

Audit Committee

Thursday 23 September 2021

10.00 am Luttrell Room - County Hall,
Taunton



To: The Members of the Audit Committee

CLLr M Lewis (Chair), CLLr M Caswell (Vice-Chair), CLLr H Davies, CLLr B Filmer, CLLr P Ham, CLLr L Leyshon, CLLr G Noel and CLLr M Rigby

All Somerset County Council Members are invited to attend meetings of the Cabinet and Scrutiny Committees.

Issued By Scott Wooldridge, Strategic Manager - Governance and Risk and Monitoring Officer - 15 September 2021

For further information about the meeting, please contact Terrie Brazier or Neil Milne on 01823 357628 or tbrazier@somerset.gov.uk

Guidance about procedures at the meeting follows the printed agenda.

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

This agenda and the attached reports and background papers are available on request prior to the meeting in large print, Braille, audio tape & disc and can be translated into different languages. They can also be accessed via the council's website on www.somerset.gov.uk/agendasandpapers



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AGENDA

Item Audit Committee - 10.00 am Thursday 23 September 2021

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

1 **Apologies for absence**

2 **Declarations of Interest**

Details of all Members' interests in District, Town and Parish Councils can be viewed on the Council Website at [County Councillors membership of Town, City, Parish or District Councils](#) and this will 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 meeting held on 22 July 2021** (Pages 9 - 18)

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 **Advisory opinion audit update** (Pages 19 - 52)

To consider this update report from the internal auditors.

6 **Internal Audit update** (Pages 53 - 66)

To consider the report.

7 **External Audit update** (Pages 67 - 74)

To consider the report.

8 **Pension Fund Audit Findings Report** (Pages 75 - 100)

To receive the report.

9 **Risk Management update** (Pages 101 - 112)

Item Audit Committee - 10.00 am Thursday 23 September 2021

To consider the report.

10 **Committee Future Work Programme** (Pages 113 - 116)

To consider future agenda items.

11 **Any other urgent items of business**

The Chair may raise any items of urgent business.

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Guidance notes for the meeting – Audit Committee

1. Council Public Meetings

The former regulations that enabled virtual committee meetings ended on 7 May 2021. Since then, all committee meetings need to return to face-to-face meetings. The requirement is for members of the committee and key supporting officers to attend in person, along with some provision for any public speakers. However due to the current COVID restrictions and social distancing measures only a small number of people can attend as meeting room capacities are limited. Provision will be made wherever possible for those who do not need to attend in person including the public and press who wish to view the meeting to be able to do so virtually.

Anybody attending the meeting in person will be asked to adhere to the current Government guidance and Council procedures in place to safely work during COVID 19. These include limiting numbers in a venue, maintaining social distancing, using hand sanitisers, wiping down areas that you have used, wearing face coverings when not sitting at a table (unless exempt from doing so) and following one-way signs in the venue/building. You will also be asked to sign in via the NHS Test and Trace app or to sign an attendance record and will be asked relevant questions before admittance to the meeting. Everyone attending the meeting will be asked to undertake a lateral flow test up to 72 hours prior to the meeting.

Please contact the Committee Administrator or Democratic Services on 01823 357628 or email democraticservices@somerset.gov.uk if you have any questions or concerns.

2. Inspection of Documents

Any person wishing to inspect Minutes, reports, or the background papers for any item on the Agenda should contact the Committee Administrator for the meeting via Telephone (01823) 359045 or 357628; or Email: democraticservices@somerset.gov.uk

They can also be found here: www.somerset.gov.uk/agendasandpapers

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. The Code of Conduct can be viewed at:

<http://www.somerset.gov.uk/organisation/key-documents/the-councils-constitution/>

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 tell the Committee's Administrator, by 5.00pm on the Friday before the meeting. This is the deadline to register to speak and requests to speak received after this time will be at the Chair of the Committee's discretion.

At the Chair of the Committee's invitation you may ask questions and/or make statements or comments about any matter on the Committee's agenda – providing you have given the required notice. You may also present a petition on any matter within the Committee's remit.

The length of public question time will be no more than 30 minutes in total.

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

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

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

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

6. 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.

7. Committee Rooms & Council Chamber and hearing aid users

To assist hearing aid users Committee meeting rooms have infra-red audio transmission systems. To use this facility, you will need a hearing aid set to the T position.

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 and a designated area will be provided for anyone wishing to film part or all of the proceedings.

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

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

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

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

9. Operating Principles for Audit Committee

Reports

- i. The reports should be clearly and concisely written. The report template available to officers on the intranet will be used.
- ii. Reports should highlight issues for Member consideration, no matter how difficult or complex, for example:

- All reports should detail current performance levels.
 - All reports should identify cost implications.
- iii. No report should contain a recommendation “to note” the report.
- iv. Any report, which outlines clear priorities for improvement, should contain recommendations and a detailed action plan with timescales and resources.

Members

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

10. The Role of the Audit Committee

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

AUDIT COMMITTEE

Minutes of a Meeting of the Audit Committee held in the Luttrell Room - County Hall, Taunton, on Thursday 22 July 2021 at 10.00 am

Present: Cllr M Lewis (Chair), Cllr M Caswell (Vice-Chair), Cllr H Davies, Cllr B Filmer, Cllr L Leyshon and Cllr G Noel.

Other Members present: Cllr M Chilcott, Cllr A Kendall and Cllr T Munt.

Apologies for absence: Cllr P Ham and Cllr M Rigby.

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

There were no additional interests declared.

235 **Minutes from the last meeting** - Agenda Item 3

The minutes of the last meeting were accepted as accurate by the Committee and were signed by the Chair.

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

The Chair of the Committee confirmed that no questions had been received or statements/petitions presented.

237 **Annual Governance Statement 2020-2021** - Agenda Item 5

The Chair invited the Council's Monitoring Officer to present the Annual Governance Statement (AGS) 2020/21 and he began by explaining that the purpose of the AGS was to provide assurance that the Council has a sound governance framework in place to manage the risks that might prevent achievement of its statutory obligations and organisational objectives.

He explained that the Council was required to carry out, at least annually, a review of effectiveness of its governance framework. This review of internal controls provided additional assurance that the Statement of Accounts gave a true and fair view of the Council's financial position at the reporting date and of its financial performance during the year.

The Committee heard that the process carried out had been in line with guidance published by CIPFA / SOLACE in the new "Delivering Good Governance in Local Government". It was stated that there were robust arrangements for effective financial control through the Council's accounting procedures, key financial systems and the Financial Regulations. These had

been reviewed and assessed against the new CIPFA Financial Management Code with improvements forming part of an action plan. The continued improvements in the Council's Financial Management arrangements had been recognised by SWAP as part of their review of the Healthy Organisation with an improved rating from Amber to Green.

It was noted that despite the exceptional year, with many challenges for public services, the Council's internal auditors had confirmed continued improvement and assurance with the governance framework and systems. This had been a significant achievement by the Council for a challenging year and was a testament to the good governance framework it had in place.

Throughout the majority of 2020/21, the Senior Leadership Team had met twice weekly to manage the council's emergency response, maintain delivery of core services and prioritise resources accordingly. Regular position statements and updates were provided to elected members and reported to Cabinet meetings and other committees, including the formation of a new Member Engagement Board with partner representatives.

The Committee approved the draft Annual Governance Statement prior to it being signed by the Leader of the Council and the Chief Executive, and members noted the AGS would form part of the 2020/21 Statement of Accounts.

238 **Annual Audit Opinion** - Agenda Item 6

The Committee considered and discussed this report that contained information about the internal auditors' opinion on the adequacy and effectiveness of the Council's internal control framework for the year ending 31 March 2021. It was noted that despite a limited number of control issues previously reported to the Committee, SWAP had given a reasonable opinion for the control framework in place, and this had been incorporated into the Annual Governance Statement.

Members heard that the pandemic had resulted in a change to some of the audits planned as the Council realigned its priorities and this had resulted in new risks associated with mitigating against Covid-19 being established such as the audit of new grants. The plan delivered was different from the one originally intended but this had been the same throughout the country, however members were reassured that all the audits of strategic risks across the organisation were still delivered.

It was reported that the 'Healthy Organisation' was a review of the corporate control framework and remained a key source of assurance and had resulted in an overall rating of medium. It was noted this was a significant improvement

since the last review, two years previously, as the Council's financial management rating had moved from 'Amber' to 'Green' due to better budget planning, setting and management. Frameworks in areas previously assessed as strong, such as performance, programme and people management had also remained as such or had improved further. It was explained that the auditors had concluded that the considerable actions taken by the Council to respond to the pandemic, which included emergency governance arrangements and redeployment of hundreds of staff, had not resulted in any significant adverse impact on service delivery or the overarching control framework.

In response to a question, it was explained that it had been necessary to reschedule some of the planned follow-up reviews, to 2021/22, to allow more time for agreed recommendations to be implemented. Six follow-up audits had been carried out during the year and overall, this work had confirmed the implementation of agreed recommendations to mitigate exposure to areas of significant risk. For five of the six audits, the risks had been judged to have been reduced sufficiently to be removed from the risk management system.

There was a brief discussion of the report and in particular the phrase "agreed with managers" and it was explained that a plan of audit work was agreed with managers and the findings would be reported back informally and formally before the final report was issued and agreement to the recommendations was obtained. In respect of the advisory audit on highways maintenance it was noted this was in the plan for 2021/2022 and it was requested if the graphics to show the 'Healthy Organisation' summary could include an indication of direction of travel.

On the issue of staff redeployment having had little impact on service delivery it was explained that the context had been to demonstrate the impact on the intended audit plan and the opinion had been based on a different plan to the one intended as some audits could not be delivered due to redeployment, but that those delayed audits had been carried forward and not lost. It was also noted there had been no cases of whistle blowing for 2 years and the Director of Finance confirmed that he was in discussion with the internal auditors and the Council's Monitoring Officer about how to address this and he would update a future meeting.

Members noted Appendix A, which detailed the summary of delivery of the work for 2020/21, and answers were provided for specific questions on various services areas and it was noted that some recommended actions that appeared to be outstanding for some time were due to programmed improvements and therefore did not mean that the required remedial work had not been addressed.

Members accepted the report and the internal audit Annual Opinion report and its conclusions.

239 Internal Audit Update - Agenda Item 7

The Chair invited the Council's internal auditor from the South West Audit Partnership (SWAP) to introduce her report that provided details on the last progress report for the 2020/2021 audit plan. The update report highlighted that since the last update report there had been no audits completed that had identified a high corporate risk.

The attention of Members was drawn to page 98 and a limited assurance opinion following an audit of the Council's debt management team to verify the framework of management of debt recovery. It was noted that the pandemic had had an impact on the debt recovery work of the Council as it had focused on business continuity and for a period had suspended debt recovery as resources and staff were reallocated. As some of the issues had been highlighted in an earlier audit the new recommendations had been sent directly to Service Finance Managers. It was noted that the audit report would also be considered at the July meeting of the Governance Board which would provide an opportunity to raise awareness of the remaining issues to senior staff across the Council.

Appendix C was highlighted as this provided an overview of a baseline assessment of maturity in relation to fraud and assessing anti-fraud controls at an organisational level and an amber rating had been provided. Appendix D provided an overview of a review into Cyber security and the findings and conclusions were noted. There was a brief discussion about security awareness and training, and it was noted that there would be a full audit undertaken as part of the 2021/22 Audit Plan and Members requested that a briefing be provided for Members on this topic by SWAP's IT audit specialist.

The update report was accepted.

240 External Audit Update - Agenda Item 8

The Chair invited Mr Davies, of Grant Thornton, the Council's external auditors to introduce his report and he began by directing attention to pages 116 and 117 and he provided an overview of the report, noting that the external auditors were aiming to provide their opinion on the Council's financial statements by 30 November 2021.

He noted that the value for money assessment had changed, due to a new Code of Audit Practice that required an external auditor's annual report (in addition to the external audit findings report based on the financial statements)

and that the annual report would contain a commentary on the value for money criteria and associated recommendations.

It was noted that the change to the timing of the financial statements report, and the increased work associated with the value for money assessment had impacted on the audit fee. There was a question about auditing the pension fund investments and it was noted that the auditors were concerned to ensure the valuations of the investments in the fund was accurate.

There was a question about the auditing of the Council's finances considering local government reorganisation and it was explained that there would be a seamless and rigorous process. The Director of Finance noted that he would provide further information on the 2 public interest reports so that the Council could benefit from the lessons learnt.

The update report was accepted.

241 Informing the audit risk assessment for Somerset County Council and the Somerset Pension Fund Audit Plans 2020/21 - Agenda Item 9

The Chair invited Mr Davies, of Grant Thornton, to introduce this report and he noted that it was a way of assisting both the external auditor and the Committee in understanding matters relating to the audit of the Council's financial statements and the pension fund.

He explained that the report contained the detailed responses provided by the Council to questions asked by the external auditors and Members of the Committee were invited to make additional comments, and consideration of the report would support the Committee in fulfilling its responsibilities in relation to the financial reporting process.

The Committee accepted the report, noting they were content that the responses provided by the Council to the external auditors' various questions were satisfactory and that the arrangements for accounting estimates were adequate.

242 Somerset County Council Audit Plan and the Somerset Pension Fund Audit Plan - Agenda Item 10

The Chair invited Mr Davies, of Grant Thornton, to introduce these reports that provided the Committee with an overview of the planned scope and timing of the statutory audits of the Council and the Pension Fund.

He began by noting that the significant risks, those requiring special audit consideration to address the likelihood of a material financial statement error,

had been judged to be in line with last years and had not changed. He explained that materiality had been assessed at £12.3m as this was 1.5% of the gross expenditure for the year, any figures above the threshold set for triviality, of £0.615m, would be included in the audit findings report.

On the value for money arrangements, he highlighted those 3 areas that had been identified as risks and those were: ongoing concerns around financial stability; children's services (SEND) and progress against the action plan; and local government reorganisation in Somerset. He noted that the annual audit report had to be completed within 3 months of the issue of the audit opinion and he hoped that both reports would be completed by the end of November. He referred to the audit fee and noted a more detailed breakdown was provided on page 182.

There was a question about the audit fee given that some of the proposed work would need to be more detailed and yet the fee would be reduced and in response members noted that last year there had been much additional and unexpected work (on property, plant and equipment) that had to be charged to the audit fee and it was not envisaged this would be the case this year, hence the reduced fee.

On the topic of management override of controls and journal entries and the previous recommendation of external auditors for there to be a second person sign off the Director of Finance explained that there had been a high-level review of all significant journals to provide more assurance, however it would be for the auditors to review, and the Council would respond. The Chair noted that he would discuss this issue with the Director of Finance outside of the meeting.

Regarding the proposed audit plan for the Pension Fund, Mr Davies noted that that the significant risks, those requiring special audit consideration to address the likelihood of a material financial statement error, had been judged to be: revenue and expenditure recognition; management of override controls; and valuation of level 3 investments. He noted that the materiality figure for the Pension Fund had been corrected since the report had been written and was now £26.1m, this was due to an increase in the value of the Fund.

The Committee accepted the reports and approved the proposed 2021/2022 Audit Plans for the Council and the Pension Fund.

243 **Anti-Fraud and Corruption Review** - Agenda Item 11

The Chair invited the Strategic Manager for Finance Systems and Governance, to introduce the Anti-Fraud and Corruption review 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 reviewed them 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 to 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 2021/2022.

Mr Bryant highlighted the appendices attached to his report, Appendix A, the Anti-Fraud and Corruption Policy and Appendix B the Anti-Bribery and Appendix C the Anti-Money Laundering Policy. The report also provided, at Appendix D, the Anti-Tax evasion policy that remained unchanged. Members also noted Appendix E that contained details of 6 suspected instances of fraud (all closed) that had been investigated during 2020 and the case notes provided a non-specific overview of each case.

There was a brief discussion that included:

There was a question about insurance about potential losses due to fraud and it was noted that one of the examples provided in Appendix E that had led to an £11K loss had been due to control failings and he undertook to investigate if the Council was insured against cyber fraud.

It was asked if findings relating to fraud would be reported to the Constitution and Standards Committee and the Director of Finance noted that oversight and prevention of fraud was in the remit of the Audit Committee and the on-going review of the Whistleblowing policy would determine that how details would be shared with elected members.

There was a question about the transparency code and if the Council was meeting the spirit of the code regarding the accessibility and quality of data it held and the Strategic Manager noted that a corrupted file had now be corrected and the Director of Finance had instructed officers to undertake a review so that grants available to the voluntary and community sector could be easily located and associated information was accessible. The Chair indicated he would discuss this with the Director of Finance who indicated he was committed to ensuring the information held by the Council was clear and easily accessible to the public.

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. Members thanked officers for their work and noted their continued support for a zero-tolerance policy regarding fraud.

The Committee agreed the Anti-Fraud and Corruption policy, the Anti-Bribery policy, the Anti-Money Laundering policy and the Anti-Tax evasion policy.

244 **Committee Future Workplan** - Agenda Item 12

The Chair invited contributions and the Director of Finance noted that as the accounting reporting period had changed the Statement of Accounts would not be completed in time for the next scheduled meeting. He suggested that the Statement of Accounts be presented to the November meeting and Members accepted his proposal.

Mr Vaughan then suggested that the 2 remaining agenda items for the August meeting (Risk Management update and Debtor Management update) could be considered at the September meeting. Members accepted this proposal and therefore agreed to cancel the August meeting.

It was requested if there could be information provided on the transparency code and the Director of Finance agreed to prepare a report for a future meeting.

There was a brief discussion about the role of audit during the forthcoming period of local government reorganisation in Somerset as the current Councils were to be abolished and a new unitary authority would exist from May 2023. The Director of Finance thought it would be important for the Committee to remain vigilant and continue to seek assurances and maintain its current approach to audit work. He noted that all of the Councils in Somerset used SWAP as internal auditors and that in 2023 the Council was due to reappoint its external auditors. He also noted that the existing Councils used different accounting systems and the transitional arrangements would contain workstreams to ensure the new Council would run smoothly and the new members elected in the May 2022 elections would have an important role in oversight of that process.

