the following significant issues will be addressed in 2020-21:**

<p><b>1. Financial Position</b> (See previous page)</p>	<p>We will continue to lobby for fairer funding as part of the CSR 2020 and develop a sustainable Medium Term Financial Plan for consideration by Council in February 2021.</p>
<p><b>2. Local Government Reorganisation</b></p> <p>Development and potential submission of Business Case for unitary local government for Somerset.</p>	<p>Resources in place to develop a Business Case for consideration by the Council for potential submission to the Sec of State during 2020/21 as part of the process leading to the proposed formation of unitary local government for Somerset.</p>
<p><b>3. Covid 19</b></p> <p>Working with national and local agencies such as the Government, Police, NHS, district councils, voluntary organisations and service providers to ensure essential services continue to be delivered to support vulnerable children and adults, local communities and businesses throughout the Covid 19 emergency.</p>	<p>Avon and Somerset Local Resilience Forum and Somerset Tactical Group regularly reviewing and managing emergency response and service delivery by agencies.</p> <p>Emergency arrangements and management actions regularly reviewed by the Senior Leadership Team, Cabinet and Scrutiny Place.</p>

**These issues will be supported by an action plan, progress on which will be monitored during 2020-21 by the Governance Board and the Senior Leadership Team. Oversight, constructive challenge and review will be available from the Cabinet, Scrutiny Place and the Audit Committee.**

No other major changes to the Council's governance framework are planned for 2020-21, but we will continue to review and adapt it so that it continues to support the Council in meeting its challenge and in fulfilling its purpose, and ensure that the framework remains proportionate to the risks that are faced.

We will also continue to raise awareness of the Governance Framework and its requirements with employees across the Council, in schools and with elected Members.



## 4. Assurance

Subject to the above issues being resolved, we can provide an overall assurance that Somerset County Council's governance arrangements are effective and remain fit for purpose.

We propose over the coming year to take steps to address the issues set out above to further enhance our governance arrangements.

We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed: \_\_\_\_\_ Date: \_\_\_\_\_  
(Chief Executive)

Signed: \_\_\_\_\_ Date: \_\_\_\_\_  
(Leader)



Contact Officers: Scott Wooldridge, Monitoring Officer and Jason Vaughan, Director of Finance

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# **Somerset County Council Corporate Governance Code 2019-2021**

# SOMERSET COUNTY COUNCIL: GOVERNANCE CODE

## INTRODUCTION

1. The purpose of this Code is to state the importance to the Council of good corporate governance and to set out the Council’s commitment to the principles involved.
2. The Code is based on guidance to all UK local authorities.
3. The Code is included in the Council’s constitution and therefore applies to all members and employees of the Council and also to any individuals or bodies authorised to act on its behalf.
4. How the effectiveness of the Code is reviewed is set out in Section 4.
5. The Code will be reviewed in its entirety by no later than 31 March 2022, but minor reviews and updates will be made annually as required.

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Approvals	
Approved by Cabinet & SLT	May 2020

**Lead Officers:**

**Scott Wooldridge, Monitoring Officer**

**Jason Vaughan, Director of Finance**

Version Control		
Key Changes (such as for changes in legislation and reporting arrangements)	Agreed By/date	Issue Date
Minor Changes to reflect: •		
<b>To be renewed no later than 31 March 2022</b>		

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## SECTION 1: THE IMPORTANCE OF GOOD CORPORATE GOVERNANCE

- 1.1. Corporate Governance refers to the processes by which organisations such as the Council are directed, controlled, led and held to account. It is also about culture and values - the way that councillors (members) and employees think and act. In summary, if management is about running the Council, corporate governance is about seeing that it is run properly.
- 1.2. The Council is a complex organisation which affects all who live and work in Somerset and businesses and organisations that are based here. It is therefore essential that there is confidence in our corporate governance, and the Council must therefore ensure that:
- as a democratic body, we engage with and account to our citizens and stakeholders effectively;
  - we conduct our business in accordance with the law and to proper standards;
  - public money is properly accounted for and is used economically, efficiently and effectively;
  - controls are proportionate to risk so as not to impede performance;
  - we continuously improve the way in which we function, in terms of effectiveness, quality, service availability, fairness, sustainability and innovation; and
  - we fulfil our purpose and meet our priorities as set out in our Council Plan.
- 1.3. **The Council is therefore committed to good corporate governance** – to doing the right things in the right way for the right people in a way which is timely, inclusive, open, honest and accountable. This Code sets out that commitment and how we evidence it.
- 1.4. **This commitment includes improving governance** on a continuing basis across the Council as a whole, through a process of evaluation and review. This is detailed further in **Section 4**.

## SECTION 2: THE BASIS OF THIS CODE

2.1 This Code is based on guidance provided to all UK local authorities<sup>1</sup> which are centred on **seven Core Principles**<sup>2</sup>, designed to underpin the governance arrangements of all public sector bodies.

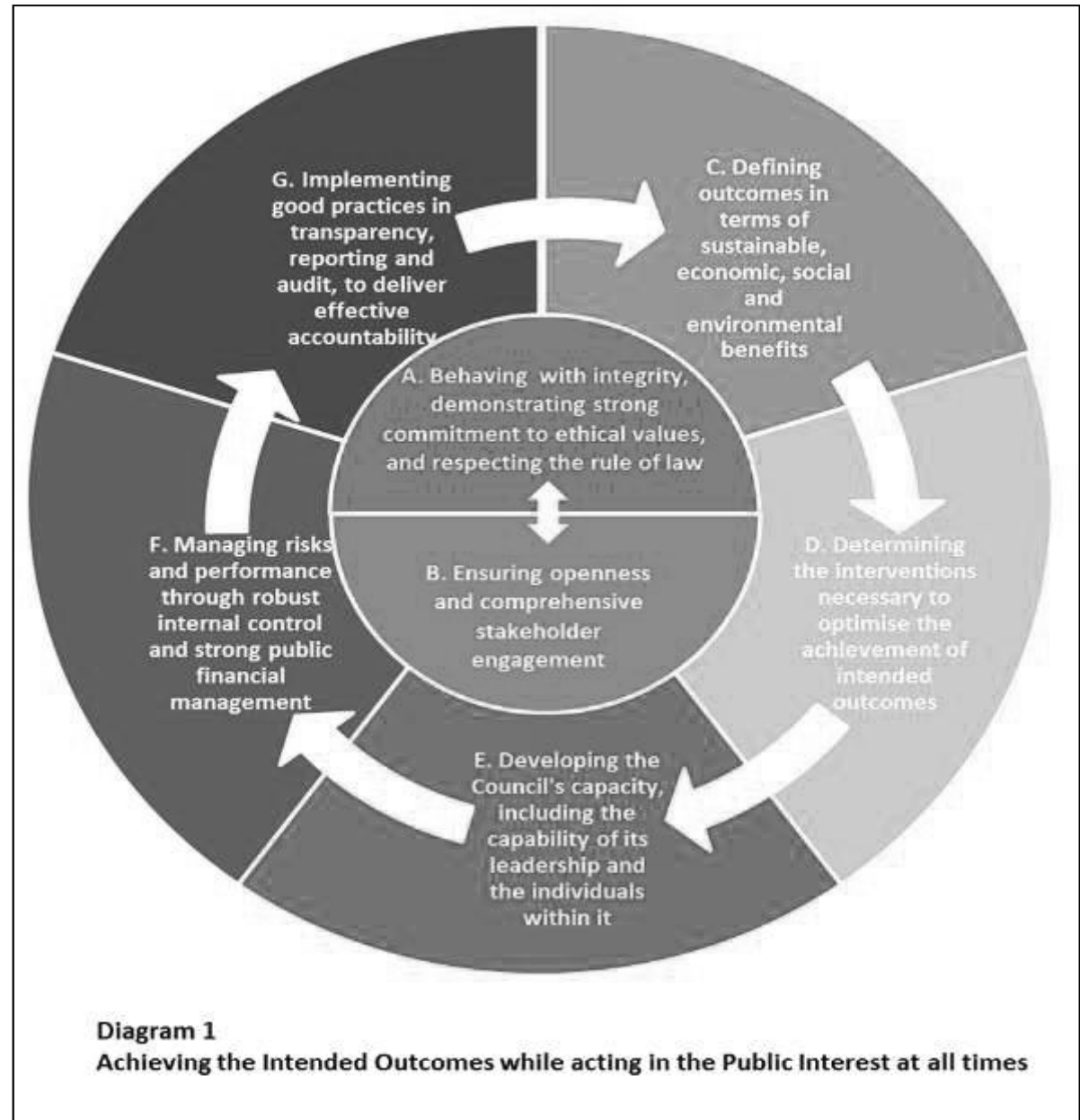
2.2 These Core Principles and how they relate with each other is illustrated in **Diagram 1**.

2.3 This also shows that:

- i) Core Principles A and B are fundamental to the application of the other principles,
- ii) good governance is dynamic,
- iii) good governance requires all of the principles to be met.

<sup>1</sup> 'Delivering Good Governance in Local Government Framework, 2016', issued jointly by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE).

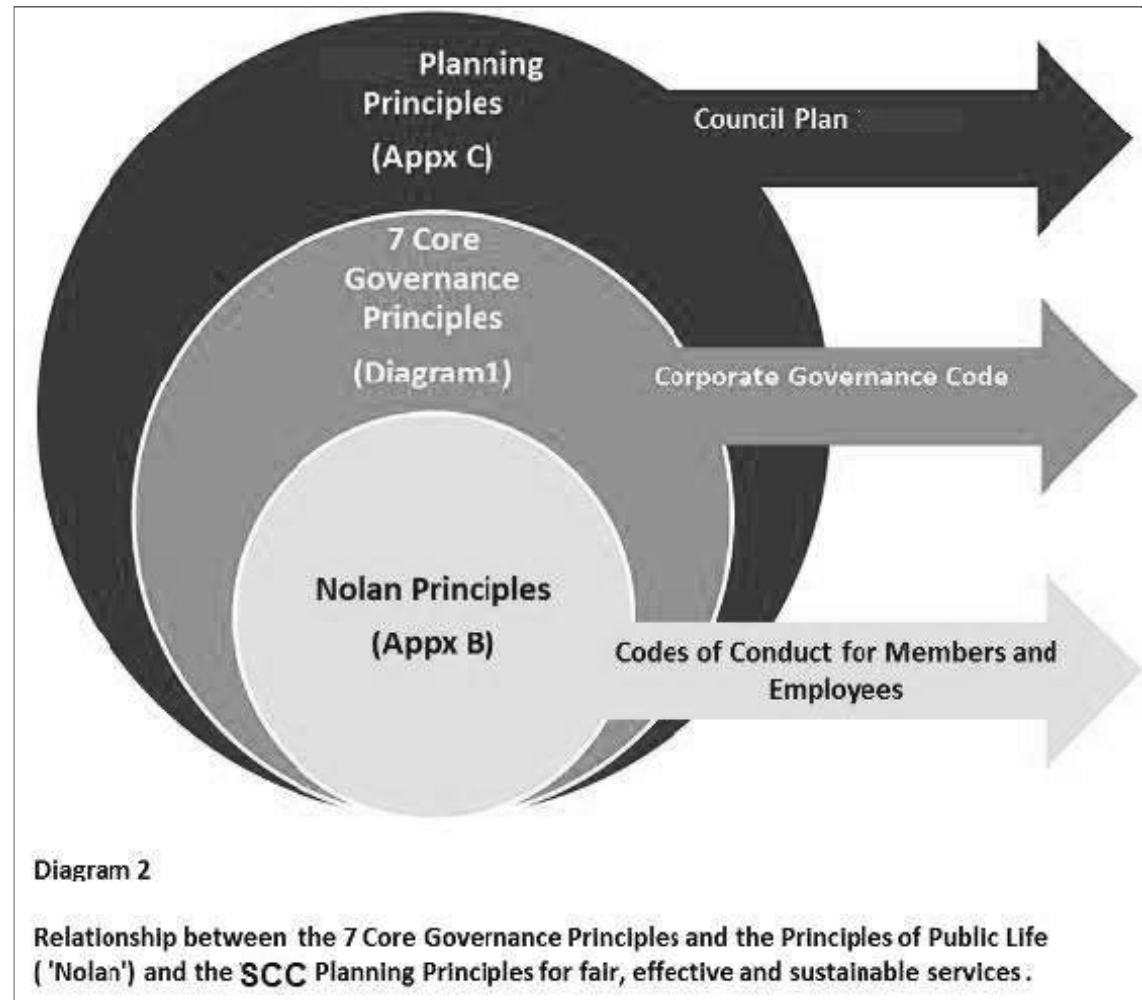
<sup>2</sup> From the International Framework: Good Governance in the Public Sector (CIPFA/International Federation of Accountants, 2014)



2.4 This Code sets out our commitment to all seven of the Core Principles shown in Diagram 1 and to the various elements of our governance framework – the policies, strategies and processes - which help us to ensure that the principles are met (**Section 3**).

2.5 A summary of the whole governance framework is illustrated in **Appendix A**.

2.6 Since effective Corporate Governance relies on the way that councillors (members) and employees think and act, the Code also recognises the importance of the seven 'Principles of Public Life' (the 'Nolan Principles')<sup>3</sup> which are the basis of the ethical standards expected of public office holders. These support the seven Core Principles of this Code which in turn underpin the Council's approach to planning fair, effective and sustainable services and its responsibilities for sustainable development. This relationship is illustrated in **Diagram 2**.



<sup>3</sup> See Appendix B

**Principle A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law**

Local government organisations are accountable not only for how much they spend, but also for how they use the resources under their stewardship. This includes accountability for outputs, both positive and negative, and for the outcomes they have achieved. In addition, they have an overarching responsibility to serve the public interest in adhering to the requirements of legislation and government policies. It is essential that, as a whole, they can demonstrate the appropriateness of all their actions and have mechanisms in place to encourage and enforce adherence to ethical values and to respect the rule of law.

**Behaving with Integrity**

A1. Ensuring members and officers behave with integrity and lead a culture where acting in the public interest is visibly and consistently demonstrated thereby protecting the reputation of the organisation

A2. Ensuring members take the lead in establishing specific standard operating principles or values for the organisation and its staff and that they are communicated and understood. These should build on the Seven Principles of Public Life (the Nolan Principles)

A3. Leading by example and using these standard operating principles or values as a framework for decision making and other actions

A4. Demonstrating, communicating and embedding the standard operating principles or values through appropriate policies and processes which are reviewed on a regular basis to ensure that they are operating effectively

**What is in place to support this**

[Members Code of Conduct](#)

Officer Standards of Conduct

All members sign acceptance of office

Officers sign contracts of employment

Standards Committee / regular reports to Council (six monthly).

Regular review of the Constitution via Constitution Committee (quarterly & annual review by council).

No member appraisals in place but Personal Development Plans are offered to elected members.

Core and Key Value expectations

Our Working Agreement

[Staff Awards](#)

[Staff Performance Appraisals](#)

Tell Local Councillor Protocol

Protocol for Member / Officer Relations

Maintaining a Committee with responsibility for member conduct policy and protocols

Constitution reviewed annually by Full Council and at least quarterly by Constitution Committee.

[Core Brief and Members Core Brief regularly include relevant content around conduct and expectations / guidance.](#)

[Members Portal](#)

Formal records /minutes of meetings, regular reminders  
reference declaration of interests / gifts and hospitality

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Guidance and templates available for report authors on the Intranet site.
<a href="#">Whistleblowing policy in place and updated as necessary and publicised in-house (not available on the website)</a>
Member complaints policy online
Members Code of Conduct and Officer Standards of Behaviour both have guidance on declaration of interests.
<a href="#">Anti-fraud and corruption Policy &amp; reports</a>
HR Policies & Codes of conduct
SCC Internal Policy Register
SCC Policies, Plans and Strategies Framework
Annual Team Health Check

Demonstrating strong commitment to ethical values
A5. Seeking to establish, monitor and maintain the organisation's ethical standards and performance
A6. Underpinning personal behaviour with ethical values and ensuring they permeate all aspects of the organisation's culture and operation
A7. Developing and maintaining robust policies and procedures which place emphasis on agreed ethical values
A8. Ensuring that external providers of services on behalf of the organisation are required to act with integrity and in compliance with high ethical standards expected by the organisation

What is in place to support this
Constitution contains guidance on decision making requirements
Member's Code of Conduct requires adherence to the Nolan Principles.
Maintaining a committee with responsibility for standards of
Regular Constitution and Standards Committee reports to
Regular conduct content and guidance in Core Brief and Member Core Brief.
Requirements of decision report templates (and guidance) to specify implications of proposed decisions for decision makers to have regard to
Core and Key Value expectations
Staff Awards
Staff Performance Appraisals
Constitution and policy content.
Member Induction and training in Code of Conduct.
Officer Inductions
No member appraisals in place but Personal Development Plans are offered to elected members.
Staff appraisals
Core and Key Values





- ◆Social Value Policy and Guidance - compliance evidenced through the Commissioning Gateway submissions.
- ◆Market Position Statements (Adults / Children's and high level.
- ◆Protocols to work in partnership and joint commissioning boards / agreements.

**Respecting the rule of law**

A9. Ensuring members and staff demonstrate a strong commitment to the rule of the law as well as adhering to relevant laws and regulations

A10. Creating the conditions to ensure that the statutory officers, other key post holders and members are able to fulfil their responsibilities in accordance with legislative and regulatory requirements

A11. Striving to optimise the use of the full powers available for the benefit of citizens, communities and other stakeholders

A12. Creating the conditions to ensure that the statutory officers, other key post holders and members are able to fulfil their responsibilities in accordance with legislative and regulatory requirements

**What is in place to support this**

- Constitution sets out legal requirements around decision making and other constitutional arrangements, report templates and guidance available on Intranet
- Staff Responsibilities
- SLT Assurance Statements
- Key member roles and responsibilities in the Constitution.
- Community Governance support to members and committees.
- Member / Officer Protocol.
- Inductions & Learning Centre
- Key decision process
- Tell Local Councillor Protocol.
- [Somerset Elections Protocol.](#)
- Protection of Statutory Roles & Key posts
- Decision reports include a requirement for officers to detail legal implications.
- Safeguarding Policies
- Recorded advice to Social Workers
- Constitution sets the framework, decision reports include a requirement for officers to detail legal implications.
- Decision report templates and guidance for completion.
- Policies and procedures in place

## B. Ensuring openness and comprehensive stakeholder engagement

Local government is run for the public good, organisations therefore should ensure openness in their activities. Clear, trusted channels of communication and consultation should be used to engage effectively with all groups of stakeholders, such as individual citizens and service users, as well as institutional stakeholders.