245 **Any other urgent items of business** - Agenda Item 13

The Chair of the Committee, after checking there were no other items of business, thanked all those present attending both in person and remotely and he closed the meeting at 11.58am.

(The meeting ended at 11.58 am)

CHAIR

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Review Report – Audit Committee

23 September 2021

SWAP non-opinion audit – Highway Maintenance: Duplicate Payment Requests

Advisory Audit follow up report

Cabinet Member(s): Cllr John Woodman – Cabinet Member for Highways and Transport

Lead Officer: Alyn Jones, Director of Economic and Community Infrastructure Operations

Author: Andrew Turner, Strategic Manager – Highways

<p>Summary</p>	<p>The Highways Maintenance Contract is delivered by Milestone Infrastructure (previously Skanska Construction UK Ltd (prior to contract novation on 1st May 2021).</p> <p>In recognition of the scale and complexity of the Application for Payment (AfP) process, and specifically the risk of duplicate payment requests which had been identified through the certification process, SWAP Internal Audit Services (SWAP) was commissioned by the Highways Strategic Manager in May 2020 to:</p> <ul style="list-style-type: none"> a) Establish the extent of duplicate payments applied for across the three-year contract period, through analysis of submitted AfP’s; and b) Assess the extent to which both the internal and contractor processes are sufficiently robust to mitigate the risk of both duplicate payments being applied for and paid. <p>The original non-opinion audit outcome identified seven key findings where changes were required to provide full assurance. A follow up was commissioned by the Highways Strategic Manager in spring 2021 which SWAP undertook through summer 2021 and, concluded the report on 2nd September 2021.</p> <p>The follow up report concludes that the previously identified risk exposures are reducing but due to the size and complex nature of some of the actions required, improvement work remains in progress.</p> <p>This report provides an update to the Audit Committee on the progress of the addressing the issues identified and confirms that the service has requested a further follow-up audit, scheduled for the first quarter of 2022/23 financial year.</p>
<p>Background</p>	<p>Somerset County Council (SCC) awarded the Highways</p>

Maintenance Contract to Skanska Construction UK Ltd. The contract commenced in April 2017 and is valued at approximately £30m each year. In early 2020, Skanska notified the County Council, that following a strategic review of their business model, their parent company were commencing a process to divest themselves of Skanska Infrastructure Services, the delivery arm for Local Authority Highway contracts, in order to streamline their operations. On the 4th December 2020, M Group Services Ltd announced it had exchanged contracts for the purchase of Skanska UK's Infrastructure Services operation. On 1st May 2021, the Highway Maintenance Contract was novated to Milestone Infrastructure, a part of M Group Services.

Milestone submit a monthly AfP for all task orders relating to highways maintenance. A review of the AfP process was conducted by the Highways Service area for internal compliance in early 2020 and this highlighted two incidents amounting to £361k in value where Skanska, at the time, had failed to accurately assess the previous paid sum prior to applying for payment. This triggered an Early Warning Notice to Skanska in which three critical questions were posed, to gain a better understanding of the process:

- What checks are currently being undertaken to prevent potential duplications reoccurring?
- How did these duplications happen to slip through the current quality assurance processes already in place?
- What improvements can be made to the current checks and balances to ensure that these occurrences are kept to an absolute minimum?

SWAP was commissioned by the Highways Strategic Manager in May 2020 with the objective to:

- a) Establish the extent of duplicate payments applied for across the three-year contract period, through analysis of submitted AfP's; and
- b) Assess the extent to which both the internal and contractor processes are sufficiently robust to mitigate the risk of both duplicate payments being applied for and paid.

The approach adopted by SWAP was a Risk Based Internal Auditing (RBIA) which is recognised as best practice. SWAP considered the probability of significant errors, fraud, non-compliance, and other exposures when developing the engagement objectives.

The initial non-opinion audit outcome identified seven key findings where changes were required to provide full

	<p>assurance. The follow up committed to undertake testing in relation to:</p> <ul style="list-style-type: none"> • all recommendations; and • evidence to support implementation of recommendations. <p>SWAP obtained payment data and conducted a number of analyses to assess the degree of improvement. SWAP also held interviews with certifying officers and Highways Management team.</p> <p>A copy of the follow up report is contained in Appendix 1 of this report.</p>
<p>SWAP follow-up audit conclusion</p>	<p>This follow-up review concluded that the previously identified risk exposures are reducing but due to the size and complex nature of some of the actions required, improvement work remains in progress.</p> <p>SWAP reported a new Contract Management Team and a new CONFIRM payment system are both on the verge of being implemented. The former represents an approved investment in further resource and the latter has involved a substantial amount of collaborative work between the Highway team, the system vendor and the contractor, which will eventually replace the current Application for Payment (AfP) spreadsheet.</p> <p>These improvements will vastly improve the financial and performance management of the Highway Maintenance Contract and also the process for scrutinising and certifying the task orders completed by the contractor, including the audit process.</p> <p>The audit report noted several SWAP’s previous findings and recommendations related to the size, format, and complexity of the AfP. While these issues are yet to be concluded, there have been several enhancements and alterations to manage and mitigate potential risk. Specifically, to improve the ease and timeliness of the monthly certification process by increasing the cost visibility of task orders. The Highways Team is performing detailed monthly analyses to track compliance and the impact of changes.</p> <p>The most significant issue identified from the original audit was a high differential between the ordered cost of works, compared to the actual cost applied for by the contractor. SWAP’s analysis has identified that recently implemented improvements have had some impact on reducing these differentials, but further progress is required. This will be</p>

	<p>achieved via the introduction of compensation events via the new payment system. However, in the interim, the Highway service area has implemented additional controls to manage any risks.</p> <p>In terms of the other areas where significant risks remain, these are principally with the amount and scope of auditing and the lack of thematic reporting, and also the reconciliation process, which is still limited to a three-month payment history.</p> <p>The activity in progress to address these risks, namely the establishment of the new Contract Management Team and a new payment system, are in the final stages of implementation.</p> <p>SWAP concluded further audit work will be required to assess the completion of the remaining actions, which will be in line with the revised implementation dates. A further follow up audit is targeted for early 2022.</p>
<p>Review activity and outcomes</p>	<p>The follow up report dated 13th September 2021 is contained in Appendix 1. This contains the narrative in respect of the original findings. The follow up progress is summarised in the table below:</p>

Audit Findings	Priority	Follow Up Status (Aug 2021)
Ref 1.1 - There are high differentials between the ordered and actual costs in the Application for Payment.	Priority 1	In progress
Ref 1.2 - Other issues with the cost visibility of orders in the Application for Payment may impact on the number of task orders refused for payment and re-applied for by the contractor.	Priority 1	Complete
Ref 1.3 - The amount and scope of routine auditing of highway task orders is not commensurate with the total value of expenditure, or the financial risks associated with the outsourced maintenance contract.	Priority 2	In progress
Ref 1.4 - The size and format of the Application for Payment exceeds the capabilities available from a spreadsheet and does not enable the certification process to achieve compliance with Financial Regulations. There is also a lack of cost visibility for certifiers.	Priority 1	In progress
Ref 1.5 - There is a lack of cohesion between the processes of the authority and the contractor that impact on the data quality of the Application for Payment.	Priority 2	Complete
Ref 1.6 - The authority's highway maintenance payment reconciliation process does not include sufficient data to be effective.	Priority 2	In progress
Ref 1.7 - The Application for Payment process does not have a realistic completion timescale given the complexity of the certification	Priority 3	Complete

	process.		
Actions to date	<p>The Highways Group continues to actively promote the delivery of the SWAP findings. This compliments the programme to critically assess and develop the contract management approach within the Highways Group led by the Strategic Manager - Highways.</p> <p>It is noted that some early interventions have been achieved, for example, removing notional low value task orders. It is also worth noting the engagement of staff, the increased organisational commercial acumen, and the cultural shift in relation to cost control has been exemplary.</p> <p>Whilst it is recognised further work is required following the appointment of the roles within the Contract Management Team, good progress has been made so far.</p> <p>Given that Milestone Infrastructure will be part of the solution, a separate work stream has been initiated with them to look at the end-to-end payment process; with specific inputs and focus on the SWAP recommendations. To date, we have seen good contribution and collaboration by the Contractor on this work programme.</p>		
Recommendations	<p>It is recommended that the Committee notes the progress set out in the follow up audit and, that a further follow up audit is planned in the first quarter of 2022/23 financial year and the Audit Committee will be updated as required.</p>		
Background	<p>On 28th January 2021, the Audit Committee reviewed and discussed 'SWAP non-opinion audit – Highway Maintenance: Duplicate Payments requests'.</p>		

Appendix 1 – Highway Maintenance - Application for Payment

The follow up SWAP audit dated 13th September 2021 is attached. The detail associated with the SWAP audit findings are contained within the report.



Highway Maintenance - Application for Payment

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Follow Up Report

13th September 2021

Working in Partnership to Deliver Audit Excellence

Executive Summary

Audit Objective	Progress Summary				
		Complete	In Progress	Not Started	Total
To provide assurance that the agreed actions within the 2020-21 audit report have been implemented.	Priority 1	1	2	-	3
	Priority 2	1	2	-	3
	Priority 3	1	-	-	1
	Total	3	4	0	7

Audit Conclusion

This follow-up review has concluded that the previously identified risk exposures are reducing but due to the size and complex nature of some of the actions required, improvement work remains in progress.

It should not be understated however, how much has been achieved in a relatively short timescale compared to the amount of work required.

At the time of reporting, a new Contract Management Team and a new CONFIRM payment system* are both on the verge of being implemented. The former represents an approved investment in further resource and skill and the latter has involved a substantial amount of collaborative work between the Highway team, the system vendor and the contractor**, which will eventually replace the current Application for Payment (AfP) spreadsheet.

These improvements will vastly improve the financial and performance management of the highway maintenance contract and also the process for scrutinising and certifying the task orders completed by the contractor, including the audit process.

In the interim period, the service has implemented a number of additional measures to reduce the levels of risk previously identified. They include a mandatory requirement for the contractor to provide explanatory comments where significant cost variances have occurred. There has also been an extension to the timescale for certification and certifiers now have a supplementary report with a full breakdown of all in-month costs for all task orders.

A number of our previous findings and recommendations related to the size, format and complexity of the AfP and while it remains in place, there have been several enhancements and alterations to improve the ease and timeliness of the monthly certification process, by increasing the cost visibility of task orders. The Highways Team are performing detailed monthly analyses to track compliance and the impact of changes.

The most significant issue identified was a high differential between the ordered cost of works, compared to the actual cost applied for by the contractor. Our analysis has identified that recently implemented improvements have had some impact on reducing these differentials, but further progress is required. This will be achieved via the introduction of compensation events via the new payment system.

In terms of the other areas where significant risks remain, these are principally with the amount and scope of auditing and the lack of thematic reporting, and also the reconciliation process, which is still limited to a three-month payment history.

The work in progress to address these risks are the new Contract Management Team and a new payment system, both in the final stages of implementation.

Further audit work will be required to assess satisfactory completion of the remaining actions, which will be in line with the revised implementation dates for the relevant recommendations below.

* CONFIRM is SCC's highway maintenance management system, which will contain a module to manage payment processes across the client and contractor interface.

** The Highways Maintenance Contract is now delivered by Milestone Infrastructure (previously Skanska Construction UK Ltd (prior to the contract novation on 1st May 2021)).

Scope

Testing has been performed in relation to all recommendations and supporting evidence obtained to support implementation of recommendations.

As per the previous audit, we have obtained payment data and conducted a number of analyses to assess the degree of improvement for a number of our recommendations.

We have also held interviews with certifying officers and Highways management team.

Objective

To provide assurance to the S151 Officer, Management and Audit Committee that the agreed actions to mitigate against risk exposure have been implemented.

Findings and Outcomes

Risk: Financial loss through a failure to identify and remove duplicate payments applied for, in relation to highway maintenance.

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1.1 Finding and Action		
Issue	Recommendation	
There are high differentials between the ordered and actual costs in the Application for Payment.	We recommended that the Strategic Manager – Highways should: <ul style="list-style-type: none"> • introduce a differential threshold above which, a variation order must be raised; • introduce a requirement for accurate cost accounting, to address the issue of orders being raised for nominal £1 values; • assess and address knowledge and skills gaps across operational staff teams. The outcome should be to ensure that all officers raising task orders apply the same interpretation of safety defect work measurements and the price list; • consider the optimum level of resource required to address these issues and seek to increase it where required. 	
Management Response		
<ul style="list-style-type: none"> • Senior Quantity Surveyor (SQS) to review use of arbitrary figures used to raise Task Orders as part of process review. The intention to put an immediate cessation on procuring works of this nature. (General agreement that this cannot continue for budget management purposes). • Skanska will need to be engaged on the process review, SQS to review how we address this with Skanska. • Strategic Manager – Highways to review knowledge and skills gaps across Operations and consider optimum level of required resources. 	Priority Score	Priority 1
Follow Up Action	Follow Up Status	IN PROGRESS
<u>1.1 (a) Introduction of a Variation Order (VO) / Compensation Event (CE) threshold</u>		
<p>Efforts to ensure that SCC can command more control over the authorised spend of highway task orders have progressed, and a differential threshold has now been set whereby a variation order in the form of a compensation event will be raised.</p> <p>In order to agree the threshold value, an analysis was performed by taking the order value and the actual value, to calculate the differential, which was then run through a number of scenario options. Each scenario was used to calculate the number of compensation events that would be required for three recent AfP's, in order to calculate a combined weekly and daily total of compensation events to be raised by the contractor and SCC. The reason for doing so was to understand an average workload in terms of the additional administrative burden of the compensation event approach.</p>		

Whilst a purely percentage threshold was explored, but it became evident that this would reduce the cost visibility for the higher value orders. The threshold negotiated with the contractor was agreed at £1,000 as a workable level.

The first phase of implementation is complete, and the second will be implemented when the CONFIRM system functionality becomes available after the end of September 2021. A mandatory comment in the AfP must now be provided by the contractor for all task orders with a differential above the threshold. Phase 2 will mean that the contractor must ensure that for all such orders, a compensation event is generated by the CONFIRM system.

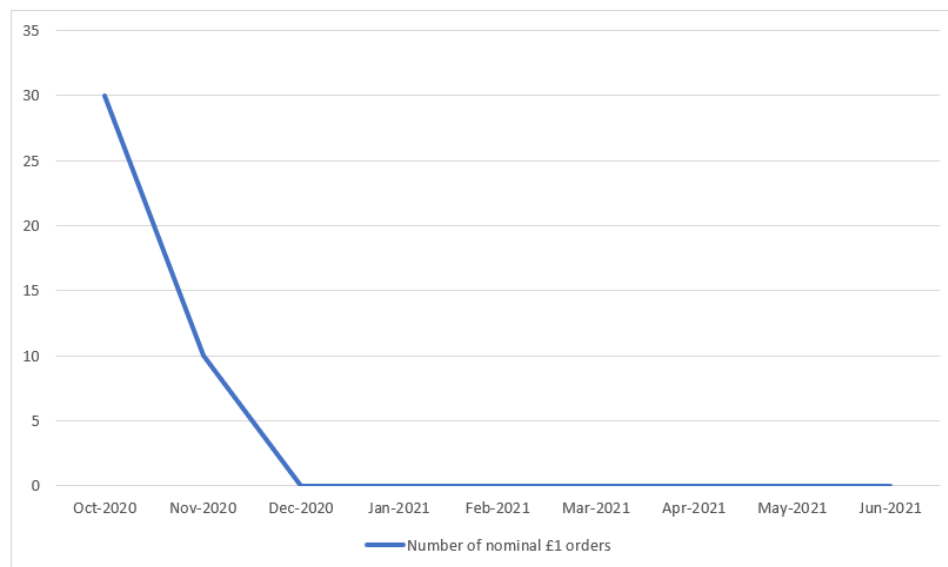
The chosen approach will then be embedded and allowed to operate for a period of time, before SCC will instigate a joint review with the contractor to establish the impact and whether the threshold is proving to be effective in addressing previous issues.

Compliance with this process is further explored in 1.2b below.