### Openness

B1. Ensuring an open culture through demonstrating, documenting and communicating the organisation's commitment to openness

B2. Making decisions that are open about actions, plans, resource use, forecasts, outputs and outcomes. The presumption is for openness. If that is not the case, a justification for the reasoning for keeping a decision confidential should be provided

B3. Providing clear reasoning and evidence for decisions in both public records and explanations to stakeholders and being explicit about the criteria, rationale and considerations used. In due course, ensuring that the impact and consequences of those decisions are clear

B4. Using formal and informal consultation and engagement to determine the most appropriate and effective interventions/ courses of action

### Engaging comprehensively with institutional stakeholders

B5. Effectively engaging with institutional stakeholders to ensure that the purpose, objectives and intended outcomes for each stakeholder relationship are clear so that outcomes are achieved successfully and sustainably

B6. Developing formal and informal partnerships to allow for resources to be used more efficiently and outcomes achieved more effectively

### What is in place to support this

Governance Board Transparency Code Annual Assurance Report 2019

Local Government Transparency Act publications

Open Communications & Press Releases

Constitution details the Access to Information requirements in relation to agendas, meetings, reports minutes and decision

Decision and report templates meet Access to Information requirements as do decision records, summaries of decisions, summaries of outcomes and minutes.

Community Governance Website

Constitution details the Access to Information requirements in relation to agendas, meetings, reports minutes and decision

Decision and report guidance and templates meet Access to Information requirements as do decision records, summaries of decisions, summaries of outcomes and minutes.

### What is in place to support this

Stronger Communities (MTFP Theme)

Stronger Communities Working Group aligned to Health and Wellbeing Board

Development of joint commissioning / development of joint health and social care strategy

Partnership Register

Strategic Managers Checklist

Partnership Lifecycle Guidance

B7. Ensuring that partnerships are based on:- trust – a shared commitment to change– a culture that promotes and accepts challenge among partners and that the added value of partnership working is explicit

### Engaging stakeholders effectively, including individual citizens and service users

B8. Establishing a clear policy on the type of issues that the organisation will meaningfully consult with or involve individual citizens, service users and other stakeholders to ensure that service (or other) provision is contributing towards the achievement of intended outcomes.

B9. Ensuring that communication methods are effective and that members and officers are clear about their roles with regard to community engagement

B10. Encouraging, collecting and evaluating the views and experiences of communities, citizens, service users and organisations of different backgrounds including reference to future needs

B11. Implementing effective feedback mechanisms in order to demonstrate how their views have been taken into account

B12. Balancing feedback from more active stakeholder groups with other stakeholder groups to ensure inclusivity

B13. Taking account of the interests of future generations of tax payers and service users

[Health and Wellbeing Board - Health and Wellbeing Board Constitution](#)

[Somerset Waste Partnership & SWP Business Plan](#)

### What is in place to support this

We don't currently have a single communications strategy - it's made up of a number of policy and guidance documents hosted on the intranet.

VCSE Strategic Forum

[Joint strategic needs assessment](#)

All JSNA reports contain case studies and the outcome of consultation with specific population groups

Carers Forum – Adults – Carer's Voice

SEND forum

[UK Youth Parliament](#)

Children in Care Council, Leaving Care Council

[Youth Offending Team](#)

Consultation section of decision papers.

The role of the elected member and their responsibilities for 'full patch'

Procurement Soft-market testing

Consulting with all groups whether members of the public, equalities groups/networks or organised groups

Early Years and School Place Planning Infrastructure Growth Plan

[Joint strategic needs assessment](#)

JSNA 2015 includes findings from focus groups with young people in rural Somerset

[IMD \(update expected this summer 2019\)](#)

[Somerset Intelligence website](#)

JSNA 2017 process had service user engagement exercise

School population forecasts

**C. Defining outcomes in terms of sustainable economic, social, and environmental benefits.**

The long-term nature and impact of many of local government’s responsibilities mean that it should define and plan outcomes and that these should be sustainable. Decisions should further the authority’s purpose, contribute to intended benefits and outcomes, and remain within the limits of authority and resources. Input from all groups of stakeholders, including citizens, service users, and institutional stakeholders, is vital to the success of this process and in balancing competing demands when determining priorities for the finite resources available.

Defining outcomes
C1. Having a clear vision which is an agreed formal statement of the organisation’s purpose and intended outcomes containing appropriate performance indicators, which provides the basis for the organisation’s overall strategy, planning and other decisions
C2. Specifying the intended impact on, or changes for, stakeholders including citizens and service users. It could be immediately or over the course of a year or longer
C3. Delivering defined outcomes on a sustainable basis within the resources that will be available
C4. Identifying and managing risks to the achievement of outcomes
C5. Managing service users expectations effectively with regard to determining priorities and making the best use of the resources available

What is in place to support this
Vision Statement
<a href="#">Strategic Planning - Links to County Vision &amp; Business Plan</a>
MTFP Cumulative Impact Assessments produced to support budget setting decisions.
Equality Impact Assessment published and Governance Board report to SLT
SLT Scorecards
Performance Report
CCP Exception Report
Financial Imperative Programme: Financial position and associated change control, escalations and risks escalated to SLT
Financial Reports
Strategic Risk Management Strategy
JCAD
Strategic Risk Management Group, regular review, updating and reporting of strategic risks to SLT and Audit Committee
MTFP financial tracker
Transformational and Financial Risks are both included in JCAD, the councils Risk management system. All risks regularly at least monthly.

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Sustainable economic, social and environmental benefits
C6. Considering and balancing the combined economic, social and environmental impact of policies, plans and decisions when taking decisions about service provision
C7. Taking a longer-term view with regard to decision making, taking account of risk and acting transparently where there are potential conflicts between the organisation's intended outcomes and short-term factors such as the political cycle or financial constraints
C8. Determining the wider public interest associated with balancing conflicting interests between achieving the various economic, social and environmental benefits, through consultation where possible, in order to ensure appropriate trade-offs
C9. Ensuring fair access to services

SCC Business Plan Commissioning Intentions through commissioning / service plans Future Transport Plan Evidence through the Commissioning Gateway Co-production Guidance
MTFP Priorities
Call Centre stats/ complaints handling
What is in place to support this
Somerset Waste Board decisions on Recycle More and alternatives to landfill projects
Capital programme
One Public Estate programme requires consideration of options for shared use and efficiency savings across the public estate.
Economic Development Projects (SEIC , innovation centres)
Value for Money Strategy
Constitution sets decision making requirements
Officer reports and decision making templates and guidance
Discussion in Cabinet / SLT meetings and pre-agenda meetings with chairs and vice-chairs.
Minutes and decision records record decisions and reasons.

**D. Determining the interventions necessary to optimise the achievement of the intended outcomes**

Local government achieves its intended outcomes by providing a mixture of legal, regulatory, and practical interventions. Determining the right mix of these courses of action is a critically important strategic choice that local government has to make to ensure intended outcomes are achieved. They need robust decision-making mechanisms to ensure that their defined outcomes can be achieved in a way that provides the best trade-off between the various types of resource inputs while still enabling effective and efficient operations. Decisions made need to be reviewed continually to ensure that achievement of outcomes is optimised.

**Determining interventions**

D1. Ensuring decision makers receive objective and rigorous analysis of a variety of options indicating how intended outcomes would be achieved and including the risks associated with those options. Therefore ensuring best value is achieved however services are provided

D2. Considering feedback from citizens and service users when making decisions about service improvements or where services are no longer required in order to prioritise competing demands within limited resources available including people, skills, land and assets and bearing in mind future impacts

**What is in place to support this**

Constitution sets decision making requirements

Officer reports and decision making templates and guidance

Discussion in Cabinet / SLT meetings and pre-agenda meetings with chairs and vice-chairs.

Minutes and decision records record decisions and reasons.

Stakeholders feedback

MTFP

Capital

**Planning interventions**

D3. Establishing and implementing robust planning and control cycles that cover strategic and operational plans, priorities and targets

D4. Engaging with internal and external stakeholders in determining how services and other courses of action should be planned and delivered

D5. Considering and monitoring risks facing each partner when working collaboratively including shared risks

**What is in place to support this**

Service Plans

Business Plan

Forwards Plans

FIT Programme Governance Timetable and SLT Forward Plan

Somerset VCSE Strategic Coordination Initiative

Strategic Risk Management Strategy

JCAD

Strategic Risk Management Group, regular review, updating and reporting of strategic risks to SLT and Audit Committee

Business Continuity Plans

D6. Ensuring arrangements are flexible and agile so that the mechanisms for delivering outputs can be adapted to changing circumstances

D7. Establishing appropriate key performance indicators (KPIs) as part of the planning process in order to identify how the performance of services and projects is to be measured

D8. Ensuring capacity exists to generate the information required to review service quality regularly

D9. Preparing budgets in accordance with organisational objectives, strategies and the medium term financial plan

D10. Informing medium and long term resource planning by drawing up realistic estimates of revenue and capital expenditure aimed at developing a sustainable funding strategy

**Optimising achievement of intended outcomes**

D11. Ensuring the medium term financial strategy integrates and balances service priorities, affordability and other resource constraints

Performance Report
Scorecards
Extensive range of on-line real-time reports for key operational services.
Detailed performance reports presented monthly to management teams and range of other boards/meeting.
Monthly and quarterly corporate monitoring process. Supplemented by Annual data reports and specific deep-dive exercises or ad-hoc reports as required.
SLT reporting, tracking and follow through of escalations and
Change Control Process
Programme Business Case Process, including cost model
Linkages across plans

**What is in place to support this**

Business Plan
Social Value in commissioning intentions.
Social Value Guidance and Training
Service / Commissioning Plans
Commissioning Gateway

D12. Ensuring the budgeting process is all-inclusive, taking into account the full cost of operations over the medium and longer term

D13. Ensuring the medium term financial strategy sets the context for ongoing decisions on significant delivery issues or responses to changes in the external environment that may arise during the budgetary period in order for outcomes to be achieved while optimising resource usage

D14. Ensuring the achievement of 'social value' through service planning and commissioning. The Public Services (Social Value) Act 2012 states that this is "the additional benefit to the



**E. Developing the entity's capacity, including the capability of its leadership and the individuals within it**

Local government needs appropriate structures and leadership, as well as people with the right skills, appropriate qualifications and mind-set, to operate efficiently and effectively and achieve their intended outcomes within the specified periods. A local government organisation must ensure that it has both the capacity to fulfil its own mandate and to make certain that there are policies in place to guarantee that its management has the operational capacity for the organisation as a whole. Because both individuals and the environment in which an authority operates will change over time, there will be a continuous need to develop its capacity as well as the skills and experience of the leadership of individual staff members. Leadership in local government entities is strengthened by the participation of people with many different types of backgrounds, reflecting the structure and diversity of communities.