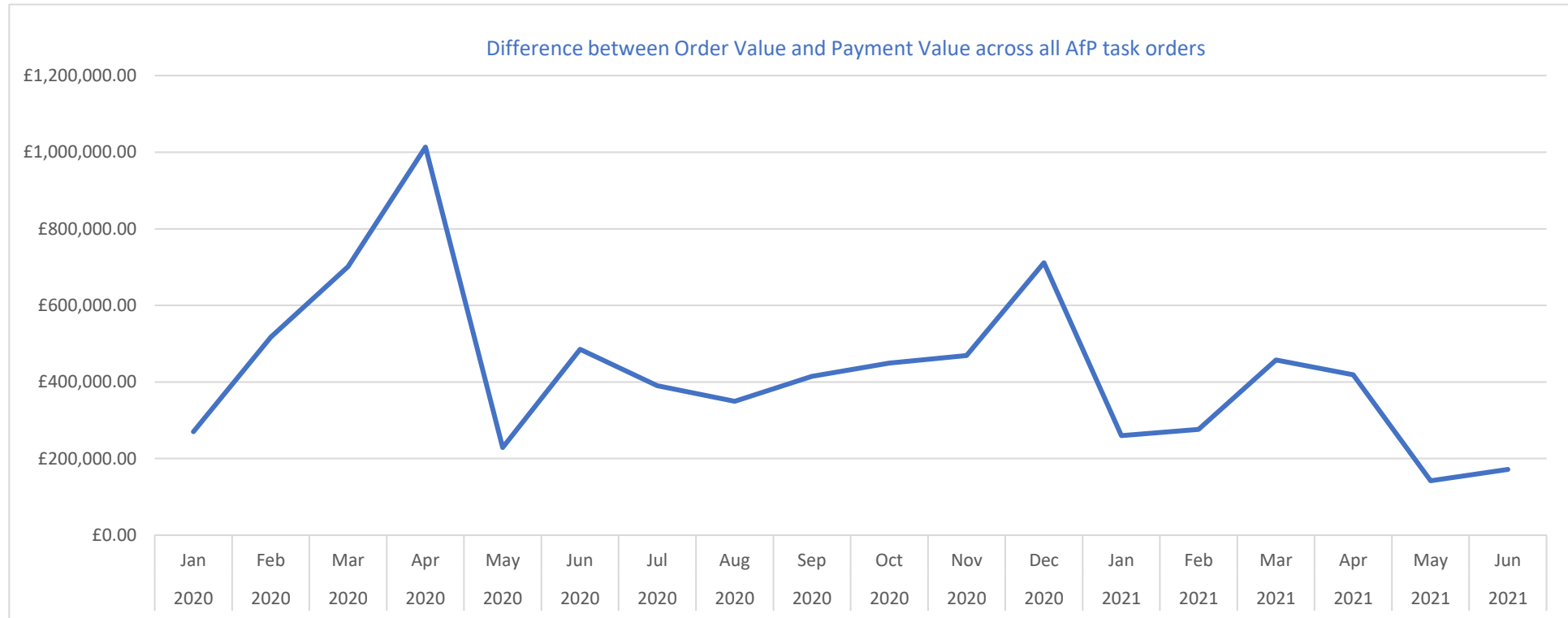
1.1 (b) Cessation of nominal £1 values within the AfP data set

From November 2020, nominal order values have been removed from the AfP, which means that £1 orders are no longer within the data that requires certification by SCC.

We conducted an analysis to include the months prior to the change in practice, to show the degree of improvement. This confirmed that £1 orders have indeed been removed and although some low values continue to be used, the amount has reduced substantially. We were also satisfied that no nominal orders were subsequently converted into much higher values when payment was applied for:



The service is not currently analysing the timeliness of the contractor's conversion of nominal order values into accurate estimates, but they are instead analysing the value of task order differentials appearing in the AfP, within a tracker. This has shown that the overall value of differentials has started to reduce. We conducted our own analysis to verify this conclusion and found that a reduction has become evident over the past three to four months. It should be noted that the differential is always relative to the total amount of the AfP, and further information is included in the appendix to this report:



We have also reperformed the analysis conducted in our original audit using the most recent payment data, in order to break down the value of task order differentials across the three separate elements of the AfP. Full details are presented in the appendix to this report; however, this summary shows the current position:

Analysis of % differentials across the three AfP tabs between the current and previous twelve-month periods

AfP	Task Order – New Assets (1)	Task Order - Other	Task Order - Safety Defects
Total payment value for both periods	£3,986,949	£30,123,421	£9,533,543
Proportion of total	9.1%	69%	21.8%
July 2019 to June 2020	45.80%	33.50%	36.80%
	↑	↓	→
July 2020 to June 2021	128.80%	21.90%	37.70%
Commentary	Order values used in differential calculation are less relevant for delivery of new assets*	11.6% improvement in reducing the differential percentage	0.9% deterioration in the differential percentage
Known impacts	The differential calculation can be disregarded for the purposes of this audit	Removal of: £0 link & sections £1 nominal orders	Refresher training for raising accurate requisitions is planned**

(1) Previously referred to as Small Improvement Scheme (SIS) and adjusted in this report for consistency with the terminology in the highway contract.

It is positive to note that the area of greatest improvement is where the most significant works in terms of total value are delivered, and this can be attributed to the improvements discussed in 1.1b and 1.5.

*For the New Highway Assets task orders, which has the highest differential in percentage terms, it must be understood that New Assets use a different model of delivery within the contract. We have been advised that use of a true cost estimate, derived after tender processes have been completed, has now been implemented but this follow-up audit has not verified any evidence to confirm this is the case. This will be investigated further in subsequent audit follow-up work.

**For Safety Defect works, the Highways team will be undergoing refresher training this year, to standardise the approach to requisitioning and to achieve greater consistency in how task orders are costed.

1.1 (c) Assess and address knowledge and skills gaps across operational staff teams and (d) consider the optimum level of resource required to address these issues and seek to increase it where required.

The structure of the new Contract Management Team has been approved and includes additional contract auditing resource, to bring the audit capacity up to one full time equivalent.

The status of implementing the team at the time of reporting is that vacancy adverts are now in the public domain, with a closing date of 16th August and interviews have been diarised for early September.

Revised implementation date	31st December 2021	Revised responsible officer	Strategic Manager – Highways
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1.2 Finding and Action		
Issue	Recommendation	
Other issues with the cost visibility of orders in the Application for Payment may impact on the number of task orders refused for payment and re-applied for by the contractor.	We recommended that the Strategic Manager – Highways should work with the contractor to agree an improved approach to the use of explanatory comments in the AfP by both the client and the contractor. This action should seek to achieve a ‘right first time’ approach to certification, which will reduce the number of repeat requests. As part of this action, consideration should be given to introducing a differential threshold, above which comments are mandatory.	
Management Response		
<ul style="list-style-type: none"> SQS to review use of explanatory/mandatory notes as part of the process review. (Acceptance there is a lack of commentary from SCC and Skanska on the cost differentials). Skanska will need to be engaged on the process review as this is likely to result in an amended / agreed process with Skanska. 	Priority Score	Priority 1
Follow Up Action	Follow Up Status	COMPLETE
<p>1.2 (a) Cost visibility of Task Orders</p> <p>The original audit found that due to only 15% of officers responsible for AfP certification having access to the contractor’s system and the information within, there were issues with full cost visibility for the majority of officers through the certification process. However, since November 2020 a new jointly developed report has been made available. The ‘Task Order Detail Report’ is now provided alongside the AfP as a key supporting document for the certification process. This report provides certifying officers with a full breakdown of all in-month costs for all task orders. A sample of officers were interviewed and commented that in most cases, it is helpful that task orders requiring more scrutiny are now identified and the information provided does assist with the certification task.</p> <p>1.2 (b) Use of mandatory explanatory comments for differentials above £1000</p> <p>The Task Order Detail Report also includes a new innovation that helps certifiers to understand the context to the task orders they are reviewing, when works have exceeded their initial order value by more than £1000. To improve the cost visibility of these task orders, the contractor now inserts a signposting comment on the AfP which draws the certifiers attention to the high differential. Certifiers are now required to interrogate the Task Order Detail Report and review the additional narrative explanation contained within.</p> <p>In terms of contractor compliance with this new process and the agreed threshold, a visual check is completed each month by the Highway team and there is evidence of an average increase of explanatory comments from 5.8 to 8.5% per AfP.</p> <p>Using the Task Order Detail report for the four latest AfP’s, we conducted our own analysis to assess whether all task orders with variations >£1000 have comments. This has confirmed that the contractor has achieved 100% compliance with the agreed process and no applicable task orders were found to be without mandatory comments. Our analysis appears in the appendix to this report.</p>		

1.3 Finding and Action		
Issue	Recommendation	
The amount and scope of routine auditing of highway task orders is not commensurate with the total value of expenditure, or the financial risks associated with the outsourced maintenance contract.	We recommended the Strategic Manager – Highways should seek to resource an increased amount and scope of routine auditing of task orders completed by the contractor, to confirm both the quality of works and the correct application of the price list. The approach to auditing should be reviewed to ensure that certifiers and contract auditors target the areas of highest financial risk.	
Management Response		
This has been recognised within the Contract Management Business Case and more resource is requested (subject to financial approval). There is also a need for Task Order commissioners to undertake their own audit for payment purpose and record as such (this will be a process issue that will need to be factored in issues above). Current audit activities to be re-focused on value and risk. Highways Strategic Manager to discuss with contract Auditor.	Priority Score	Priority 2
Follow Up Action	Follow Up Status	IN PROGRESS
<p>As per the previous audit, the Highway service has one FTE funded for auditing activities within the highway maintenance contract. The post is currently filled part time and the plan is for the remaining unfilled hours to be addressed as part of the recruitment phase for the wider Contract Management Team.</p> <p>The approach to sampling task orders for audit therefore remains as before, with the focus being on areas of risk. The Auditor seeks evidence of accurate accounting from the contractor's system for all task orders over £1000, along with a sample of any under that value which have been identified as areas of weakness through previous audits. There are also detailed audits carried out on specific task orders, which include a full site measure and a review of all relevant documentation. These reviews are selected either by request from operational staff, based on previously identified weaknesses or as deemed necessary by the Auditor.</p> <p>There are opportunities for further improvement in the following areas:</p> <ul style="list-style-type: none"> • The scope of auditing activity to be expanded to compare the true cost estimates for new assets against the AfP. • It is not quantified what percentage of all task orders are audited, but the estimate is 5-10%. The lack of an agreed sampling methodology is not problematic whilst responsibility remains with one experienced individual but will need to be considered when the audit resource is expanded. • There has also not been any periodic reporting of audit outcomes to provide management feedback, and identified thematic issues are not currently notified to the contractor. A quarterly report to summarise the themes of audit outcomes should be considered. 		

These are developments which can be allocated to the additional resource via the Contract Management Team when posts are filled.

Revised implementation date	31st March 2022	Revised responsible officer	Strategic Manager – Highways
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1.4 Finding and Action		
Issue	Recommendation	
The size and format of the Application for Payment exceeds the capabilities available from a spreadsheet and does not enable the certification process to achieve compliance with Financial Regulations. There is also a lack of cost visibility for certifiers.	We recommended the Strategic Manager – Highways should explore options for improving the architecture of the Application for Payment through either adoption of a highways system payment module, or a database to replace the current spreadsheet format.	
Management Response		
<ul style="list-style-type: none"> SQS to review current support systems activity. Confirm on Demand appears to provide an opportunity to explore further. SQS to discuss with Neil Guild the long-term aspirations of the AfP review with a view to ensure the IT systems are aligned to support. 	Priority Score	Priority 1
Follow Up Action	Follow Up Status	IN PROGRESS
<p><u>1.4 (a) The AfP does not include any previous paid data</u></p> <p>From February 2021, the contractor has incorporated both a ‘Previous Paid’ and an ‘Amount Due’ column within the AfP. In terms of improving cost visibility for certifiers, they no longer need to interrogate historic payment data in order to clarify previous payments. There has not been any specific or overall analysis of the reduction of task orders with long running disputes in order to evidence the impact of this improvement, but certain specific examples are being monitored via a Dispute Tracker. However, there is now a Certification Performance Tracker which has been created to assess complete and timely certification, by summarising the overall performance between the various departments in terms of their completion of the processes that contribute to AfP certification. In June 2020, this reporting showed that the first AfP with 100% compliance for complete certification was achieved, and full compliance has been consistent from that date.</p> <p><u>1.4 (b) Explore options for improving the architecture of the AfP through either adoption of a highways system payment module, or a database to replace the current spreadsheet format.</u></p> <p>The vendor of the CONFIRM system was engaged to implement the Payment Process module of the database, which will remove the requirement for a monthly AfP spreadsheet. Design of the new system has been jointly progressed with the vendor and contractor and at the time of reporting, the timetable for implementation of the new payment module is the end of September 2021. This is dependent on completion of the final design, user acceptance testing and any further changes required. The payment module will be run in parallel with the AfP spreadsheet until such time it is confirmed that the spreadsheet is redundant.</p>		

As part of this development, the contractor has also been party to discussions regarding alternative payment timetable scenarios. In summary, three options have been considered:

- A** – monthly, as per the current process but using the payment database to replace the spreadsheet
- B** – ongoing certification as and when task orders are ready, with a monthly payment process
- C** – scenario A or B, but with multiple payment runs per month.

At present, it has been decided to remain with the current approach, but it has been agreed with the contractor (who is keen to have more timely payments) that both parties will work towards either scenario B or C in due course, when other process changes have been completed. It was explained that more time is needed in order to understand how such a change will affect compliance with highway maintenance legislation and also because a number of concurrent changes to the process will compromise the extent to which it is possible to understand the individual impacts, particularly when the CONFIRM payment module is still to be introduced. In summary, the plan is to implement the system, and to adapt as required.

Revised implementation date	31st December 2021	Revised responsible officer	Strategic Manager – Highways
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1.5 Finding and Action		
Issue	Recommendation	
There is a lack of cohesion between the processes of the authority and the contractor that impact on the data quality of the Application for Payment.	We recommended the Strategic Manager – Highways should explore options with the highways system provider for streamlining system functionality that will remove differences between authority and contractor processes in respect of allocating task orders to specific parts of the highway.	
Management Response		
Significance of Link & Sections to be reviewed to determine usage requirements and potential for streamlining system functionality.	Priority Score	Priority 2
Follow Up Action	Follow Up Status	COMPLETE
<p>Historically, the AfP has included significant numbers of task orders valued at £0.00, because the highway is split into Link & Sections for asset management purposes. The original audit found that this approach, whilst not relevant to the AfP process itself, was causing the application spreadsheet to become substantially inflated in size. Certifying officers were required to review each block of data and remove each Link & Section valued at zero prior to certification. The £0.00 values were found most significantly on the "Task Order Other" sheet, to some degree on the "Small Improvement Sheet" sheet, and not at all on the Safety Defects sheet. In terms of the largest impact, the Task Order Other tab is where the contractor applies for payment on gully clearing rounds, and this is where large blocks of unnecessary data, sometimes in excess of 900 additional lines per month, were exacerbating difficulties with certifying payments.</p> <p>Since January 2021, the contractor has removed all Link & Sections valued at zero which has significantly reduced the size of the AfP in general.</p> <p>In terms of the impact on the data quality of the AfP and being able to ensure complete and accurate certification on a monthly basis, we have obtained evidence that the June 2020 AfP was the first to achieve 100% compliance for complete certification. Ongoing performance data also confirms that certification has been consistently at 100% since that date, meaning that there is now reasonable assurance that certifying officers are fully accountable for reviewing all task orders under their responsibility.</p>		

1.6 Finding and Action		
Issue	Recommendation	
The authority's highway maintenance payment reconciliation process does not include sufficient data to be effective.	We recommended the Strategic Manager – Highways should explore options for expanding the reconciliation process beyond the three-month dataset currently used.	
Management Response		
<ul style="list-style-type: none"> • SQS to review quarterly reconciliation process currently undertaken by Business Support Team. • SQS to discuss potential development of improved SCC reconciliation process with Neil Guild. 	Priority Score	Priority 2
Follow Up Action	Follow Up Status	IN PROGRESS
<p>The current plan is for the new Contract Management Team to adopt responsibility for the local authority reconciliation process, which will also be enhanced by the new CONFIRM payment module when it is implemented. Therefore, at present, the 3-month check carried out by Business Support Team remains in place. The process is an analysis of the past three AfP cycles in order to discover any potential duplications in payment request, or actual payment. This timescale means that for payment requests with long running disputes where the payment history spans either side of the three-month window, the validity and reliability of the reconciliation can be reduced, due to the whole payment history not being consistently taken into consideration.</p> <p>This also means that reliance continues to be placed on the contractor's reconciliation process, which although is more robust in terms of analysing a broader payment history, is less frequent at bi-annual. The contractor agreed to work towards a quarterly reconciliation that aligns with that of the local authority and at the time of reporting, the first quarterly report has been received. A timetable for future quarterly reporting is in the process of being agreed.</p> <p>As part of this follow-up audit, we queried whether further instances of duplicate payment requests had been identified. Essentially there have not been, but an issue was recently identified by a certifier, in relation to a task order for resurfacing works. The contractor had applied for payment of the same element of work within both the March and April AfP's because of a human error, which was an assumption that payment had not been applied for, when in fact it had been included under a different task order. However, the certifier noticed the error and it was raised and resolved with the contractor before any payment was made.</p> <p>The contractor conducted an investigation which returned a conclusion of human error, with "no intentional error nor requirement for adjustment to the process in place" and "<i>this clearly is an area of learning for (the contractor) to ensure that there is a cross reference against all Task Orders for the same site, prior to submission for AfP</i>". From review of the circumstances, it does appear that this is an entirely different incident to the previous AfP issues with duplicate payment requests.</p> <p>Highways have now asked the contractor to revert back to a one task order per scheme approach, as this change was not formally requested or agreed, and will reduce the risk of this type of duplication. One cost ledger for each scheme will be clearer from a cost visibility perspective, as the whole scheme cost will be located within one task order for review. This approach remains under review.</p>		

It is acknowledged that neither party's current reconciliation process can offer the degree of granularity needed to identify if a single element has been charged twice across two separate task orders. However, the risk of any kind of human error cannot be fully mitigated and for this reason, it remains crucial that the reconciliation process is expanded.

Revised implementation date

31st March 2022

Revised responsible officer

Strategic Manager – Highways

1.7 Finding and Action		
Issue	Recommendation	
The Application for Payment process does not have a realistic completion timescale given the complexity of the certification process.	We recommended the Strategic Manager – Highways should review the role of the Commercial & Procurement team in the Application for Payment process, to establish any benefits achieved through involvement and whether the Highways Operations team should assume responsibility for distributing the AfP.	
Management Response		
This is to be reviewed as part of the review and implementation of the Contract Management Team.	Priority Score	Priority 3
Follow Up Action	Follow Up Status	COMPLETED
<p><u>1.7 (a) The AfP process does not have a realistic completion timescale given the complexity of the certification process</u></p> <p>There was no opportunity to extend the certification timescale via the contract variation from Skanska to Milestone because a) the contract was novated in its entirety and b) payment terms are set by legislation, there was no opportunity to vary contract terms on the points of law. In terms of actual working days that the certifiers have to scrutinise costs, this can fluctuate depending on where the weekend falls in the AfP cycle and is also impacted by bank holidays.</p> <p>However, from December 2020 onwards it has been possible to amend the payment schedule for the AfP, following a re-examination of the deadline by the Commercial and Procurement team. The average days for certification were 4.5 days pre-December 2020, which are now extended to 6.75 days post December 2020 and extension of approx. 2.25 days for the fifth contract year.</p> <p><u>1.7 (b) Review of the role of the Commercial & Procurement team in the AfP process</u></p> <p>Discussions have taken place between Highways and Commercial & Procurement regarding the future distribution of work in relation to the AfP process. It has been agreed that following the creation of the Contracts Management Team, full responsibility for the payment process will sit entirely within the Highways Group.</p>		

Other Observations

A further issue contributing to the size and complexity of the AfP was identified in the original audit, whereby the contractor was failing to consistently supply satisfactory photographic evidence of job completion.