**Developing the entity's capacity**

- E1. Reviewing operations, performance use of assets on a regular basis to ensure their continuing effectiveness
- E2. Improving resource use through appropriate application of techniques such as benchmarking and other options in order to determine how the authority's resources are allocated so that outcomes are achieved effectively and efficiently
- E3. Recognising the benefits of partnerships and collaborative working where added value can be achieved
- E4. Developing and maintaining an effective workforce plan to enhance the strategic allocation of resources

**What is in place to support this**

- [The TAMP 2010 and Highways Infrastructure Asset Management Strategy \(HIAMS\).](#)
- DfT Local Highways Infrastructure Incentive Fund Self-
- Highways Commissioning Intentions document, linked to our Service Level Agreement between Highways and Transport Commissioning, and E&CI Operations.
- County Wide asset rationalisation programme using Place Based Review approach. Establishment of Corporate Landlord Model steering group in advance of implementation April 2019. Individual workstreams focus on challenges and solutions.
- 6 monthly occupancy studies of our Smart office bases and drop-ins
- Regular review of children's centres and GetSet operations/strategic objectives
- Community Library Partnerships
- Monthly Education Infrastructure Board to ensure sufficiency of education places
- Project team meetings
- Project monitoring dashboard
- Monthly corporate property project progress meeting
- Attendance at monthly infrastructure and programme boards
- Benchmarking Groups (Corporate and Service)
- Children's Services Benchmarking Group
- [Waste](#)
- [Health and Wellbeing Board](#)

### Developing the capability of the entity's leadership and other individuals

E5. Developing protocols to ensure that elected and appointed leaders negotiate with each other regarding their respective roles early on in the relationship and that a shared understanding of roles and objectives is maintained

E6. Publishing a statement that specifies the types of decisions that are delegated and those reserved for the collective decision making of the governing body

E7. Ensuring the leader and the chief executive have clearly defined and distinctive leadership roles within a structure whereby the chief executive leads the authority in implementing strategy and managing the delivery of services and other outputs set by members and each provides a check and a balance for each other's authority

E8. Developing the capabilities of members and senior management to achieve effective shared leadership and to enable the organisation to respond successfully to changing legal and policy demands as well as economic, political and environmental changes and risks by:- ensuring members and staff have access to appropriate induction tailored to their role and that ongoing training and development matching individual and organisational requirements is available and encouraged – ensuring members and officers have the appropriate skills, knowledge, resources and support to fulfil their roles and responsibilities and ensuring that they are able to update their knowledge on a continuing basis– ensuring

### [Somerset Intelligence Partnership](#)

Key Partners Register

Partnership Lifecycle Guidance

Our People Strategy

Service Plan

Establishment Control & Workforce Analytics

Workforce Planning Toolkit.

Service Areas responsible for generating own workforce plans with HR and OD providing support materials.

### What is in place to support this

Constitution includes Member / Officer Protocol and role

Regular Cabinet / SLT meetings

Officer Job Descriptions

Constitution includes high level Council and Cabinet Scheme of Delegation

Standing Orders and Financial Regulations - reviewed at least annually by Full Council and in the interim by Constitution Committee

Constitution sets out legal roles of Leader and CEO and relationship management in the Member / Officer Protocol

Member induction programme following election

Annual member training programme

Personal Development Plans for members

Cross party Member Development Panel has oversight role of member training and support

Officer Training

Development of widely accessible learning and information

Full records of all officer corporate central training available.

Workforce planning identifies succession planning matters

Constitution sets out the public rights to engage

Including access to reports, agendas, minutes, meetings, public question time provisions at formal meetings.

No provision for reviewing individual member performance.

are able to update their knowledge on a continuing basis – ensuring personal, organisational and system-wide development through shared learning, including lessons learnt from governance weaknesses both internal and external

E9. Ensuring that there are structures in place to encourage public participation

E10. Taking steps to consider the leadership’s own effectiveness and ensuring leaders are open to constructive feedback from peer review and inspections

E11. Holding staff to account through regular performance reviews which take account of training or development needs

E12. Ensuring arrangements are in place to maintain the health and wellbeing of the workforce and support individuals in maintaining their own physical and mental wellbeing

Peer review / service inspection reports are formally considered and acted upon as appropriate, e.g. establishment of a further scrutiny committee for children's services on the back of OFSTED inspection outcome.
SLT 1-2-1's with Chief Executive
Coaching opportunities
Generate a picture and record of learning needs and requisite training and action taken
Health and Wellbeing Champions
Mental Health First Aiders
Mindfulness
Carefirst & EAP
Rapid Access to Physio
Occupational Health
New Workforce Analytics / Dashboards

## F. Managing risks and performance through robust internal control and strong public financial management.

Local government needs to ensure that the organisations and governance structures that it oversees have implemented, and can sustain, an effective performance management system that facilitates effective and efficient delivery of planned services. Risk management and internal control are important and integral parts of a performance management system and crucial to the achievement of outcomes. Risk should be considered and addressed as part of all decision making activities. A strong system of financial management is essential for the implementation of policies and the achievement of intended outcomes, as it will enforce financial discipline, strategic allocation of resources, efficient service delivery, and accountability. It is also essential that a culture and structure for scrutiny is in place as a key part of accountable decision making, policy making and review. A positive working culture that accepts, promotes and encourages constructive challenge is critical to successful scrutiny and successful delivery. Importantly, this culture does not happen automatically, it requires repeated public commitment from those in authority.

### Managing risk

F1. Recognising that risk management is an integral part of all activities and must be considered in all aspects of decision making

F2. Implementing robust and integrated risk management arrangements and ensuring that they are working effectively

F3. Ensuring that responsibilities for managing individual risks are clearly allocated

### What is in place to support this

Policy exists

Risk Management Strategy

SLT, Audit Committee and Strategic Risk Management Group

Core Council Programme Risk Management Strategy

JCAD

### Managing performance

F4. Monitoring service delivery effectively including planning, specification, execution and independent post implementation review

F5. Making decisions based on relevant, clear objective analysis and advice pointing out the implications and risks inherent in the organisation's financial, social and environmental position and outlook

F6. Ensuring an effective scrutiny or oversight function is in place which encourages constructive challenge and debate on policies and objectives before, during and after decisions are made thereby enhancing the organisation's performance and that of any

### What is in place to support this

Service Plans Analysis

Performance Report (especially Appendix A1)

[Performance Management Framework and Learning Centre](#)

Constitution sets decision making requirements

Minutes and decision records record decisions and reasons.

Fortnightly position on Financial Imperative sent to Cabinet.

Quarterly update on Core Council Programmes and FIT to Cabinet

Bi monthly update on Financial Imperative to Cabinet/SLT.

Fortnightly reporting on Financial Position and progress on Organisational redesign to SLT.

Financial Imperative Team Lessons Learned Summary

Change Control Process

organisation for which it is responsible(OR, for a committee system)  
 Encouraging effective and constructive challenge and debate on policies and objectives to support balanced and effective decision making

F7. Providing members and senior management with regular reports on service delivery plans and on progress towards outcome achievement

F8. Ensuring there is consistency between specification stages (such as budgets) and post implementation reporting (e.g. financial statements )

**Robust internal control**

F9. Aligning the risk management strategy and policies on internal control with achieving the objectives

F10. Evaluating and monitoring the authority’s risk management and internal control on a regular basis

F11. Ensuring effective counter fraud and anti-corruption arrangements are in place

F12. Ensuring additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor

F13. Ensuring an audit committee or equivalent group or function which is independent of the executive and accountable to the governing body:– provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment – that its recommendations are listened to and acted upon

Role of scrutiny / terms of reference detailed in the Constitution / reviewed at least annually.

Arrangements reviewed mid term and a further scrutiny committee for children's services established on the back of OFSTED inspection outcome to improve member capacity on scrutiny.

Agendas and minutes published

Members trained

Scorecards & deadlines

Performance Report & Timetable

Budget Reports

Budget Monitoring

**What is in place to support this**

Risk Management Policy and Strategy in place

Strategic Risk Management Group

Regular strategic risk reports to SLT and Audit Committee

Risk reports part of the performance management reporting arrangements

[National Fraud Initiative](#)

[CIPFA - Fighting Fraud and Corruption Locally](#)

South West Audit Partnership

Police

Healthy Organisation Report - Healthy Organisation looks at key areas within SCC governance, and will form a key source document in setting up the next Internal Audit Plan.

Annual internal audit plan and annual internal audit opinion

Audit Committee in place under the Constitution and meeting regularly in accordance with best practice.

Terms of reference set out in the Constitution and regular training provided to members.

**Managing data**

F14. Ensuring effective arrangements are in place for the safe collection, storage, use and sharing of data, including processes to safeguard personal data

F15. Ensuring effective arrangements are in place and operating effectively when sharing data with other bodies

F16. Reviewing and auditing regularly the quality and accuracy of data used in decision making and performance monitoring

**What is in place to support this**

The Information Governance Board

The Information Governance Manager

Framework of Information Governance Policy

The NHS toolkit has been completed and submitted electronically  
Staff receive induction and refresher training.

Sharing Protocols

Sharing Agreements

Contracts include relevant data protection, confidentiality and FOI

Regular audit procedures against data to ensure accuracy

Validation procedures to ensure data quality

Rectify data quality issues. - Data Strategy

**Strong public financial management**

F17. Ensuring financial management supports both long term achievement of outcomes and short-term financial and operational performance

F18. Ensuring well-developed financial management is integrated at all levels of planning and control, including management of financial risks and controls

**What is in place to support this**

Resilience Report

Grant Thornton Reports

SLT business report

Finance reports to Audit Committee

Budget Monitoring reports

**G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.**

Accountability is about ensuring that those making decisions and delivering services are answerable for them. Effective accountability is concerned not only with reporting on actions completed, but also ensuring that stakeholders are able to understand and respond as the organisation plans and carries out its activities in a transparent manner. Both external and internal audit contribute to effective accountability.

**Implementing good practice in transparency**

G1. Writing and communicating reports for the public and other stakeholders in an understandable style appropriate to the intended audience and ensuring that they are easy to access and interrogate

G2. Striking a balance between providing the right amount of information to satisfy transparency demands and enhance public scrutiny while not being too onerous to provide and for users to understand

**What is in place to support this**

Published Data our Somerset annual report

Agreements with Governance Board around level of publication and frequency

**Implementing good practices in reporting**

G3. Reporting at least annually on performance, value for money and the stewardship of its resources

G4. Ensuring members and senior management own the results

**What is in place to support this**

You Said, We Did

Leader's Report

Financial Statements Narrative Report

Comprehensive Income and Expenditure Account

Accountability in Service Plans and Scorecards

Annual Governance Statement Action Plan

Working jointly in Financial Regulations and Financial Procedures

G5. Ensuring robust arrangements for assessing the extent to which the principles contained in the Framework have been applied and publishing the results on this assessment including an action plan for improvement and evidence to demonstrate good governance (annual governance statement)

G6. Ensuring that the Framework is applied to jointly managed or shared service organisations as appropriate

G7. Ensuring the performance information that accompanies the financial statements is prepared on a consistent and timely basis and the statements allow for comparison with other similar organisations

**Assurance and effective accountability**

G8. Ensuring that recommendations for corrective action made by external audit are acted upon

G9. Ensuring an effective internal audit service with direct access to members is in place which provides assurance with regard to governance arrangements and recommendations are acted upon

G10. Welcoming peer challenge, reviews and inspections from regulatory bodies and implementing recommendations

G11. Gaining assurance on risks associated with delivering services through third parties and that this is evidenced in the annual governance statement

G12. Ensuring that when working in partnership, arrangements for accountability are clear and that the need for wider public accountability has been recognised and met

**Performance Reports & SLT Business Meeting Agenda**

**What is in place to support this**

Internal Audit Charter and review of SWAP in light of Public Sector Internal Audit Standards.  
Process for Audit Committee dealing with Partial assurance audits and use of JCAD to track.

Regular agenda items to Audit Committee (quarterly) entitled Internal Audit update. Audits with partial opinions are also reviewed at Audit Committee with managers to provide an update on recommendations.

[Ofsted](#)

Peer Review

Children's Quality and Performance Review Meeting

Adults and Health Performance Improvement Meetings

Risk Register

Partnership Protocols



## **SECTION 4: HOW CORPORATE GOVERNANCE IS REVIEWED**

1. The Leader of the Council and Chief Executive are required to ensure that each year, a review is undertaken to measure the extent to which the Council as a whole has met the requirements of this Code as part of the providing assurance for the Annual Governance Statement.
2. The review is undertaken by the Governance Board and reported to the Cabinet and the Senior Leadership Team.
3. Where the review reveals possible gaps or weaknesses, action is agreed to ensure effective governance in future. Agreed action is monitored for implementation.
4. Where necessary, this Code will be amended as a result of the annual review, changes in best practice or statutory changes. Minor amendments to wording, titles and to details of 'what is in place' to support the principles may be approved by the Director of Finance and Monitoring Officer but any substantive changes to the Code and the principles will require Senior Leadership Team endorsement.
5. This code will be renewed no later than 31 March 2022.

**Purpose: 'To ensure that Somerset and its people are supported and enabled to fulfil their potential, prosper and achieve a high standard of well-being'**

**Sources of Assurance**

- Planning principles for services and Somerset Way of Working
- Constitution
- Strategic Leadership and Senior Management structures
- Medium Term Financial Strategy
- Financial Regs and Procedure Rules
- Contract Procedure Rules
- Commissioning Plans and, Procurement Strategy
- Consultation Strategy
- Communications Plans
- Equality Plan
- Organisational Development and Workforce policies and plans
- Corporate Performance
- Information Management policies
- ICT & Digital Strategy
- Health and Safety Policy
- Risk Management Policy
- Partnership Working
- Internal & External Audit and inspection
- Anti Fraud and Corruption Policy & Procedures
- Audit and Constitution & Standards committees
- Codes of Conduct (Employees and Members)
- Whistleblowing Policy
- Performance Review and Development
- Complaints system

**Assurances Received**

- Statement of Accounts
- 'Focused on Our Performance' self-evaluation of progress against Council Plan
- External Audit and Inspection reporting
- Internal Audit reporting
- Risk and Control Registers and Risk Management Reporting
- Directors' Internal Control Assurances
- Anti Fraud and Corruption Annual Report
- Scrutiny Reviews
- Reviews commissioned by management
- Annual review of the Constitution, Contract Standing Orders and Scheme of Delegation
- Peer Reviews
- Ongoing review by Governance Board of Corporate Governance and of gaps in assurance
- Governance Code and Framework review

**Opportunities for Improvement**

- Health & Safety
- Sustaining robust ICT infrastructure

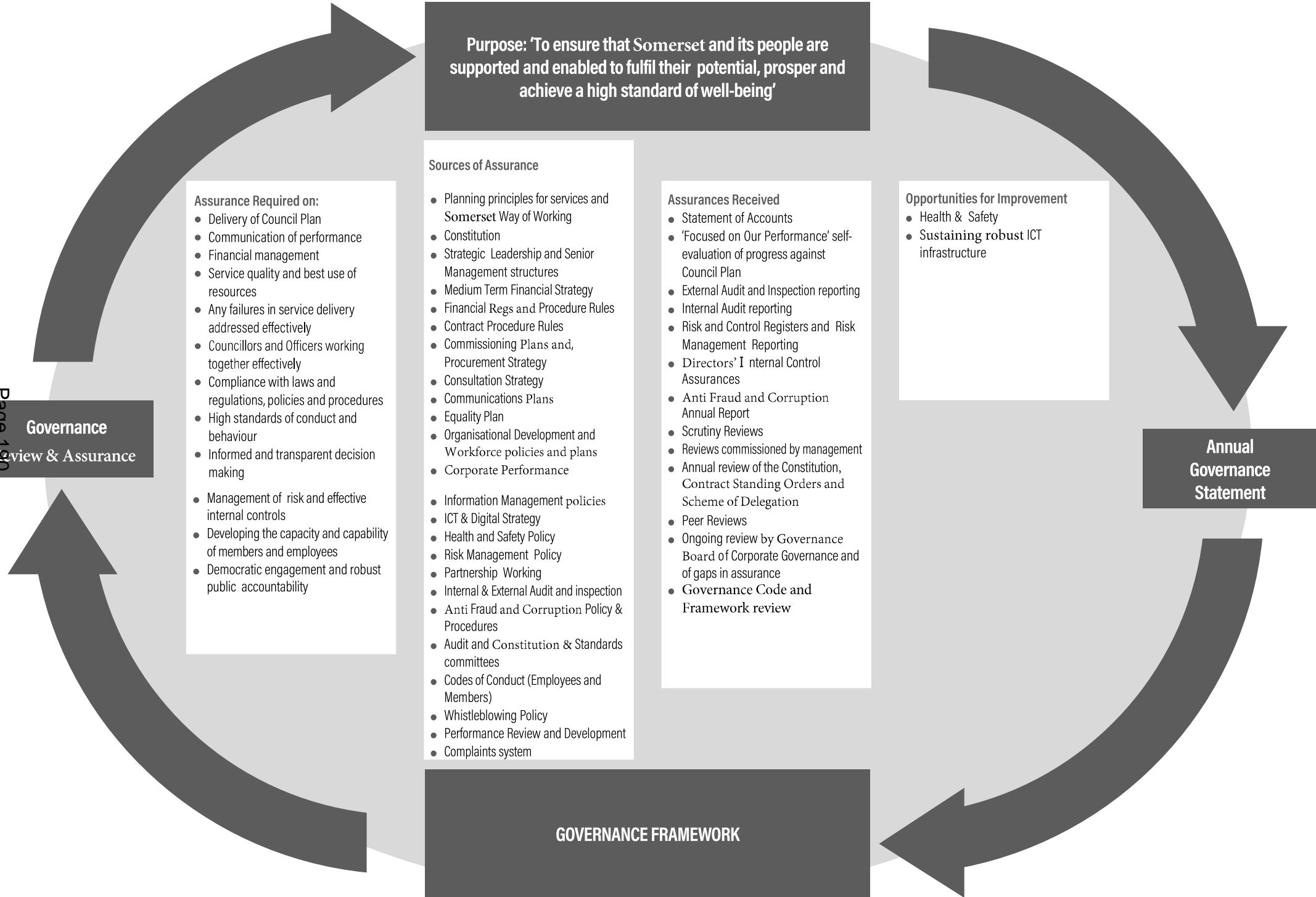
**Assurance Required on:**

- Delivery of Council Plan
- Communication of performance
- Financial management
- Service quality and best use of resources
- Any failures in service delivery addressed effectively
- Councillors and Officers working together effectively
- Compliance with laws and regulations, policies and procedures
- High standards of conduct and behaviour
- Informed and transparent decision making
- Management of risk and effective internal controls
- Developing the capacity and capability of members and employees
- Democratic engagement and robust public accountability

**GOVERNANCE FRAMEWORK**

**Governance Review & Assurance**

**Annual Governance Statement**



## THE SEVEN PRINCIPLES OF PUBLIC LIFE (THE NOLAN PRINCIPLES)

These apply to anyone who works as a public office-holder. This includes people who are elected or appointed to public office, nationally and locally, and all people appointed to work in:

- the civil service
- **local government**
- the police
- the courts and probation services
- non-departmental public bodies
- **health, education, social and care services.**

From: Committee on Standards in Public Life  
Published: 31 May 1995

For more details, see:

[The 7 principles of public life - GOV.UK](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/282222/The_7_principles_of_public_life_-_GOV.UK.pdf)

### 1. Selflessness

Holders of public office should act solely in terms of the public interest.