It was noted during this follow-up review that the relevant task orders have now been removed and no longer appear in each monthly AfP, which has improved the ease of the certification task. There is ongoing work with the contractor to resolve this matter.

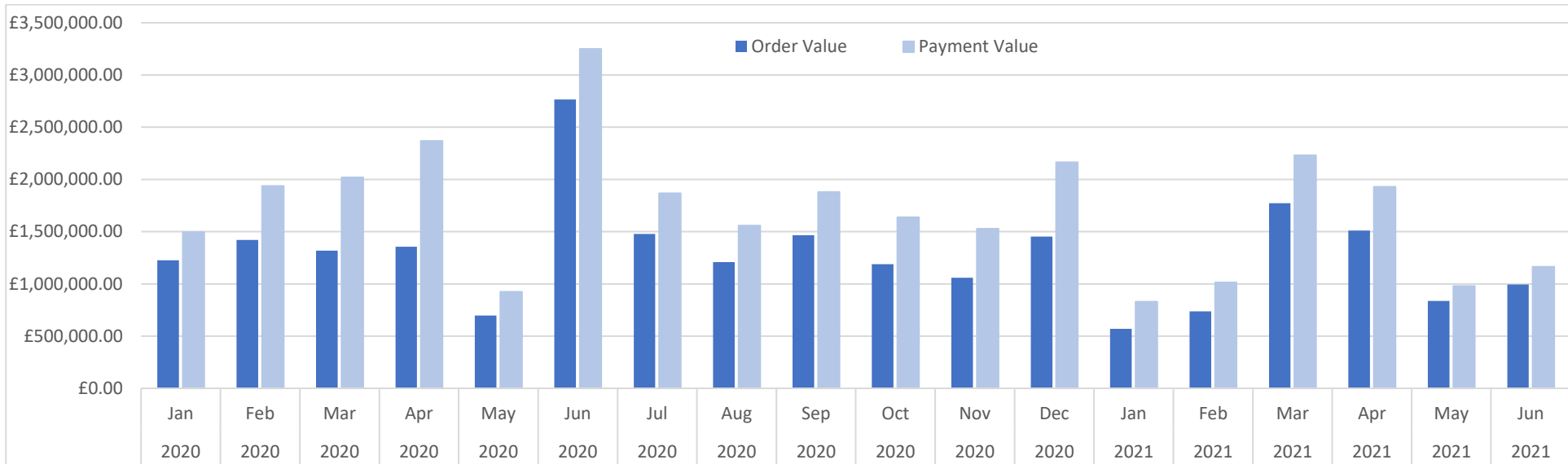
Appendix A

In addition to the data analysis included in **Paragraph 1.1b** for the differentials between original task order cost and the contractor's requested payment value for Safety Defects task orders, the following is a table of monthly values and the differential value, along with the percentage. This is a combined total of all three elements of the Application for Payment:

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Total AfP Differentials by Month					
Years	Month	Order Value	Payment Value	Difference	% Difference
2020	Jan	£1,225,831.13	£1,495,900.19	£270,069.06	22%
2020	Feb	£1,420,712.40	£1,937,767.55	£517,055.15	36%
2020	Mar	£1,319,121.84	£2,020,671.03	£701,549.19	53%
2020	Apr	£1,356,206.03	£2,369,547.66	£1,013,341.63	75%
2020	May	£696,202.20	£924,807.46	£228,605.26	33%
2020	Jun	£2,765,108.15	£3,250,537.61	£485,429.46	18%
2020	Jul	£1,477,010.79	£1,867,589.34	£390,578.55	26%
2020	Aug	£1,208,982.43	£1,558,440.06	£349,457.63	29%
2020	Sep	£1,466,349.56	£1,880,969.83	£414,620.27	28%
2020	Oct	£1,188,848.92	£1,638,321.07	£449,472.15	38%
2020	Nov	£1,059,234.34	£1,528,362.10	£469,127.76	44%
2020	Dec	£1,452,180.73	£2,163,593.64	£711,412.91	49%
2021	Jan	£568,778.97	£829,053.18	£260,274.21	46%
2021	Feb	£737,919.79	£1,013,974.97	£276,055.18	37%
2021	Mar	£1,773,491.13	£2,231,251.77	£457,760.64	26%
2021	Apr	£1,511,359.21	£1,930,398.83	£419,039.62	28%
2021	May	£836,587.06	£978,743.78	£142,156.72	17%
2021	Jun	£993,258.67	£1,164,736.11	£171,477.44	17%

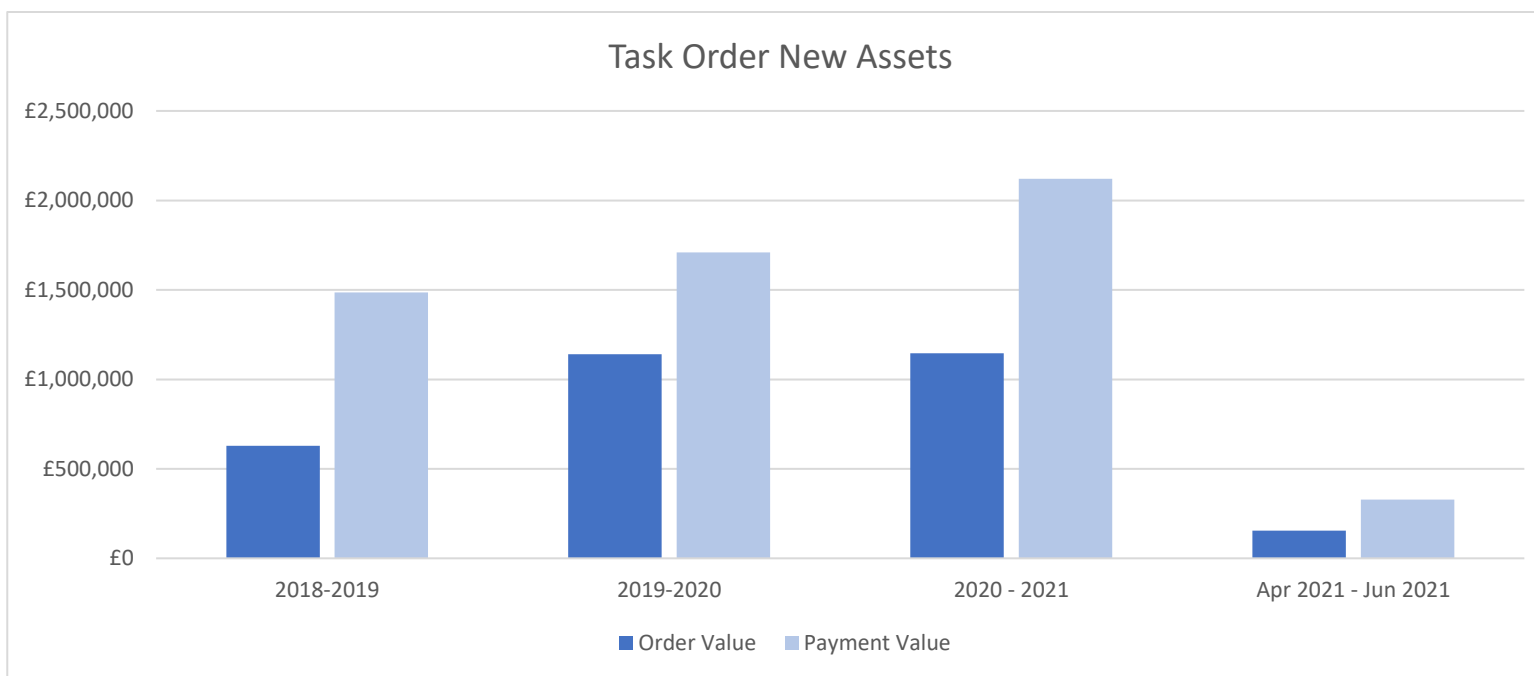
Total AfP Differentials by Month



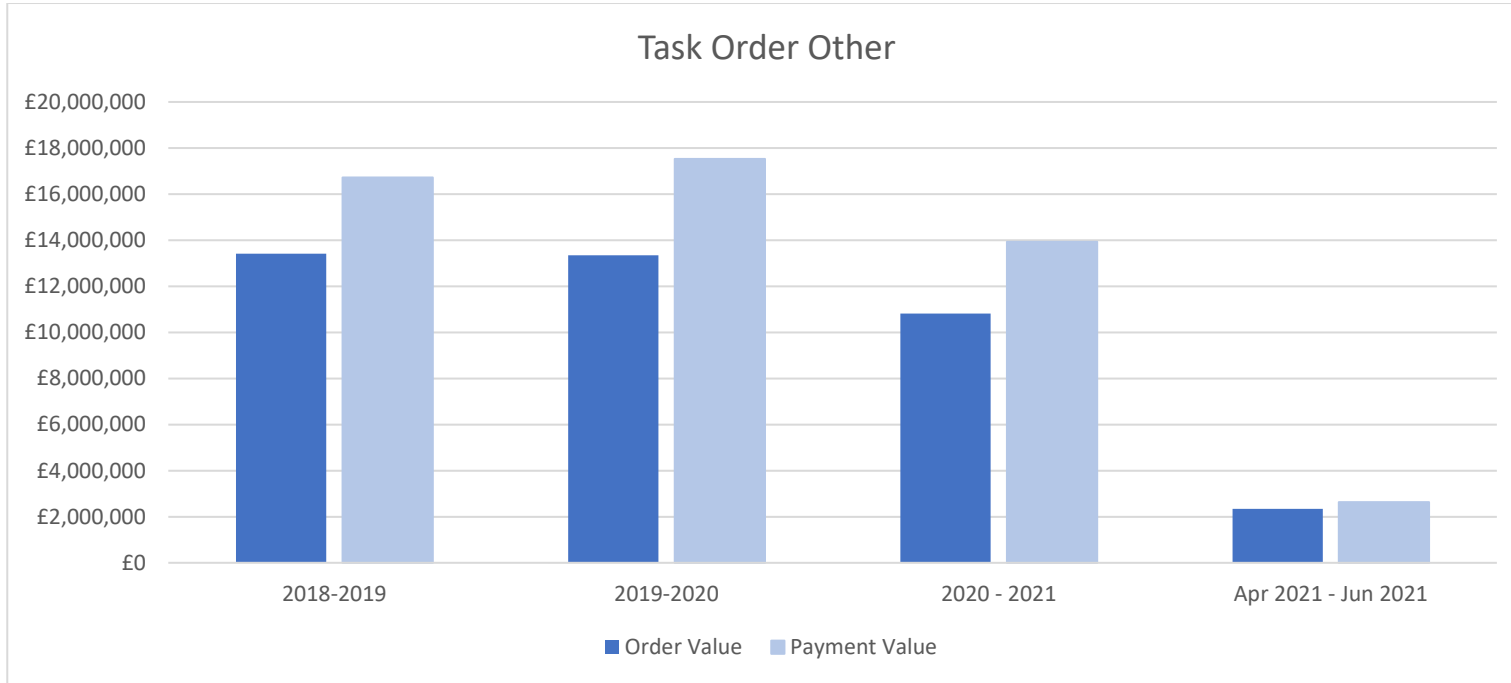
The following tables and charts show a breakdown of the above data, into the three separate elements of the Application for Payment:

Task Order New Assets				
Financial Year	Order Value	Payment Value	Difference	% Difference
2018-2019	£628,895	£1,485,771	£856,877	136%
2019-2020	£1,141,209	£1,709,070	£567,861	50%
2020 - 2021	£1,145,046	£2,120,020	£974,974	85%
Apr 2021 - Jun 2021	£153,966	£328,255	£174,289	113%

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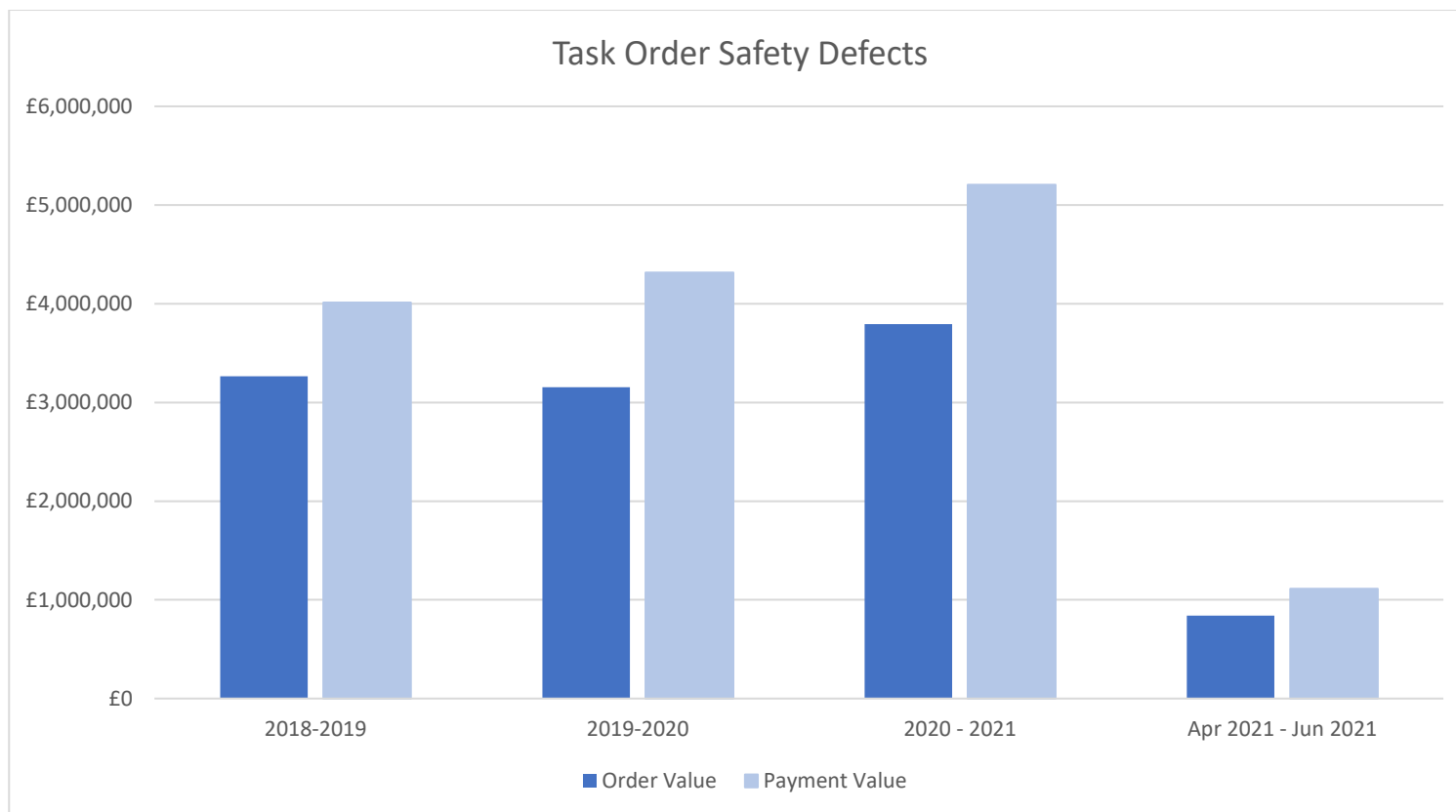
Task Order Other				
Financial Year	Order Value	Payment Value	Difference	% Difference
2018-2019	£13,414,547	£16,727,823	£3,313,276	25%
2019-2020	£13,345,452	£17,527,554	£4,182,102	31%
2020 - 2021	£10,811,326	£13,932,161	£3,120,836	29%
Apr 2021 - Jun 2021	£2,345,560	£2,631,833	£286,273	12%



Task Order Safety Defects

Financial Year	Order Value	Payment Value	Difference	% Difference
2018-2019	£3,264,375	£4,011,490	£747,115	23%
2019-2020	£3,153,238	£4,314,578	£1,161,339	37%
2020 - 2021	£3,793,941	£5,204,267	£1,410,326	37%
Apr 2021 - Jun 2021	£841,679	£1,113,790	£272,111	32%

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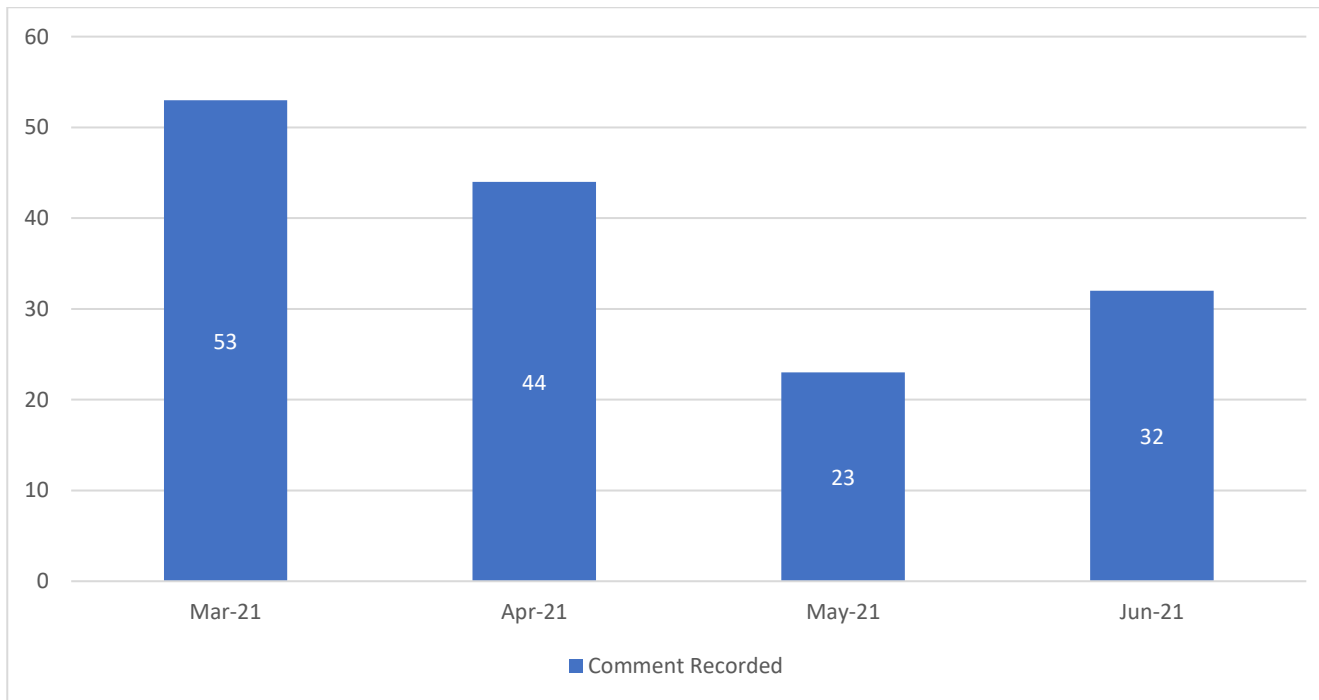
Paragraph 1.1(b) Cessation of nominal £1 values within the AfP data set

Month	Number of nominal £1 orders
Oct-2020	30
Nov-2020	10
Dec-2020	0
Jan-2021	0
Feb-2021	0
Mar-2021	0
Apr-2021	0
May-2021	0
Jun-2021	0
Total	40

Paragraph 1.2 (b) Use of mandatory explanatory comments for differentials above £1000

Month	Comment Recorded Where Required	No Comment Recorded	Total	% of Task Orders with recorded comment
Mar-21	53	0	53	100%
Apr-21	44	0	44	100%
May-21	23	0	23	100%
Jun-21	32	0	32	100%
Total	152	0	152	100%

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SWAP's Audit Framework and Definitions

Audit Assurance Definitions	
No	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.
Limited	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
Reasonable	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Substantial	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

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

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

Authors and Distribution

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

Report Authors

This report was produced and issued by:

Lisa Fryer	Assistant Director
Jenny Frowde	Principal Auditor

Distribution List

This report has been distributed to the following individuals:

Andrew Turner	Strategic Manager - Highways
Scott Murray	Senior Quantity Surveyor
Andy Coupe	Strategic Manager – Infrastructure Planning Group
Alyn Jones	Director of Economic & Community Infrastructure Operations

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Somerset County Council






Report of Internal Audit Activity

Progress Report- September 2021

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Agenda item 6

Internal Audit Update – September 2021/22 ‘At a Glance’

The Headlines	
	Three limited opinions audits. No high corporate risks reported.
	Eight reviews completed as part of the 2021/22 Internal Audit Plan <ul style="list-style-type: none"> • Four assurance audits • One follow-up • One grant certification • Two advisory reviews
	Additions to the Plan Six new reviews added to the plan.
	Improvements from the implementation of agreed actions Follow up activity is underway and a data dashboard is being built to support management overview. COVID-19 has impacted some delivery and follow up timelines which are currently under review.
	Range of innovations and enhancements made to our internal audit process throughout the year Data analytics continues to drive/support reviews; comparative benchmarking exercises offer useful insight and suggested practices.

Internal Audit Assurance Opinions 2021/22		
	Sept	YTD
Substantial	0	0
Reasonable	1	1
Limited	3	3
No Assurance	0	0
Total	4	4

Internal Audit Agreed Actions 2021/22		
	Sept	YTD
Priority 1	0	0
Priority 2	13	13
Priority 3	8	8
Total	21	21

Summary

As part of our rolling plan reports, we will detail progress against the approved plan and any updates in scope and coverage.

We will also provide details of any significant risks that we have identified in our work, along with the progress of mitigating significant risks previously identified through audit activity.

The contacts at SWAP in connection with this report are:

Lisa Fryer

Assistant Director

lisa.fryer@swapaudit.co.uk

David Hill

Chief Executive

david.hill@swapaudit.co.uk



Summary

Introduction

This is our first progress report for 2021/22 and reports against the plan agreed by this Committee in March 2021. The plan remains necessarily flexible and some new work and profiling adjustments have been agreed to reflect organisational priorities. The schedule provided at Appendix D contains a list of progress made to date and new work agreed.

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

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

A follow-up review is performed in respect of all limited assurance opinion audits. This is important to provide evidence that recommendations have been implemented to reduce areas of risk identified. The results of follow-up reviews performed in the period can be found in Appendix B.

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

Internal Audit Plan Update

Our audit plan coverage assessment is designed to provide an indication of whether we have provided sufficient, independent assurance to monitor the organisation’s risk profile effectively.

For those areas where no audit coverage is planned, assurance should be sought from other sources to provide a holistic picture of assurance against key risks.



SWAP audit plan coverage, changes to the plan, and performance measures

The table below provides a visual representation of how our completed audits and work in progress for 2021/22 financial year to date provides assurance over key strategic risks areas in the Internal Audit Plan. As the year builds and more work is completed, coverage across the key risk areas will increase. ‘Adequate’ coverage reflects delivery of planned assurance levels.

Risk Universe	Coverage
Climate Change	
Organisational resilience	Business continuity, hybrid working, data centre & back-ups
Supplier Disruption	
Sustainable MTFP	
Safeguarding Children	Schools safeguarding follow-up
External Influences and Uncertainties	Commissioning governance, adults commissioning
Market Management and development	Contract management advisory review
Partnership Working: Local Government Reorganisation	

	Good coverage complete
	Adequate coverage complete
	Coverage in progress
	No coverage to date

Internal Audit Plan Update

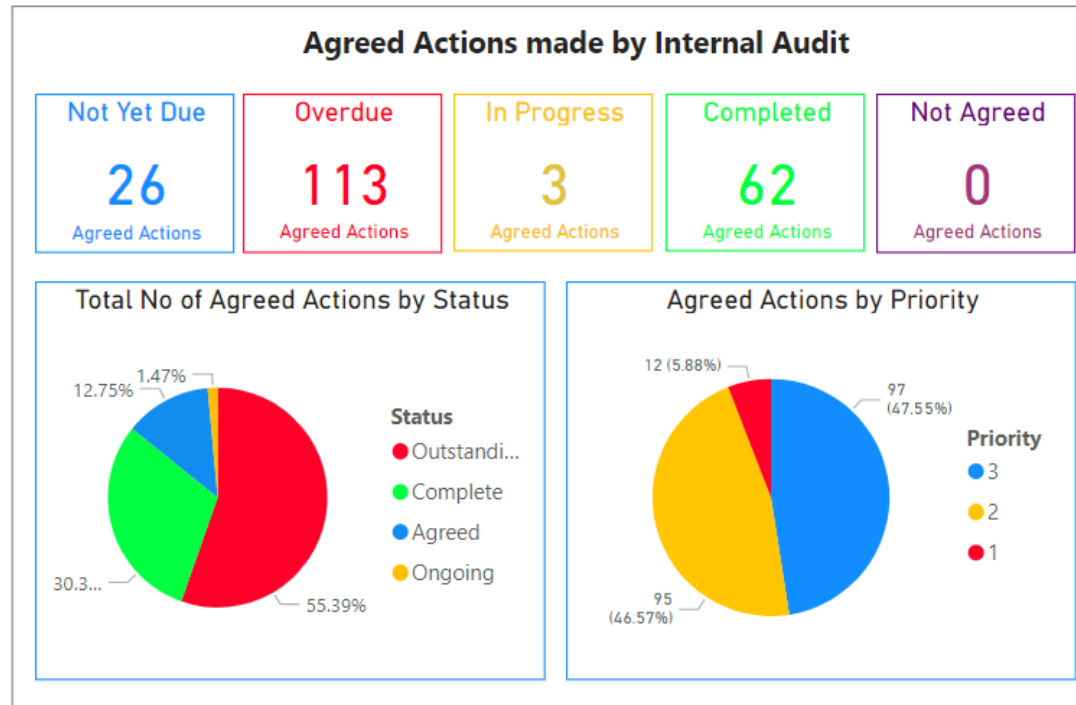
Follow up work confirms the responsive nature of management in implementing agreed actions to mitigate exposure to areas of risk.



Follow-up Work

Follow up activity for agreed management actions arising from previous Internal Audit assurance activity is underway to establish the current implementation status for agreed actions.


A high level analysis of the current situation is shown below. A number of follow-up reviews were deferred from last year's plan due to the pandemic and recommendations are reported as overdue as a result.



Assurance Definitions	
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.
Limited	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited
Reasonable	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Substantial	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

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


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

Accounts Payable – Vendor Management	Audit Objective		Priority Actions			
	To ensure the Council has an effective control framework in place for vendor management within the Accounts Payable/Master Data function.		1	2	3	Total
			3	2	5	

This audit was included in the plan following a recent fraudulent change of bank details for a vendor. Following this a management instruction was issued to implement more stringent controls for vendor data changes which were tested as part of this audit.

Summary of Findings


- The documented guidance for vendor creation and amendment is outdated and Master Data staff have since developed their own individual process documents. The guidance also does not include anti-fraud processes, including incorporation of additional stages that were introduced following a recent fraud that prompted this review.
- The documented guidance also does not include direction on the acceptable circumstances when a vendor form can be sent to the vendor themselves for completion, despite this having become a common practice.
- Master Data Team log sheets do not show the vendor telephone number used in their verification checks or where it was obtained from. Therefore, whilst it is believed that the team are following the procedure to use only a telephone call to verify vendor details, compliance is not currently evidenced.
- Vendor cleansing has not been completed since 2017 resulting in a high number of duplicate vendors. Our analysis found 3,586 vendors with duplicate bank accounts and 1,300 vendors with duplicate VAT numbers.

School Exclusion Data	Audit Objective	 <p>Limited</p>	Priority Actions			
	To verify whether timely and consistent data is received from schools, reported at the appropriate level and is used effectively to identify and address issues.		1	2	3	Total
			5	1	6	

Controls around the collation and reporting of school exclusion data at Local Authority level, including the identification of anomalies requiring further investigation and corrective action were covered as part of this audit.

Summary of Findings

- There are persistent differences between the exclusion data obtained from school management information systems compared with data that SCC holds and school census data returns.
- School exclusion data queries are held in spreadsheets that do not have consistent data categories and query notes, making it difficult to analyse and address data difference themes.
- The School Exclusion Dashboard was not driven by management priorities and does not allow for comparative analysis against regional and national trends or contain trigger points for investigation/escalation.
- Schools using Scholar Pack as their Management Information System have a disproportionate number of exclusion data differences.

	Audit Objective		Priority Actions			
Data Centre Review	To ensure that the Council's data centre facilities are managed appropriately to prevent loss and/or corruption of data, systems and communications.	 <p>Limited</p>	1	2	3	Total
				3	2	5
<p>The audit focused on the effectiveness of the data centre arrangements to ensure the on-going security of the Council's data and support of those business activities that depend upon technology to function.</p> <p>Summary of Findings</p> <ul style="list-style-type: none"> Insurance valuation of cover is not clearly linked to value of data centre equipment, cyber threats to systems and data, and remote data centre risks. Cleaning routines have lapsed and a deep clean is overdue. Door access controls for the data centre have a single point of failure dependency 						

Follow up Audit	Scope and Objective	Progress assessment				
		Completed	In progress	Not Started	Total	
Highways Maintenance – Application for Payment	To provide assurance that the agreed actions within the 2020-21 report have been implemented.	Priority 1	1	2	-	3
		Priority 2	1	2	-	3
		Priority 3	1	0	-	1
		Total	3	4	-	7

Summary of Findings

The follow-up review recognises that much has been achieved in a relatively short timescale and risk exposure is reducing as a result, however improvement work remains in progress.

At the time of reporting, a new Contract Management Team structure had been approved, representing increased investment in skilled resource. In addition, a new payments module within the CONFIRM highways management system was on the verge of being implemented. Once up and running this will replace the current Application for Payment (AfP) spreadsheet.

A number of our previous findings and recommendations related to the size, format and complexity of the AfP and while it remains in place, there have been several improvements to the monthly certification process. This includes the production of a task order detail report each month which provides a full breakdown of all in-month costs. There is now also a mandatory requirement to provide comments for all differences above £1,000 and a previous paid column has been introduced. In addition, approximately two days a month have been added to the certification process and 100% certification has been achieved since June 2020. The Highways Team are performing detailed monthly analyses to track compliance and the impact of changes.

The most significant issue identified was a high differential between the ordered cost of works, compared to the actual cost applied for by the contractor. Our analysis has identified that recently implemented improvements have had some impact on reducing these differentials, but further progress is required. The introduction of compensation events via the new payment system will be an important part of this moving forwards.

Further audit work will be required to assess satisfactory completion of the remaining actions, which will be in line with the revised implementation dates agreed for all recommendations that remain in progress.

Audit Type	Audit Area	Status	Opinion	No of Rec	Recommendation		
					1 = Major	↔	3 = Medium
					1	2	3
Complete							
Operational	Accounts Payable - Vendor Management	Final	Limited	5		3	2
Operational	School Exclusion Data	Final	Limited	6		5	1
ICT	Data Centre Review	Final	Limited	5		3	2
Operational	Adults - Commissioning Community Support	Final	Reasonable	5		2	3
Follow-up	Highways Application for Payment – Follow-up	Final	N/A				
Grant	BDUK Grant certification	Final	N/A				
Advisory	New - Updated Contract Management Framework	Final	N/A				
Advisory	New - Anti-Fraud and Corruption Policy Review	Final	N/A				
Reporting							
Governance	Hybrid Working	Draft					
Governance	Business Continuity	Draft					
In Progress							
Operational	SEND Costed Packages	In Progress					
Governance	Commissioning Governance	In Progress					
Governance	New - Fraud Risk Assessment	In progress					
Operational	Adults – Quality Assurance Framework	In Progress					

Audit Type	Audit Area	Status	Opinion	No of Rec	1 =	↔	3 =
					Major		Medium
					Recommendation		
					1	2	3
Follow-up	Safeguarding in Schools	In progress					
Follow-up	Compliance with Corporate Purchasing Policy	In progress					
Grant	Local Transport Capital Block Funding Grant Certification	In Progress					
Advisory	New - Whistleblowing Policy Review	In Progress					
Investigation	New - Project Management Investigation	In Progress					
Advisory	New - Adopt South-West	In Progress	Audit lead by Devon Audit Partnership				
Advisory	Recommendation Tracking	Ongoing					
Grant	Supporting Families Claims	Ongoing					
Advisory	CiFAS – Blue Badges	Ongoing					
Waiting to go Live							
Operational	School Deficit Balances	Waiting to go live	Request to reschedule to Q3 and extend scope to include surpluses				
Operational	Delivering Democratic Arrangements using virtual and/or hybrid meetings	Waiting to go live	Request to reschedule to Q3				
Operational	One Somerset	Waiting to go live	Days to provide audit resource as needed				
Follow up	Children’s Education, Health and Care Plans	Waiting to go live	Start Agreed for November				
Operational	Capital Accounting	Waiting to go live	Start Agreed for October				

Audit Type	Audit Area	Status	Opinion	No of Rec	Recommendation		
					1 = Major	↔	3 = Medium
					1	2	3
Operational	Property Condition - Schools	Waiting to go live	Start Agreed for October				
Operational	Property – Compliance with Regulations	Waiting to go live					
Operational	Project Management – Implementation of the Children’s Early Help Module	Waiting to go live					
Operational	Safeguarding – Complaints and Concerns	Waiting to go live					
Governance	ECl – Budget Management	Waiting to go live					
Grant	Covid Related Bus Services Support Grant Restart Tranche 3/4/5	Waiting to go live					
Grant	Test and Trace Support Grant	Waiting to go live					
Follow up	Lone Working	Waiting to go live					
Follow up	Corporate Management of Health and Safety	Waiting to go live					
Deferred							
Grant	Contain Outbreak Management Fund Grant Audit	Deferred	Sign-off requirement moved to 30/06/2022				
Governance	Election Delivery	Deferred	Elections deferred, audit moved to Q1 22/23				

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Somerset County Council Audit Progress Report

Year ending 31 March 2021

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September 2021



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Progress at September 2021	4
Progress against significant risks	5
Audit Deliverables	6

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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Introduction

Your key Grant Thornton team members are:

Barrie Morris

Key Audit Partner

T 0117 305 7708

E barrie.morris@uk.gt.com

Andrew Davies

Manager

T 0117 305 7844

E andrew.davies@uk.gt.com

Oscar Edwards

In-charge Auditor

T 0292 034 7607

E oscar.r.edwards@uk.gt.com

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

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

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

Progress at September 2021

Financial Statements Audit

We presented our 2020/21 audit plans for the County Council and Pension Fund to the Audit Committee in July 2021. These set out our proposed approach to the audit of the Council's and Pension Fund's 2020/21 financial statements.