### 2. Integrity

Holders of public office must avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any interests and relationships.

### 3. Objectivity

Holders of public office must act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias.

### 4. Accountability

Holders of public office are accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this.

### 5. Openness

Holders of public office should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for so doing.

### 6. Honesty

Holders of public office should be truthful.

### 7. Leadership

Holders of public office should exhibit these principles in their own behaviour. They should actively promote and robustly support the principles and be willing to challenge poor behaviour wherever it occurs.

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Somerset County Council  
Audit Committee 18 June 2020

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## Debtor Management

Service Director: Jason Vaughan, Director of Finance  
Lead Officer: Donna Parham, Interim Strategic Manager – Corporate Finance  
Author: Nicola Saunders – Exchequer Team Leader, Finance  
Contact Details: [DParham@somerset.gov.uk](mailto:DParham@somerset.gov.uk)  
Cabinet Member: Cllr Mandy Chilcott, Cabinet Member for Resources  
Division and Local Member: All

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

- 1.1. This report reviews the recovery of outstanding debts (monies owed to the Council) and the current performance. The analysis below is based on the total of annual debt raised which is between £120 - £135m. The monthly outstanding debt can range between £7-20m.
- 1.2. The achievement of good performance in this area is linked to the County Plan in relation to “bring in more funding and resources”.

### 2. Issues for consideration

- 2.1. Members are asked to consider and comment on the position in relation to outstanding debt performance at the end of April 2020.

### 3. Background

#### 3.1. Headline figures as at 30 April 2020

Services' total outstanding debt reported on the Accounts Receivable system stood at **£10.087m** as at 30 April 2020. This compares with a figure of £16.296m as at 30 April 2019, and £9.730m, which was the 31st December 2019 figure in the last report to Audit Committee in January 2020.

The percentage of debts over 90 days as at 30 April 2020 was 31.2%, which represents an increase compared to the end of March which stood at 18.4%. The value of the increase in outstanding 90-day debt was £0.55m.

#### 3.2 Impact of Covid-19

A decision was made to suspend debt recovery from 23 March 2020 for up to 3 months in order to support individuals, residents. and businesses during the COVID-19 pandemic. During this period:

- Invoices continued to be sent;
- Reminders were suppressed;
- The Recovery Team continued to liaise with individual residents and companies that contacted the Council to agree a longer payment plan or if in severe

difficulties agree up to a three-month payment-holiday subject to reviewing their income and expenditure.

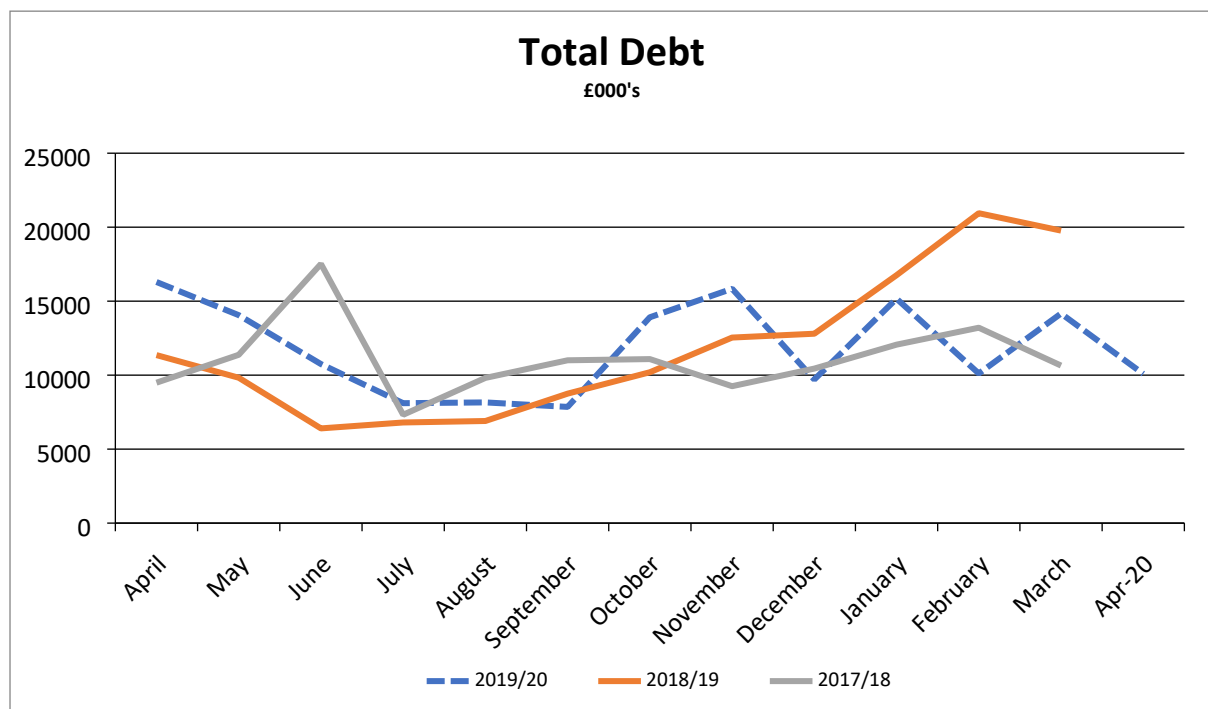
This provided individuals, residents and companies with some breathing space while ensuring that the Council continued to collect debts wherever possible. It also reflected that invoices are delivered by post and many companies were not currently working at their registered buildings to receive them.

Customers are currently being contacted by letter with regards to outstanding debts and any subject to legal debt recovery proceedings to encourage them to contact the Council to discuss payments and repayment plans going forward. The normal debt recovery process is expected to start again at the end of June 2020.

The graphs below show April 2020 as an additional month to show the impact of Covid-19 on debt collection and explain the increase in the overall value of 90-day debts.

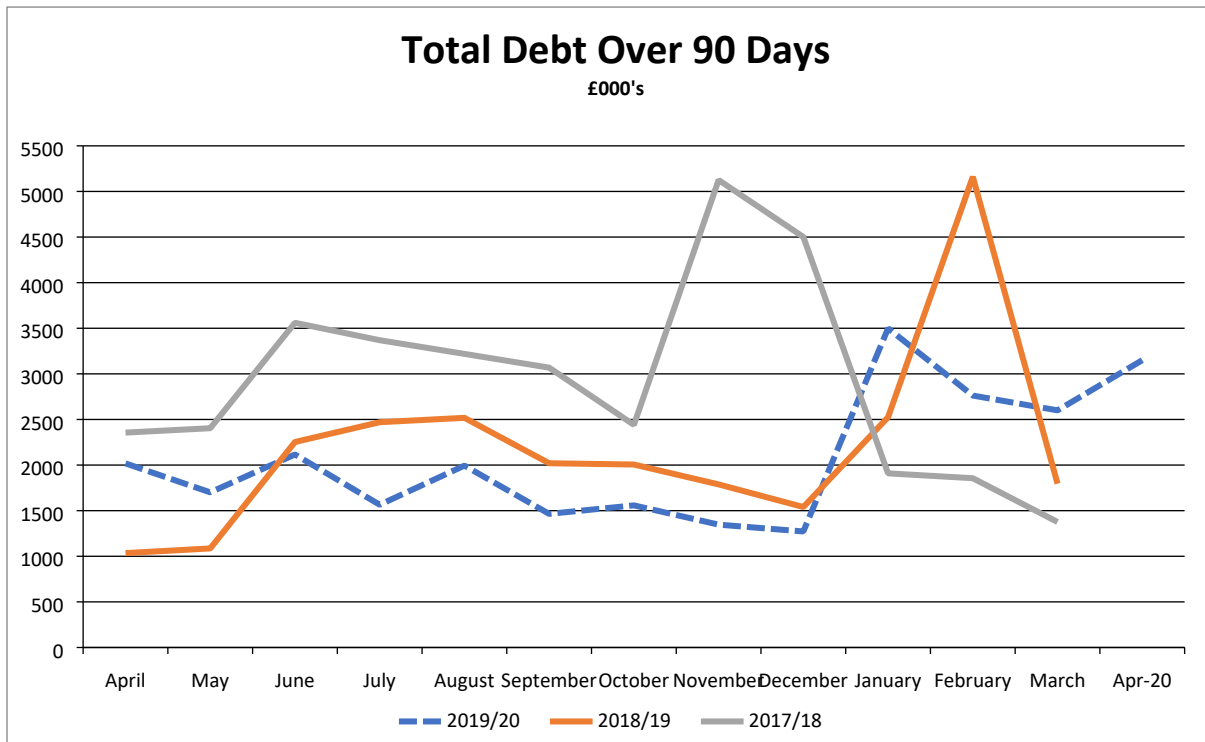
**Graph 1** graph below shows the total debt outstanding over the last 3 years. The debt figures for 2019/20 (the dotted line) shows that the amount of debt outstanding has remained much the same since the last report to Audit Committee. Data for April 2020 has been added to the end of this graph for this purpose to show the rolling trend from the end of the 2019/20 financial year.