The significant risks we identified within those plans were as follows:

Somerset County Council

- Management override of control;
- Valuation of land and buildings; and
- Valuation of net pension fund liability.

Progress against these risks is set on page 5 of this report.

Somerset Pension Fund

- Management over-ride of controls; and
- Valuation of Level 3 Investments.

In those plans we noted that MHCLG has set an indicative date of 30 September 2021 for audited local authority accounts (two months earlier than last year). Given the system-wide pressures set out in our audit plans, we believe this is highly unrealistic for 2020-21 audits (but as a firm we are fully supportive of this in a 'normal' year).

Therefore we proposed to target completing our audit fieldwork on your accounts in October 2021 before dealing with completion tasks and targeting signing off your accounts in November 2021.

Our audit of the County Council commenced in late August 2021 and we are currently on schedule to meet the timetable set out in our audit plans.

The Pension Fund audit commenced in June and is nearing completion – the Audit Findings Report is on this agenda.

We are currently meeting (virtually) with Finance Officers on a weekly basis to help ensure the audit process is smooth and effective.

At the time of writing there are no significant issues we wish to report to the Audit Committee.

Value for Money

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improving economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria (i.e. financial sustainability, governance and improving economy, efficiency and effectiveness).

The NAO has set a deadline for the completion of this work as three months after the opinion on the Council's financial statements has been given.

As noted in our audit plan for Somerset County Council, our risk assessment identified the following risks of significant weakness:

- Financial sustainability;
- Children's Services (SEND); and
- Local Government reorganisation.

Our work on VFM has commenced and will be completed by the revised deadline of 3 months from the signing of the Audit Opinion. A letter explaining this is included on page 7 of this report.

Progress against significant risks

Significant risk (from audit plan)

Management override of control

Under ISA (UK) 240, there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Council face external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.

We therefore identified management override of control, in particular journals, management estimates, and transactions outside the course of business as a significant risk for the Council, which was one of the most significant assessed risks of material misstatement.

Valuation of land and buildings

The Council revalues its land and buildings on a rolling basis, with assets physically inspected at least every five years. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£945 million) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council's financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used.

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.

Valuation of net pension fund liability

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.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£755m) in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.

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.

Progress to date

We have:

- Evaluated the design effectiveness of management controls over journals; and
- Analysed the journals listing and determine the criteria for selecting high risk unusual journals.

We are currently testing unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration.

We have:

- Evaluated management's processes and assumptions for the calculation of the estimate the instructions issued to valuation expert and the scope of their work; and
- Written to the valuer to confirm the basis on which the valuations were carried out.

Our work in the following areas remains in progress:

- Evaluating the competence, capabilities and objectivity of the valuation expert; and
- Completion of our detailed testing of the valuations undertaken in the year.

We have:

- Updated 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;
- Evaluated the instructions issued by management to their management expert (actuary) for this estimate and the scope of the actuary's work; and
- Assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation.

Our work in the following areas remains in progress:

- Assessing the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;
- Receipt of the assurances we have sought from the auditors of the Somerset Pension Fund; and
- Completion of our detailed testing on the information provided to the actuary and on the assumptions used by the actuary.

Audit Deliverables

2020/21 Deliverables	Planned Date	Status
<p data-bbox="120 408 264 437">Audit Plan</p> <p data-bbox="120 456 1344 558">We are required to issue a detailed audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Authority's 2020/21 financial statements and the Auditor's Annual Report on the Council's Value for Money arrangements.</p>	July 2021	Complete
<p data-bbox="120 584 421 612">Audit Findings Report</p> <p data-bbox="120 632 972 660">The Audit Findings Report will be reported to the Audit Committee.</p>	November 2021	Not yet due
<p data-bbox="120 699 336 727">Auditors Report</p> <p data-bbox="120 746 734 775">This is the opinion on your financial statements.</p>	November 2021	Not yet due
<p data-bbox="120 817 448 845">Auditor's Annual Report</p> <p data-bbox="120 865 1155 893">This Report communicates the key issues arising from our Value for Money work.</p>	January 2021	Not yet due

VFM extension letter

Chair of Audit Committee
Somerset County Council
County Hall
The Crescent
Taunton
TA1 4DY

Grant Thornton UK LLP
2 Glass Wharf
Temple Quay
Bristol
BS2 0EL
T +44 (0)117 305 7600
F +44 (0)117 955 4934

14 September 2021

Dear Audit Committee Chair

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies we are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than 31 January 2022.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

Barrie Morris
Director



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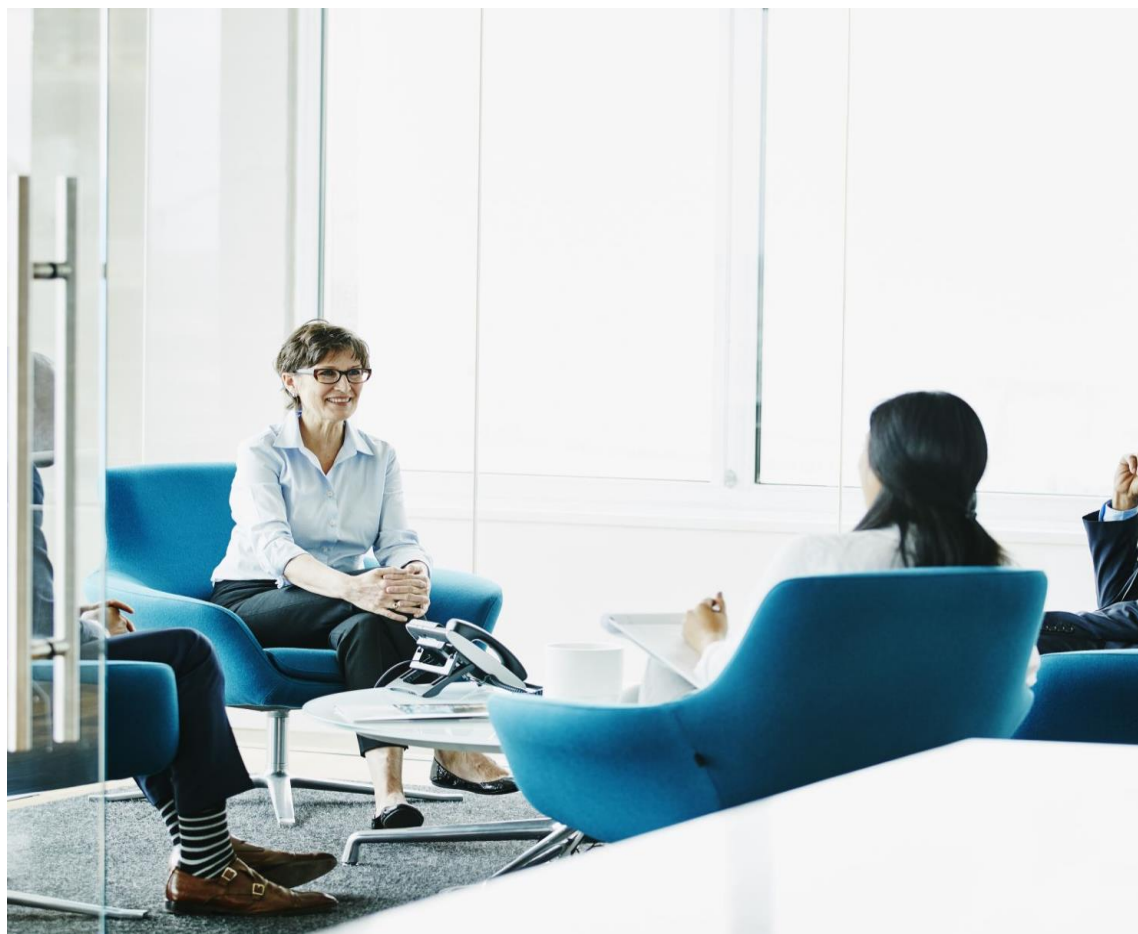
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The Audit Findings for Somerset Pension Fund

Year ended 31 March 2021

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13 September 2021



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Your key Grant Thornton team members are:

Barrie Morris

Key Audit Partner

T: 0117 305 7708

E: barrie.morris@uk.gt.com

Andrew Davies

Audit Manager

T: 0117 305 7844

E: andrew.davies@uk.gt.com

Steph Thayer

In Charge Auditor

T: 0117 305 7821

E: steph.e.Thayer@uk.gt.com

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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. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Somerset Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2021 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Pension Fund's financial statements give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

Our audit work was completed remotely during June-September. Our findings are summarised on pages 2 to 13. We have not identified any adjustments to the financial statements that would have resulted in an adjustment to the Pension Fund's reported financial position. Audit adjustments are detailed in Appendix A.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion [Appendix C] or material changes to the financial statements, subject to the following outstanding matters:

- finalisation of the main Council IT review and response to our recommendations;
- completion of our journals testing;
- agreement of capital commitments note (see audit adjustments);
- review of the Council Annual Governance Statement;
- receipt of management representation letter (Appendix D);
- review of the final version of the financial statements;
- issuing IAS19 letters to admitted body auditors;
- review of post balance sheet events and management's consideration of post balance sheet events;
- receipt and completion of our work on the Pension Fund Annual report; and
- internal quality reviews.

As set out above we have not yet reviewed the Annual Report and as such have not yet concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unmodified.

2. Financial Statements

Overview of the scope of our audit

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This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As your auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls, and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 23 September 2021, as detailed in [Appendix C]. This is also subject to the completion of the Council audit. These outstanding items include are set out on page 3 of this report.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. As highlighted on page 3 of our audit plan presented to the Audit Committee in June 2021, the impact of the pandemic has meant that both your finance team and our audit team faced challenges again this year, in delivering work remotely.

The Financial Statements were delivered on time and these were supported by good working papers. All queries were responded to in a timely manner.

2. Financial Statements



Our approach to 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.

Materiality levels remain the same as reported in our audit plan on 22 July 2021, albeit materiality has increased to reflect the increase in the net asset value.

We detail in the table our determination of materiality for Somerset Pension Fund.

	Pension Fund Amount (£)
Materiality for the financial statements	26,100,000
Performance materiality	19,600,000
Trivial matters	1,300,000
Materiality for Senior Officer remuneration	20,000



2. Financial Statements - Significant risks

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.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan

Commentary

Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.

We 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.

Our work in this area remains in progress. At the time of writing this report we have :

- evaluated the design effectiveness of management controls over journals,
- analysed the journals listing and determined the criteria for selecting high risk unusual journals,
- gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness with regard to corroborative evidence, and
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

We are in the process of:

- testing those journals that we have identified as having characteristics which may make them unusual recorded during the year and after the draft accounts stage for appropriateness and supporting evidence.

Our work completed to date has not identified any issues with regards to management override of controls.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Improper revenue recognition

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.

Within our Audit Plan we rebutted this presumed risk for Somerset Pension Fund because:

- there is little incentive to manipulate revenue recognition;
- opportunities to manipulate revenue recognition are very limited; and
- the culture and ethical frameworks of local authorities, including Somerset Pension Fund mean that all forms of fraud are seen as unacceptable.

We have reassessed this rebuttal during the audit and confirm that this remains appropriate for Somerset Pension Fund.

The expenditure cycle includes fraudulent transactions (rebutted)

Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states:

"As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition". Public sector auditors therefore need to consider whether they have any significant concerns about fraudulent financial reporting of expenditure which would need to be treated as a significant risk for the audit.

Within our Audit Plan we rebutted this presumed risk for Somerset Pension Fund because:

- expenditure is well controlled and the Fund has a strong control environment; and
- the Fund has clear and transparent reporting of its financial plans and financial position to those charged with governance.

We have reassessed this rebuttal during the audit and confirm that this remains appropriate for Somerset Pension Fund.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Valuation of Level 3 Investments

The Fund revalues its investments on an annual basis at the year end to ensure that the carrying value is not materially different from the fair value at the financial statements date.

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

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.

Management utilise the services of investment managers and custodians as valuation experts to estimate the fair value as at 31 March 2021.

We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.

Commentary

We have:

- evaluated management's processes for assessing the valuation of Level 3 investments;
- reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments, to ensure that the requirements of the Code are met;
- independently requested year-end confirmations from investment managers and the custodian and considered the role played by the custodian in asset valuations;
- for a sample of investments, we have tested the valuation by obtaining and reviewing the audited accounts (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. We have then reconciled those values to the values at 31 March 2021 with reference to known movements in the intervening period; and
- where available, we have reviewed investment manager service auditor reports on design effectiveness of internal controls.

We challenged the assumptions made by management on asset valuations, particularly in light of the previous year's estimation uncertainty as a result of COVID-19. The values for 2020/21 and management's assumptions and consideration of these valuations, give due consideration to market impact and the movements have been substantiated through our detailed testing. For 2020/21 there is no material uncertainties disclosed in relation to COVID-19 as markets have continued to stabilise across the last 12 months following the previous year's uncertain climate at the end of March 2020.

Our work to date has identified that due to the timing of fund manager reports the Council have used the valuation reports dated 31 December 2020. As part of our audit procedures we have reviewed the 31 March 2021 reports that were provided to the Council in July 2021; after the draft financial statements were submitted.

This work highlighted that the value of these investments had increased by £7.6m and therefore that the estimate as at the 31 March 2021 was understated by this amount. We have reported this as an unadjusted misstatement but recognise that the draft financial statements were produced using the most up to date information.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate

Summary of management's approach

Audit Comments

Assessment

Level 3 Investments – £72.459m

The Pension Fund has level 3 investments that in total are valued on the balance sheet as at 31 March 2020 at £72.459 million. The total of this balance is made up of private equity funds. The level 3 investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. The basis of valuation for each category of level 3 investments is set out in note 31 to the financial statements.

Due to the timing of fund manager reports the Council have used the valuation reports dated 31 December 2020. As part of our audit procedures we have reviewed the 31 March 2021 reports that were provided to the Council in July 2021; after the draft financial statements were submitted.

This work highlighted that the value of these investments had increased by £7.6m and therefore that the estimate as at the 31 March 2021 was understated by this amount. We have reported this as an unadjusted misstatement but recognise that the draft financial statements were produced using the most up to date information.

The overall value of level 3 investments has increased by £12.5 million in 2020/21.

We have:

- reviewed management's assessment and estimation process for level 3 investments and consider it to be robust;
- assessed the estimates provided for level 3 investments and tested the validity of assumptions;
- assessed the adequacy of management's experts;
- tested the appropriateness of the underlying information used to determine the estimate;
- reviewed the consistency of the estimate against industry practice and previous audit work;
- tested the reasonableness of the increase in the estimate; and
- reviewed the reasonableness of the sensitivities disclosed in the estimates section of the accounting policy.

Due to the timing of valuation reports used in producing the estimate we consider managements assumptions to be cautious.

Grey

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate

Summary of management's approach

Audit Comments

Assessment

Level 2 Investments – £1,975.226m

The Pension Fund have investments in pooled investments and property funds that in total are valued on the balance sheet as at 31 March 2021 at £1,975.226 million.

Management rely upon the custodian to provide the financial investment values. This is provided in a monthly report, detailing each Fund's performance and value. Management review this report for accuracy and completeness. As well, as obtaining the custodian report, the Pension Fund also obtain details direct from the Fund Manager and completes a comparison - a triangulation - between their estimate, the custodian's estimate and the Fund Manager's estimate. All significant variances are reviewed and addressed.

As the level 2 valuations are based upon observable inputs the degree of estimation is minimal and both the fund managers and custodians are able to provide robust assumptions for values at year end.

Nevertheless, there is a degree of estimation adopted in the valuation process and therefore these can be interpreted as subjective in nature.

The basis of valuation for each category of level 2 investments is set out in note 31 to the financial statements.

The value of the investment has increased by £628.741m in 2020/21.

We have :

- reviewed management's assessment and the estimation process for level 2 investments and consider it to be robust;
- assessed the estimates provided for level 2 investments and tested the validity of assumptions;
- assessed the adequacy of management's experts;
- tested the appropriateness of the underlying information used to determine the estimate;
- reviewed the consistency of the estimate against industry practice and previous audit work;
- tested the reasonableness of the increase in the estimate; and
- reviewed the reasonableness of the sensitivities disclosed in the estimates section of the accounting policy.

Based on our work completed we consider key assumptions to be reasonable.

Light purple

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Pension Fund, which is appended to this report.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to custodians and fund managers and the Pension Fund bank. This permission was granted and the requests were sent and received.
Accounting practices	We have evaluated the appropriateness of the Pension Fund's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

2. Financial Statements - other communication requirements



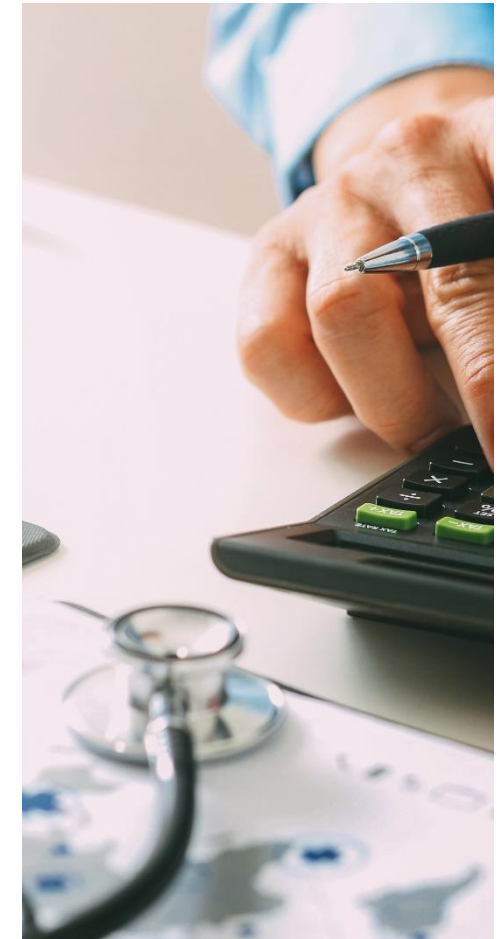
Our responsibility

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 entity's ability to continue as a going concern” (ISA (UK) 570).

Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> the use of the going concern basis of accounting is not a matter of significant focus of the auditor’s time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity’s services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Pension Fund meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"> the nature of the Pension Fund and the environment in which it operates the Pension Fund's financial reporting framework the Pension Fund's system of internal control for identifying events or conditions relevant to going concern management’s going concern assessment. <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> a material uncertainty related to going concern has not been identified management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Disclosures	No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix C.
Matters on which we report by exception	We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. Due to statutory deadlines the Pension Fund Annual Report is not required to be published until 1 December 2021 and therefore this report has not yet been produced. We have therefore not given this separate opinion at this time and are unable to certify completion of the audit of the administering authority until this work has been completed.



3. Independence and ethics

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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 confirm that we, as a firm, and each covered person, 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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix B.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

3. Independence and ethics

Audit and non-audit services

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 non-audit services were identified.

Service	Fees £	Threats identified	Safeguards
Audit related			
Audit of Brunel Pension Partnership Limited (BPP)	40,000	None	<p>We do not consider the audit of BPP as a threat to our independence; as Somerset Pension Fund cannot exercise control over BPP.</p> <p>The audit of BPP is carried out by a specialist team, authorised by the Financial Standards Authority.</p> <p>The fee of £40,000 is not significant compared to the audit fees of the ten participating pension funds.</p> <p>Please note this fee is not included in the financial statements of Somerset Pension Fund as is payable by BPP.</p>
IAS19 Assurance letters for Admitted Bodies	7,000	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 £7,000 in comparison to the total fee for the audit of £30,121 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.

These services are consistent with the Pension Fund's policy on the allotment of non-audit work to your auditors. None of the services provided are subject to contingent fees.

Appendices

A. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

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Impact of adjusted misstatements

There were no adjusted misstatements noted as part of the 2020/21 and 2019/20 audits.

Impact of unadjusted misstatements

Detail

Due to the timing of fund manager reports the Pension Fund have used the valuation reports dated 31 December 2020. As part of our audit procedures we have reviewed the 31 March 2021 reports that were provided to the Fund in July 2021; after the draft financial statements were submitted.

This work highlighted that the value of these investments had increased by £7.6m (in the period December 20 to March 2021) and therefore that the estimate as at the 31 March 2021 was understated by this amount. We recognise that the draft financial statements were produced using the most up to date information.

Overall impact

	Statement of Comprehensive Net Expenditure £'000	Statement of Financial Position £' 000	Impact on adjusted net expenditure £'000
	-	Increase in the level of Level 3 investments of £7,600	-
Overall impact	-	7,600	-

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission

The audit fee disclosed in the draft financial statements for 2019/20 and 2020/21, did not agree to the final amounts set out in our 2020/21 Audit Plan. This was due to the timing of the invoices being raised and communication of the 2020/21 audit fee. Additional disclosures have been added to note 9 to clearly show the final amounts. This is explained further on page 18 of this report.

Our high level review of the draft financial statements identified that no disclosure was made regarding capital commitments. The Fund have added a note disclosing commitments relating to investments of £71.287m. At the time of writing this report we have still to agree this additional note to supporting working papers.

During the course of the audit a number of small disclosure amendments were made to the financial statements. These have not been reported separately due to their insignificant nature.

Adjusted?

✓

✓

✓

B. Fees

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

Audit fees	Proposed fee	Final fee
Pension Fund Audit	£30,121	£30,121
Total audit fees (excluding VAT)	£30,121	£30,121

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Details of variations in final fees from the proposed fee per the audit plan

- Fees per financial statements - £0.022m
- Fees for additional costs as set out in our audit plan - £0.008m
- Total - £0.030m

Fees for IAS19 Assurance letters for Admitted Bodies of £0.007m is disclosed in a narrative disclosure under note 9 of the financial statements as this was not billed until after the draft statements were prepared.

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services		
Audit of Brunel Pension Partnership Limited (BPP)	40,000	40,000
IAS19 Assurance letters for Admitted Bodies	7,000	7,000
Total non-audit fees (excluding VAT)	£47,000	£47,000

C. Audit opinion

Our audit opinion is included below. We anticipate we will provide the Pension Fund with an unmodified audit report.

Independent auditor's report to the members of Somerset County Council on the pension fund financial statements of Somerset Pension Fund

Opinion

We have audited the financial statements of Somerset Pension Fund (the 'Pension Fund') administered by Somerset County Council (the 'Authority') for the year ended 31 March 2021 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2021 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the Pension Fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Director of Finance's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Pension Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Pension Fund to cease to continue as a going concern.

In our evaluation of the Director of Finance's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Pension Fund's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Pension Fund. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority in the Pension Fund financial statements and the disclosures in the Pension Fund financial statements over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Pension Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Director of Finance's use of the going concern basis of accounting in the preparation of the Pension Fund financial statements is appropriate.

The responsibilities of the Director of Finance with respect to going concern are described in the 'Responsibilities of the Authority, the Director of Finance and Those Charged with Governance for the financial statements' section of this report.

C. Audit opinion

Other information

The Director of Finance is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the Pension Fund's financial statements, our auditor's report thereon, and our auditor's report on the Authority's financial statements. Our opinion on the Pension Fund's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Pension Fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Pension Fund's financial statements, or our knowledge of the Pension Fund obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Pension Fund financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice (2020) published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the Pension Fund's financial statements and our knowledge of the Pension Fund, the other information published together with the Pension Fund's financial statements in the Statement of Accounts, for the financial year for which the financial statements are prepared is consistent with the Pension Fund financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or

- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters in relation to the Pension Fund.

Responsibilities of the Authority, the Director of Finance and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance. The Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the Pension Fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Pension Fund's financial statements, the Director of Finance is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Pension Fund will no longer be provided.

The Audit Committee is Those Charged with Governance for the Pension Fund. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

C. Audit opinion

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the Pension Fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Public Service Pensions Act 2013, The Local government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

- We enquired of senior officers and the Audit Committee, concerning the Authority's policies and procedures relating to:
 - the identification, evaluation and compliance with laws and regulations;
 - the detection and response to the risks of fraud; and
 - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to journals, accounting estimates and critical judgements made by management.
- Our audit procedures involved:
 - evaluation of the design effectiveness of controls that the Director of Finance has in place to prevent and detect fraud;
 - journal entry testing, with a focus on management override of control;
 - challenging assumptions and judgements made by management in its significant accounting estimates in respect of the valuation of level 3 investments and IAS 26 pensions liability valuations;
 - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

C. Audit opinion

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

- Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:
 - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
 - knowledge of the local government pensions sector
 - understanding of the legal and regulatory requirements specific to the Pension Fund including:
 - the provisions of the applicable legislation
 - guidance issued by CIPFA, LASAAC and SOLACE
 - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
 - the Pension Fund's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
 - the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

Use of our report

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

Barrie Morris, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Bristol

Date:

D. Management Letter of Representation

Barrie Morris
Grant Thornton UK LLP
2 Glass Wharf
Bristol
BS20EL

Dear Sirs

Somerset Pension Fund

Financial Statements for the year ended 31 March 2021

This representation letter is provided in connection with the audit of the financial statements of Somerset Pension Fund for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the Fund's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the Fund and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. The Fund has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

vi. Except as disclosed in the financial statements:

- a. there are no unrecorded liabilities, actual or contingent
- b. none of the assets of the Fund has been assigned, pledged or mortgaged
- c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

vii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

viii. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

ix. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

x. The financial statements are free of material misstatements, including omissions.

xi. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

D. Management Letter of Representation

xiii. We have updated our going concern assessment. We continue to believe that the Fund's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that:

- a. the nature of the Fund means that, notwithstanding any intention to liquidate the Fund or cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements
- b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and
- c. the Fund's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements.

Information Provided

- xiv. We have provided you with:
 - a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. access to persons within the Fund via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic, from whom you determined it necessary to obtain audit evidence.
- xv. We have communicated to you all deficiencies in internal control of which management is aware.
- xvi. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xvii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xviii. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Fund, and involves:

- a. management;
- b. employees who have significant roles in internal control; or
- c. others where the fraud could have a material effect on the financial statements.

xix. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xx. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxi. There have been no communications with The Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.

xxii. We are not aware of any reports having been made to The Pensions Regulator by any of our advisors.

xxiii. We have disclosed to you the identity of the Fund's related parties and all the related party relationships and transactions of which we are aware.

xxiv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Approval

The approval of this letter of representation was minuted by the Fund's Audit Committee at its meeting on 25 November 2021.



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Somerset County Council

Audit Committee

23 September 2021

Strategic Risk Management Update

Lead Officer: Jason Vaughan, Director of Finance & Section 151 Officer

Author: Heather Hall, Service Manager, Insurance & Pam Pursley, Risk Manager

Contact Details: 01823 357265

Cabinet Member: Cllr Mandy Chilcott

Division and Local Member: All

1. Executive Summary

- 1.1.** Risk management within Somerset County Council is an integral part of good governance to which the Council is committed. The risk management policy pathway documents are supportive and in accordance with the Council's culture that we are continually managing and working to increase the recording and record keeping of Strategic and Operational Risk Management.
- 1.2** We are risk aware and record relevant strategic risks in JCAD Core. We mitigate, manage, and record risks and ensure that the risk owners are updating their risks in line with the policy.
- 1.3** The Insurance and Risk team have created a few new changes to the support that the Strategic Risk Management Group (SRMG) can support SLT on. SRMG now review at least two Strategic Risks at their monthly meetings and invite the risk owner to discuss. The group also forward plan due to LGR.
- 1.4** We are currently working with Zurich Municipal to understand the Council's risk appetite and create an effective tool for all risk owners to work within.
- 1.5** This report focus' on Strategic Risks only, each directorate has recorded and monitored operational risks we are currently working with SRMG to be able to declare to SLT when an operational risk becomes a risk that SLT need to be updated on and how operational risks have an impact on our strategic risk. We will be developing a chart or dashboard to give the overview of these risks.

2. Purpose of this report

- 2.1** The Audit Committee review and comment on the current Strategic Risk Report, Appendix A – Strategic Risk Report – 14 September 2021

3. Current Strategic Risks

3.1 Currently JCAD Core holds 8 strategic risks that pose a threat to the achievement of the priorities of the Council.

Table 1 – Summary of Strategic Risks, current score with direction of travel				
Risk Ref	Summary of Risk Description	Apr L x I	Sept L x I	Live actions, % complete
Four risks are out of tolerance scoring 16 plus (very high) – reviewed monthly Red & Orange very high/high. Yellow = medium, green = Low risk				
ORG0054	Climate Change. Owner: Michele Cusack	5x5(25)	5x5(25)	10%
ORG0053	Organisational Resilience. Owner: Chris Squire	4x5(20)	4x5(20)	66%
ORG0056	Potential for significant supplier disruption. Owner: Paula Hewitt	3x4(12)	4x4(16)	10%
ORG0057	Sustainable MTFP. Owner: Jason Vaughan	3x4(12)	4x4(16)	10%
Five risks assessed as high or medium				
ORG0009	Safeguarding Children	3x5(15)	3x5(15)	No live actions
ORG0002	External Influences on commissioning	5x3(15)	3x3(9)	10%
ORG0024	Market management & development	3x3(9)	3x3(9)	90%
ORG0055	Partnership Working	3x3(9)	3x3(9)	10%
Table 2 – Strategic risks by SCC Priorities from the current Business Plan				
	Better Infrastructure	Safer Communities	Fairer Opportunities	Healthier Lives
Total risks by priority	6	1	1	0
Table 3 – Summary of risk management changes this quarter				
New Risks	Local Government Reorganisation in Somerset does not deliver the single unitary authority as defined, for Vesting Day on 1st April 2023			
Changes to current Risks	ORG0056 - Strategic Risk 2021: Potential for significant supplier disruption across all services but greatest risk to demand and sustainability of funding in the care provision			

	sector, transport services and Waste. – Increase in likelihood from 3 (feasible) to 4 (likely). The risk has increased due to rising covid rates and increasing staff shortages in key sectors. ORG0002 – Has been combined with ORG0056 ORG0057 - Strategic Risk 2020: Sustainable MTFP: The forecast costs of services in the form of the budget must match the financial resources available. There is a risk that the costs exceed the available resources. – Increase in likelihood from 3 (feasible) to 4 (likely).			
Emerging Risks	No emerging risks identified this quarter			
Closed Risks	ORG0043 – Balanced budget 2020/21 ORG0058 – LGR: Strategic Risk 2020: Uncertainty around Local Government Reorganisation			
ORG0058	Uncertainty around Local Government Reorganisation	3x5(15)	Closed	Complete
ORG0043	Maintaining a balanced budget 2020/21	1x3(3)	Closed	complete
Change of owner	ORG0024 - Strategic Risk 2019: Market management and development: Failure to effectively monitor and manage our markets (and supply chains) to ensure we optimise value for money, income generation opportunities and protect ourselves against unsustainable suppliers / supply chains. – Formerly Simon Clifford now assigned to Jason Vaughan			
Table 4 - Changes to a risk's description made by the Risk Owner				
	ORG0002 – Risk Owner: Paula Hewitt			
Previous wording	Strategic Risk 2020: External influences may impact on our commissioning and result of SCC not achieving the outcomes we seek e. g. Covid19, EU Transition and transition to Unitary uncertainty.			
Revised wording	Strategic Risk 2021: External influences and uncertainties, e.g. Covid19, the formation of an Integrated Care System & Local Government Reorganisation , may impact on our commissioning activity and result in SCC not achieving the outcomes it seeks.			
	ORG0055 – Risk Owner: Carlton Brand			
Previous wording	Strategic Risk 2021: Local Government Reorganisation negatively impacts: partnership working between the five Somerset councils; partnership working between SCC and Police, Fire, CCG, Acutes, ICS, and VCSE. Failure of working relationships; differing organisational priorities; different			

	political priorities, time constraints; inadequate and miscommunication; financial constraints causing behaviours at odds with good cross system partnership; inability to influence and shape governance
Revised wording	Strategic Risk 2021: Partnership Working: Local Government Reorganisation negatively impacts: partnership working between the five Somerset councils; partnership working between SCC and Police, Fire, CCG, Acute, ICS, and VCSE. Failure of working relationships; differing organisational priorities; different political priorities, time constraints; inadequate and miscommunication; financial constraints causing behaviours at odds with good cross system partnership; inability to influence and shape governance.

Table 5 – Change in Service for Strategic Risk Owner

Service Area	Moved to	Previous owner	New owner
<ul style="list-style-type: none"> • Business Change • CEO Responsibilities • Communications • Customers • ICT • Performance • PMIT • Programme Management Office 	Customers, Digital & Workforce	Simon Clifford	Chris Squire
<ul style="list-style-type: none"> • Commercial & business Services • Commercial & Procurement • Democratic Services • Legal Services 	Finance & Governance	Simon Clifford	Jason Vaughan

4. Governance

- 4.1. The Accounts and Audit Regulations 2015 require the council to have in place effective arrangements for the management of risk. These arrangements are reviewed each year and reported as part of the Annual Governance Statement (AGS). The Council is required to comment on the effectiveness of its arrangements in this regard. The statement must also identify any significant governance issues that may have resulted from failures in governance and risk management.

- 4.2 Risk Management is an integral part of good governance to which the Council is committed. As part of the Councils Risk Management arrangements, the Strategic Risk Management Group (SRMG) have started the annual review of the Management of Risk Strategy and Policy Pathway documents. The Management of Risk provides the framework and processes that enables the Council to manage uncertainty in a systematic way whilst ensuring the achievement of the Councils priorities outlined in the Business Plan.
- 4.3 The use of JCAD Core to record the strategic risks to the Council, is an important tool in managing the performance of the Business Plan. It aims to provide an overview of the significant risks facing the council and how they are being managed. The CRR attached to this report at Appendix A and is the latest formal iteration following a review by members of the council's Corporate Leadership Board (CLB) in January 2021. The Q3 2020/21 risk review included managers from across the Council.
- 4.4 Risk has always been a consideration as part of Somerset County Council's decision-making process. We are currently working to improve the documentation as part of the procedure.

4. Risk Assessment

- 4.1 The Risk Management Pathway Policy will further develop risk management assessment within the Council and help the management of risk arrangements embed. [Strategic Risk Management - MOR Pathway - All Documents \(sharepoint.com\)](#)

5. Conclusion

- 5.1 All strategic Risks have been reviewed and a progress update provided. All strategic risks have been approved by SLT and are regularly monitored by the Strategic Risk Management Group (SRMG).

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Strategic Risk Report - Somerset County Council (SLT)

	Risk Ref	Risk	Uncontrolled Risk Score	Action Required (In progress Only)	Control Owner Review Date Target Date	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
Page 107	ORG0054 Risk Owner: Michele Cusack Next Risk Review Date: 18/09/2021	<p>Risk Description: Strategic Risk 2020: Climate Change: SCC fails to take action to mitigate and adapt to climate change. This includes failing to commit adequate resources and/or failing to act early enough</p> <p>Cause: At present agreement with the Districts to co-fund key enabling activities is limited to 4 projects. Unless sufficient funding is agreed between the 5 Councils it will not be possible to deliver on all the agreed outcomes and Actions as set out in the Thematic Action Plans</p> <p>Consequence: Adverse reputation, political fall-out and failure to act</p>	<p>Likelihood :5 Impact :5</p> <p style="background-color: red; color: white; text-align: center;">25</p> <p>Red - V. High Risk</p>	<ul style="list-style-type: none"> Funding required to enable implementation of key activities Draft Governance proposal & funding requirements to oversee implementation & impact of Strategy going to CEO/Leaders for consideration Second Draft Proposal for implementation Governance with districts for consideration will require formal sign off (16/03/2021) Through all 5 councils process <i>In Progress (Reactive)</i> (10% complete) 	<p>Michele Cusack 17/09/2021 30/09/2021</p>	<p>Likelihood :5 Impact :5</p> <p style="background-color: red; color: white; text-align: center;">25</p> <p>Red - V. High Risk</p>	<p>Likelihood : Impact :</p>	<p>18/05/2021 Officer level agreement now secured. Implementation Governance now going to CEOs on 4th June and CEO Leaders on 11th June for agreement. Assuming this is secured SCC will adopt this through a formal decision. Still awaiting confirmation of funding through Carry Forwards for extra resource around Communications and Energy Policy. Until this resource is secured and there is agreement with the Districts on how we work together and which projects we focus on, to meet these aims and objectives, progress on achieving the aims and strategic objectives of the Climate Emergency Strategy may not advance as quickly as required if we are to achieve our commitments to decarbonisation and the wider Climate Emergency agenda. A cross organisational Implementation Board of elected Members is to be established in early July. Focus will be on agreeing TORs and engagement on Communities. SLT and Cabinet are to undertake Carbon Literacy Training. This Training will then be cascaded to Service Champions.</p>

Risk Ref	Risk	Uncontrolled Risk Score	Action Required (In progress Only)	Control Owner Review Date Target Date	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
<p>ORG0053</p> <p>Risk Owner: Chris Squire</p> <p>Next Risk Review Date: 04/10/2021</p>	<p>Risk Description: Strategic Risk 2020: Organisational Resilience: Without the minimum level of capacity and resource, the resilience of the organisation is compromised.</p> <p>Cause: 1. Emergency response to Covid-19 - redeployment of staff, staff absence 2. Regional & National Workforce Shortages in social care</p> <p>Consequence: Additional pressure on service delivery</p>	<p>Likelihood :5 Impact :5</p> <p style="background-color: red; color: white; text-align: center; padding: 2px;">25</p> <p>Red - V. High Risk</p>	<ul style="list-style-type: none"> ◦ BCP Annual corporate guidance and templates update or after activation of the corporate business continuity plan. review 06/07/2020: <i>In Progress (Reactive) (10% complete)</i> ◦ BCP Ensure all service level business continuity plans are updated annually. <i>In Progress (Reactive) (50% complete)</i> ◦ CCU Delivery of an annual training and exercising programme for staff with identified response roles <i>In Progress (Reactive) (50% complete)</i> ◦ CCU Maintenance of generic joint response frameworks for the Somerset Local Authorities <i>In Progress (Reactive) (70% complete)</i> ◦ CCU Maintenance of the Somerset Local Authorities Civil Contingencies Partnership <i>In Progress (Reactive) (90% complete)</i> ◦ CCU Maintenance of community resilience capabilities through the Somerset Prepared Partnership <i>In Progress (Reactive) (90% complete)</i> ◦ CCU Participation and coordination with local multi-agency structures <i>In Progress (Reactive) (90% complete)</i> ◦ H&S Create common processes so staff can be interchanged across County <i>In Progress (Reactive) (80% complete)</i> 	<p>Nicola Dawson 09/09/2021</p> <p>Nicola Dawson 09/09/2021</p> <p>Nicola Dawson 09/09/2021</p> <p>Nicola Dawson 12/11/2021</p> <p>Nicola Dawson 12/11/2021</p> <p>Nicola Dawson 12/11/2021</p> <p>Nicola Dawson 12/11/2021</p> <p>Heidi Boyle 28/08/2021</p>	<p>Likelihood :4 Impact :5</p> <p style="background-color: red; color: white; text-align: center; padding: 2px;">20</p> <p>Red - V. High Risk</p>	<p>Likelihood : Impact :</p>	<p>25/08/2021 25/08/2021, C Squire by email:</p> <ul style="list-style-type: none"> - Review of short, medium and long-term social care recruitment taking place. Discussions with ASC teams, providers and NHS to ensure we have adequate staffing across services; - Close work with waste contractor (Suez) to ensure that they recruit and retain sufficient drivers & loaders - Close monitoring of sickness absence, work with staff and representatives to assess the interventions needed. Ongoing, comprehensive wellbeing programme

Risk Ref	Risk	Uncontrolled Risk Score	Action Required (In progress Only)	Control Owner Review Date Target Date	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
			<ul style="list-style-type: none"> ICT Increase awareness & understanding SCC around suspicious or unsolicited email with attachments & website file downloads Phishing awareness, Campaign and Security training software purchased and tested within ICT. All staff roll out planned during Feb 2021 <i>In Progress (Reactive) (90% complete)</i> Information Governance Asset register <i>In Progress (Reactive) (40% complete)</i> 	<p>Dave Littlewood 03/08/2021</p> <p>Rebecca Martin 17/12/2021 31/03/2022</p>			
ORG0057	<p>Risk Description: Strategic Risk 2020: Sustainable MTFP: The forecast costs of services in the form of the budget must match the financial resources available. There is a risk that the costs exceed the available resources.</p> <p>Cause: The government has delayed significant reforms to local government funding. The Fair Funding Review and Business Rates Retention Scheme were due to be implemented in 2021/22 financial year but have both been delayed. The financial impact of Covid on service costs and loss of income is not matched by the funding received from Government</p> <p>Consequence: The Council does not set a balanced budget and reduces reserves to an unacceptable low level</p>	<p>Likelihood :5 Impact :5</p> <p style="background-color: red; color: white; text-align: center; width: 30px; margin: 5px auto;">25</p> <p>Red - V. High Risk</p>	<ul style="list-style-type: none"> Update MTFP with latest estimates of funding following Comprehensive Spending Review & the provisional financial settlement <i>In Progress (Reactive) (10% complete)</i> Produce a MTFP for Cabinet setting out the latest MTFP forecast and options to balance the Budget <i>In Progress (Reactive) (10% complete)</i> Review the level of reserves in the light of the risks and demand that the council faces over the next 3 years. <i>In Progress (Reactive) (10% complete)</i> 	<p>Jason Vaughan 01/09/2021</p> <p>Jason Vaughan 01/10/2021</p> <p>Jason Vaughan 01/09/2021</p>	<p>Likelihood :4 Impact :4</p> <p style="background-color: red; color: white; text-align: center; width: 30px; margin: 5px auto;">16</p> <p>Red - V. High Risk</p>	<p>Likelihood :2 Impact :3</p> <p style="background-color: green; color: white; text-align: center; width: 30px; margin: 5px auto;">6</p> <p>V. Low Risk</p>	<p>05/02/2021 Based upon the 2021/22 Budget proposals and MTFP forecast this risk can be reduced. the likely hood is now 3. The MTFP has assumed the Business Rates are reset and that the Fair Funding Review is neutral. The base budget has a contingency of £6m and Reserves remain at a robust level</p>

	Risk Ref	Risk	Uncontrolled Risk Score	Action Required (In progress Only)	Control Owner Review Date Target Date	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
	ORG0056 Risk Owner: Paula Hewitt Next Risk Review Date: 18/09/2021	Risk Description: Strategic Risk 2020: Potential for significant supplier disruption across all services but greatest risk to demand and sustainability of funding in the care provision sector, transport services and Waste. Cause: Covid19 pandemic and it's effect on suppliers concurrently with the effects of leaving the EU. Consequence: increased costs, reduced staffing, effects on local / national suppliers.	Likelihood :4 Impact :5 20 Red - V. High Risk	<ul style="list-style-type: none"> Work with Commissioners to reflect the impacts of Covid-19 on the provider engagement document <i>In Progress (Reactive) (10% complete)</i>	Sunita Mills 20/09/2021	Likelihood :4 Impact :4 16 Red - V. High Risk	Likelihood : Impact :	18/08/2021 Risk score remains unchanged.
	ORG0009 Risk Owner: Julian Wooster Next Risk Review Date: 23/09/2021	Risk Description: Strategic Risk 2020: Safeguarding Children: We fail to deliver our statutory service delivery duties and legal obligations in relation to vulnerable children. Cause: Systemic leadership, financial constraints and management challenges Consequence: Possible abuse, injury or loss of life to a vulnerable child through lack of provision of service. Reduced public confidence; emergency measures; increased inspection; personal litigation claims; negative publicity for both the Council and partners; possible financial penalty or service is removed from Council control.	Likelihood :5 Impact :5 25 Red - V. High Risk			Likelihood :3 Impact :5 15 Amber - High Risk	Likelihood :3 Impact :5 15 Amber - High Risk	23/06/2021 Covid-19 Mitigations - Children's Social Care returned to face-to-face visiting in March 2020 Children's Social Care have robust quality assurance systems in place to ensure that statutory requirements in relation to vulnerable children are met.

Risk Ref	Risk	Uncontrolled Risk Score	Action Required (In progress Only)	Control Owner Review Date Target Date	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
ORG0002 Risk Owner: Paula Hewitt Next Risk Review Date: 07/10/2021	Risk Description: Strategic Risk 2021: External influences and uncertainties, e.g. Covid19, the formation of an Integrated Care System & Local Government Reorganisation, may impact on our commissioning activity and result in SCC not achieving the outcomes it seeks. Cause: Covid, EU transition, unitary uncertainty Consequence:	Likelihood :4 Impact :5 20 Red - V. High Risk	<ul style="list-style-type: none"> SCG/Recovery Board overview of commissioning activity to identify any indications of impacts of C19, ICS & LGR, & agree action <ul style="list-style-type: none"> SCG/Recovery Board overview of commissioning activity to identify any indications of impacts of Covid, Brexit etc and to agree any necessary actions. Owner: Sunita Mills. Suggested review dates monthly from now <i>In Progress (Reactive)</i> (10% complete) 	Sunita Mills 20/09/2021	Likelihood :3 Impact :3 9 Yellow - Medium Risk	Likelihood :3 Impact :3 9 Yellow - Medium Risk	07/07/2021 Risk score remains unchanged as uncertainty around unitary remains
ORG0024 Risk Owner: Jason Vaughan Next Risk Review Date: 08/09/2021	Risk Description: Strategic Risk 2019: Market management and development: Failure to effectively monitor and manage our markets (and supply chains) to ensure we optimise value for money, income generation opportunities and protect ourselves against unsustainable suppliers / supply chains. Cause: Lack of coordination across the organisation in terms of our commercial and market development activity. There is limited understanding and shared learning of supplier strengths and weaknesses, or around concerns with our markets. There is also a lack of control over our principle supply chains. Consequence: Loss of customer confidence and trust in the Council, impacting on the reputation of the council. Lack of supplier confidence, restricting our ability to deliver front line services.	Likelihood :4 Impact :4 16 Red - V. High Risk	<ul style="list-style-type: none"> Putting in place effective contract management at a senior level throughout the Council <ul style="list-style-type: none"> Update 25/06: Greater commercial awareness cascaded through organisation. Establishing greater clarity between day - to -day Contract Management via operations and Commercial management delivered via procurement team. as part of SWAP Audit. Directorates now adapting to new approach. <i>In Progress (Reactive)</i> (90% complete) 	Jason Vaughan 07/12/2021	Likelihood :3 Impact :3 9 Yellow - Medium Risk	Likelihood :3 Impact :3 9 Yellow - Medium Risk	08/03/2021 this risk is paused and will be picked up again at next review 14 October 2020 update – mandatory Contract Management training has been rolled out across SCC from this month

	Risk Ref	Risk	Uncontrolled Risk Score	Action Required (In progress Only)	Control Owner Review Date Target Date	Current Risk Score	Controlled Risk Assessment for Financial Year	Comments
	<p>ORG0055</p> <p>Risk Owner: Carlton Brand</p> <p>Next Risk Review Date: 18/10/2021</p>	<p>Risk Description: Strategic Risk 2021: Partnership Working: Local Government Reorganisation negatively impacts: partnership working between the five Somerset councils; partnership working between SCC and Police, Fire, CCG, Acute, ICS, and VCSE. Failure of working relationships; differing organisational priorities; different political priorities, time constraints; inadequate and mis-communication; financial constraints causing behaviours at odds with good cross system partnership; inability to influence and shape governance</p> <p>Cause: There are a number of strategic programmes which provide both opportunities and challenges for partnership working e.g. delivering Somerset LGR, Integrated Care System, pandemic management, MTFP delivery (intra SCC and across the system). Partnership working could be both positively and negatively impacted as a consequence of these programmes but will need to be managed and mitigated to ensure success.</p> <p>Consequence: Failure to meet residents and business need, financial impact (cost over spends, savings not delivered); PR and damage to reputation; failure of statutory duties; inability to meet political commitments made; inability to deliver the major change programmes (LGR business case incl £18.5m savings and cross system performance improvement, ICS, NHS and social care integration in the county)</p>	<p>Likelihood :4 Impact :4</p> <p style="background-color: red; color: white; text-align: center; padding: 2px;">16</p> <p>Red - V. High Risk</p>	<ul style="list-style-type: none"> ◦ Planning for implementation is based on co-production <ul style="list-style-type: none"> • Planning for implementation is based on co-production with district councils, town and parish councils and other public sector partners to facilitate strong working relationships and outcomes <i>In Progress (Reactive) (10% complete)</i> ◦ Neutral LGR Office space being sought Work is underway to identify neutral LGR office space for implementation teams to come together using office space in all five councils <i>In Progress (Reactive) (10% complete)</i> ◦ Statutory Change Orders will set the expectation for working relationships Statutory Change Orders will set the expectation for how working relationships between the councils should operate during the transition to Unitary which all partners will need to adhere to. <i>In Progress (Reactive) (10% complete)</i> 	<p>Carlton Brand 18/10/2021</p> <p>Carlton Brand 18/09/2021 18/09/2021</p> <p>Carlton Brand 18/10/2021</p>	<p>Likelihood :2 Impact :3</p> <p style="background-color: green; color: white; text-align: center; padding: 2px;">6</p> <p>V. Low Risk</p>	<p>Likelihood : Impact :</p>	<p>24/08/2021 Risk score lowered due to good relationships being developed amongst all Local Authorities in Somerset. Regular discussions taking place amongst Leaders, Chief Executives and Programme Leads.</p>

Audit Committee Work Programme

Future Agenda Items	Notes
23 September 2021	
Advisory opinion audit update	To receive an update on the Highways Maintenance – duplicate payment requests audit.
Internal Audit update	The regular progress report from SWAP on the completion of the current Internal Audit Plan, highlighting any high risks that have arisen from their work.
External Audit update	An update on the progress of the audit as it moves towards a conclusion following the approval of the accounts in July.
Risk Management update	The regular update on progress in mitigating the highest scoring risks
25 November 2021	
Statement of Accounts	To approve both the County Council’s and Pension Fund’s accounts, final Annual Governance Statement and Value for Money arrangements.
External Audit Update	An update on Grant Thornton’s work and planning progress, and an update from the audit sector in general.
Internal Audit Update	The regular progress report from SWAP on the completion of the current Internal Audit Plan, highlighting any high risks.
National Audit Office report	For members to consider a report from the NAO that looks at the governance requirements of transformational projects.
Debtor Management	The regular performance report on our progress to collect monies owed to the County Council and the causes of outstanding debts.
27 January 2022	
External Audit Plan and Sector Update	To receive 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.
Risk Management Update	To Review the Strategic Risk Register
Partial Audit and Risks	To review any completed internal audits that have only received a Partial Assurance, where the dates in the

	agreed Action Plan show progress should have been made.
Review of Internal Audit	For members to consider a review carried out by officers, with independent validation, into the effectiveness of the SWAP internal audit function in the current year.
10 March 2022	
External Audit Plan and Sector Update	To receive an update on the external audit timetable and audit work undertaken, and any initial findings
Internal Audit Plan and Audit Charter	To consider the proposed internal Audit Plan and internal Audit Charter
Internal Audit update report	SWAP overview and general update of the progress made against the Audit Plan.
16 June 2022	
Annual Report to Council	To approve the Committee's Annual report to Full Council
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
28 July 2022	
Draft Annual Governance Statement (AGS)	For members to review the content of the draft AGS for the current year. (The AGS is a mandatory statement that sits alongside the Statement of Accounts and provides assurance that SCC has effective internal controls in place).
Review of Internal Audit	For members to consider a review carried out by officers, with independent validation, into the effectiveness of the SWAP internal audit function in the current year.
Annual Audit Opinion from SWAP	To receive the annual audit opinion from the Council's internal auditors
Internal Audit Update	Progress report from SWAP on the status of the current Internal Audit Plan, noting any high risks identified.
External Audit Update	An update on the progress of Grant Thornton's audit work and progress.
Anti-Fraud and Corruption Report	Our formal annual review of national fraud risks, our fraud policies and our work to prevent and detect frauds against the County Council.
External Audit Plan for the	To approve the external auditors audit plans for the

Council and Pension Fund	Council and the Pension Fund
22 September 2022	
External Audit Update	An update on the progress of the audit as it moves towards a conclusion following the approval of the accounts in July.
Internal Audit Update	The regular progress report from SWAP on the completion of the current Internal Audit Plan, highlighting any high risks that have arisen from their work.
Risk Management	The regular update on progress in mitigating the highest scoring risks
Debtor Management	The usual update report on collection of monies owed to the County Council, and an update on management progress against the latest SWAP audit.
Partial Audit and Risks	To review any completed internal audits that have only received a Partial Assurance, where the dates in the agreed Action Plan show progress should have been made.
24 November 2022	
Statement of Accounts	To approve both the County Council's and Pension Fund's accounts, final Annual Governance Statement and Value for Money arrangements.
National Audit Office report	For members to consider a report from the NAO that looks at the governance requirements of transformational projects.
External Audit Update	An update on Grant Thornton's work and planning progress, and an update from the audit sector in general.
Internal Audit Update	The regular progress report from SWAP on the completion of the current Internal Audit Plan, highlighting any high risks that have arisen from their work.

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