**Graph 1: Total debt outstanding by month for each of the last three years**



**Graph 2** below show that the total debt over 90 days has increased over the previous period, from £1.272m at the end of December 2019, with a peak in January 2020 of £3.499m then reducing slightly to £3.150m by the end of April 2020. Data for April 2020 has been added to the end of this graph for this purpose to show the rolling trend from the end of the 2019/20 financial year.

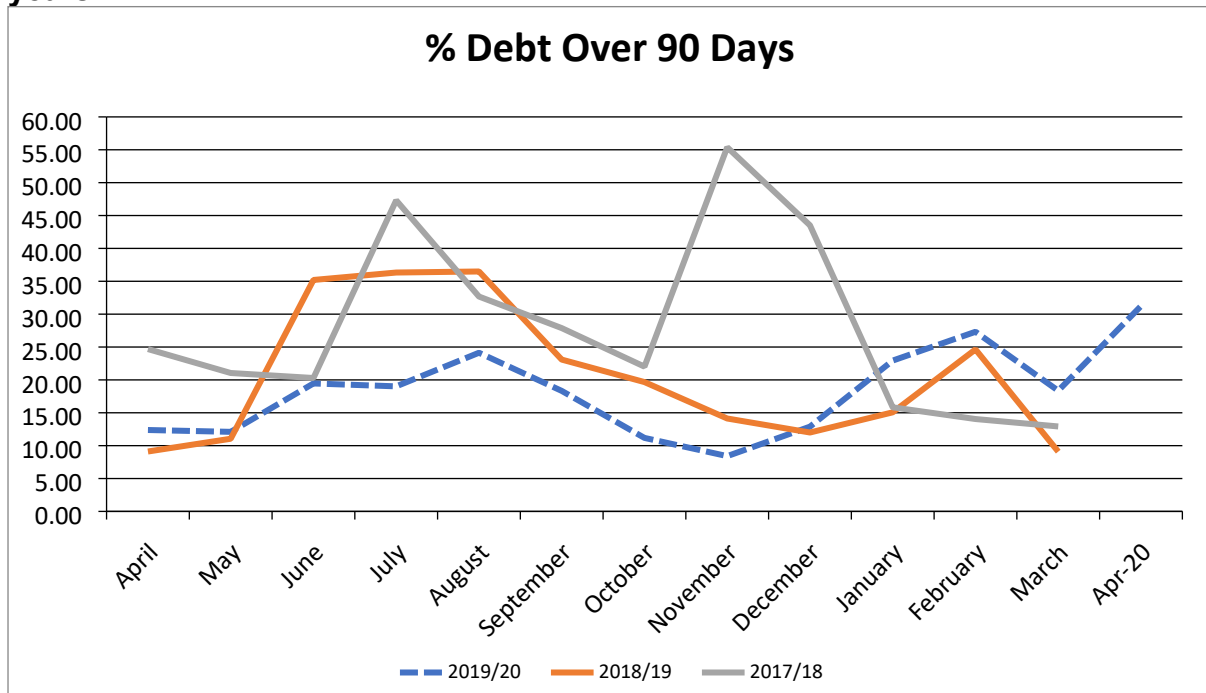
**Graph 2: Debt over 90 days outstanding by month for each of the last three years**



**Graph 3** shows the total level of debt has increased which affects the percentage of debts over 90 days. This results in an increase in the percentage of total debt over 90 days, which sits at **31.23%**, at the end of the period, above the 15% figure (established when Somerset was part of a local authority benchmarking club on debt), which is generally taken to be the sign of strong performance, and was previously agreed with Audit Committee as the local target.

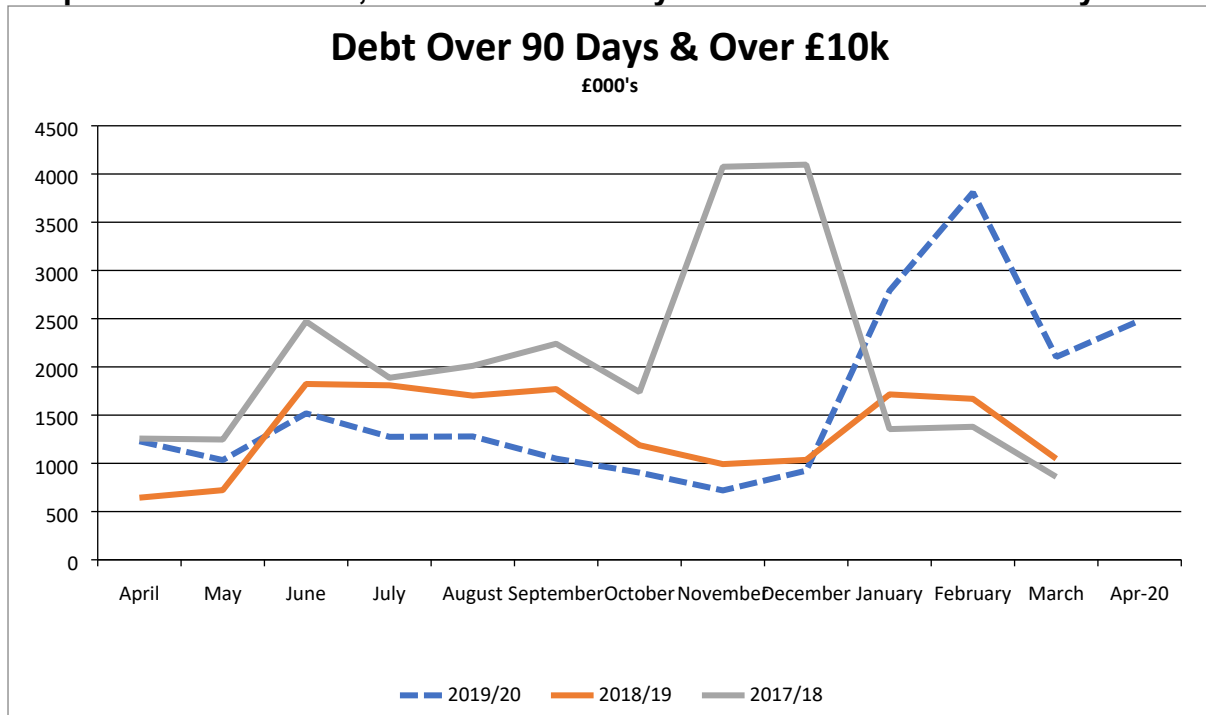
The percentage above represents an increase on 31 March 2020 which stood at 18.36%. This also shows an increase on from the 31 December 2019 figure of 12.89%, which was in the last report to Audit Committee. Data for April 2020 has been added to the end of this graph for this purpose to show the rolling trend from the end of the 2019/20 financial year.

**Graph 3: Percentage of debt over 90 days by month for each of the last three years**



A further test, illustrated in **Graph 4** below, is to consider debts over 90 days and over £10,000, which are higher risk in that they are both aged and significant. This shows an increase since the last report to Audit Committee and the debt values are higher at this point compared to the previous two years recorded on this graph. Data for April 2020 has been added to the end of this graph for this purpose to show the rolling trend from the end of the 2019/20 financial year.

**Graph 4: Debt over £10,000 and over 90 days for each of the last three years**



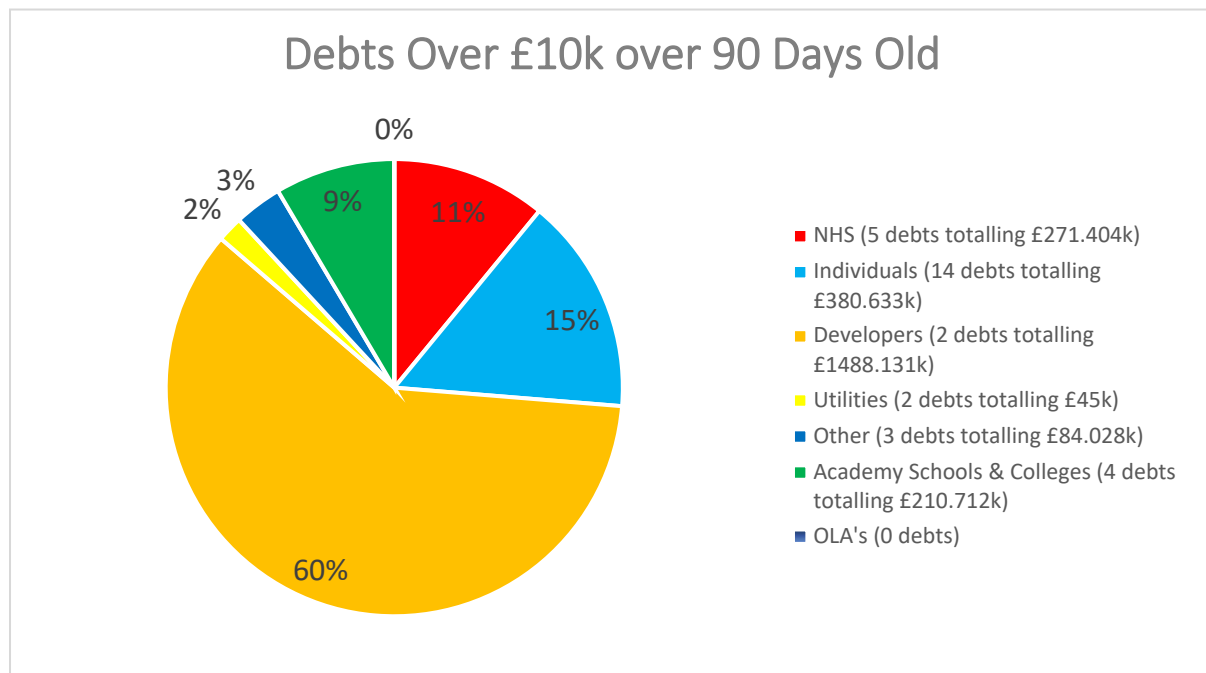


### 3.3. Breakdown of larger debt figures

There was a total of **30 debts** that are both over 90 days old and over £10,000 in value as at the end of April 2020, as shown in **chart 1** below. The number of large, older debts has remained relatively low in recent months, the figure was as high as 94 prior to the launch of the Income Code of Practice in November 2017.

The breakdown of these debts shows an increase of debts across all areas. This report has been reviewed since the end of April and two further individual debts totalling £69.342k has been cleared. Many of these debts are complex, sometimes involving the estates of deceased former care receivers. NHS debts remain well below levels experienced previously, when they were often in excess of £1m. Members will recall that there are improved processes in place with the NHS, with a portal between us to ensure that the debt information reaches the right person to speed up payment.

**Chart 1: Source of over £10,000 debts over 90 days old**



Members can be assured that all these debts are being pursued in line with the Income Code of Practice (ICOP).

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

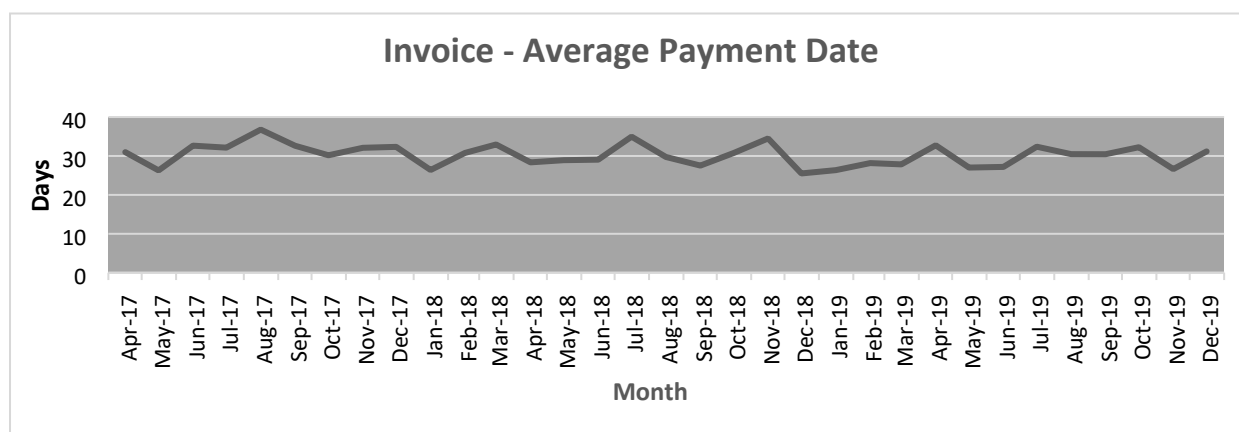
The Legal Debt Recovery Officers are still confident that the Pre-Action Protocol (appendix to the ICOP) introduced by the Courts in 2017 has not greatly delayed the collection of debts from individuals and sole traders.

### 3.4. Average payment days

The other criterion that officers consider important in debt collection is the calculation of the average number of days for an invoice to be paid. This cannot be calculated until a sufficient period of time has elapsed to allow for debts to be paid, so our latest analysis is for invoices raised in August 2019 (N.B. this a snapshot position on a month by month basis and not cumulative).

December's figure is 31.17 days. This figure has been around the 30 days mark since the worst position was reported in August 2017. **Graph 5** illustrates that.

#### Graph 5: Trend in average payment days



### 3.5. Recent Accounts Receivable audit from SWAP

SWAP (the Councils Internal auditors), finalised its 2019/20 Accounts Receivable audit in February 2020. This concluded a partial assurance, with medium and low priorities for recommendations, which was disappointing given that the Income Code of Practice is now well established, and that Accounts Receivable staff have continued to provide significant training to Debt Chasers, often tailored to specific services' needs. Despite the work of the Accounts Receivable team a continued lack of overall service compliance is being reflected within the audit.

The actions agreed that received partial assurance were:

- The Exchequer Manager should contact all budget holders to outline ICOP requirements and to confirm whether nominated debt chasers are in place for all Sales Offices. Any new debt chasers should receive ICOP training. The Authorisation List should be updated with any information received and then be subject to regular reviews;
- The Exchequer Manager should meet with nominated debt chasers to determine why 7-day letters are not always issued in line with agreed timescales, and to agree a consistent practice going forward. This may necessitate a review of the Code of Practice for Income Management (ICOP);

- The Exchequer Manager should meet with nominated debt chasers to determine why they do not always record recovery action in SAP and to agree a consistent practice going forward. This may necessitate a review of the Code of Practice for Income Management (ICOP). Management should also consider exploring the possibility introducing a workflow process for debt management and recovery into within the financial management system;
- The Exchequer Manager should work with the Legal Debt Recovery Officers to review the timescales for debt referral and update them in the ICOP if necessary. This could include setting criteria for what constitutes a meaningful recovery plan. Greater emphasis should be placed on Sales Offices seeking advice from LDROs, so that the LDROs have advance awareness of problematic debts. Once this has been reviewed and timescales confirmed, and expectations should be communicated effectively and enforced for all sales organisations.
- We recommend that the Exchequer Manager updates the Code of Practice for Income Management (ICOP) to include the required timescale for issuing a credit note and specify that credit notes should be authorised in line with the Authorisation List. Authorisers for all Sales Officers should be agreed.

The Income Code of Practice has been updated and training sessions were held in May and June 2019. The training sessions were attended by all Debt Chasers and response was very positive. Despite this the most recent audit highlighted the requirement to investigate further into why there isn't full compliance with the ICOP in some service areas. There will be a more regular review of the Authorisation List held in the Accounts Receivable team and a note to all debt chasers reminding them of the importance to record notes on SAP. A reminder will also be issued to debt chasers reminding them of the defined timescales for processing of refunds and credit notes. Individuals and services will also be contacted by the Section 151 officer for non-compliance and will be required to take remedial action. This will then be monitored closely over the following months.

Since these sessions were held, Accounts Receivable have continued to support services with training and advice on Debt Management issues. An updated version of the ICOP has recently been published (Dec 2019).

The Legal Debt Recovery Officers, alongside the Accounts Receivable team continue to help support areas across all aspects of Debt Management with more consistent, pro-active intervention on a quarterly basis for areas of non-compliance. Progress will be reported to this committee as part of future Debt Management performance reports.

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

- 4.1** Debt is regularly reported to Cabinet as part of quarterly Budget Monitoring.

## **5. Implications**

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

## **6. Background papers**

- 6.1.** Previous reports to Audit Committee, including the Income Code of Practice (November 2017).
- 6.2.** Pre-Action Protocol documentation and requirements.

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

Somerset County Council  
Audit Committee – 18 June 2020

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## Forward Work Plan

Service Director: Jason Vaughan, Director of Finance  
Lead Officer: Jason Vaughan, Director of Finance  
Author: Jason Vaughan, Director of Finance  
Contact Details: JZVaughan@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 agenda items coming to future Audit Committee meetings, and that officers ensure that the Committee continue to receive details about all Partial Assurance audits 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 consider the outline agenda for the next meeting on 27 August, **in Appendix A** and note this is a new meeting date and will replace the July meeting.
- 2.2. Members are asked to comment on any further items that they would like to be scheduled at future meetings 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.

The 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 a future meeting of Committee.

- 3.2. The 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.
- 3.3. The Committee agreed at its 30 January 2020 meeting that the Strategic Risk Management update report and the Debtor Management report now be presented on a quarterly basis.

#### **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

<b>Future Agenda Items</b>	<b>Notes</b>
<b>27 August 2020</b>	
Statement of Accounts – Somerset County Council	External Audit findings report regarding the Council's financial statements for the year ended 31 March 2020
Statement of Accounts – Pension Fund	External Audit findings report of the 2019/20 external audit of the Pension Fund financial statements.
Internal Audit Update report	SWAP overview and general update of the progress made against the Audit Plan.
<b>24 September 2020</b>	
External Audit Plan and Sector Update	To have an update on the external audit timetable and audit work undertaken, and any initial findings
Value for Money Tracker Update	The consider the new VFM tracker
Internal Audit Update report	SWAP overview and general update of the progress made against the Audit Plan.
Debtor Management update report	To report on the performance in terms of collecting monies owed to the County Council.
Risk Management update	To review the Strategic Risk Register
<b>19 November 2020</b>	
External Audit Plan and Sector Update	To have an update on the external audit timetable and audit work undertaken, and any initial findings
Internal Audit Update report	SWAP overview and general update of the progress made against the Audit Plan.
<b>28 January 2021</b>	
Risk Management update	To review the Strategic Risk Register
External Audit Plan and Sector Update	To have an update on the external audit timetable and audit work undertaken, and any initial findings
Internal Audit Update report	SWAP overview and general update of the progress made against the Audit Plan.
Debtor Management update report	To report on the performance in terms of collecting monies owed to the County Council.
<b>11 March 2021</b>	
Risk Management update	To review the Strategic Risk Register
Debtor Management update report	To report on the performance in terms of collecting monies owed to the County Council
External Audit Plan and Sector Update	To have an update on the external audit timetable and audit work undertaken, and any initial findings
Internal Audit Update report	SWAP overview and general update of the progress made against the Audit Plan.

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