



Notice of Meeting of

## **AUDIT COMMITTEE**

**Thursday, 27 April 2023 at 10.00 am**

### **Luttrell Room - County Hall**

To: The members of the Audit Committee

Chairman: Councillor Dean Ruddle

Vice-chairman: Councillor Andy Sully

Councillor Steve Ashton

Councillor Lee Baker

Councillor Simon Carswell

Councillor Mike Caswell

Councillor Norman Cavill

Councillor Mandy Chilcott

Councillor Simon Coles

Councillor Shane Collins

Councillor Habib Farbahi

Councillor Tim Kerley

Councillor Mike Lewis

Jennifer Whitten

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For further information about the meeting, including how to join the meeting virtually, please contact [democraticserviceteam@somerset.gov.uk](mailto:democraticserviceteam@somerset.gov.uk).

All members of the public are welcome to attend our meetings and ask questions or make a statement **by giving advance notice** in writing or by e-mail to the Monitoring Officer at email: [democraticserviceteam@somerset.gov.uk](mailto:democraticserviceteam@somerset.gov.uk) by **5pm on Friday, 21 April 2023**.

This meeting will be open to the public and press, subject to the passing of any resolution under the Local Government Act 1972, Schedule 12A: Access to Information.

The meeting will be webcast and an audio recording made.

Issued by (the Proper Officer) on Wednesday, 19 April 2023

# AGENDA

Audit Committee - 10.00 am Thursday, 27 April 2023

**Public Guidance Notes contained in Agenda Annexe**

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### **1 Apologies for Absence**

To receive any apologies for absence.

### **2 Declarations of Interest (Pages 9 - 10)**

To receive and note any declarations of disclosable pecuniary or prejudicial or personal interests in respect of any matters included on the agenda for consideration at this meeting.

(The personal interests of Councillors of Somerset Council, Town or Parish Councils and other Local Authorities will automatically be recorded in the minutes.)

**3 Minutes from the previous meetings held on 19th January 2023 and 2nd February 2023 (Pages 11 - 24)**

The Audit Advisory Board to accept the previous minutes of the meetings held on 19<sup>th</sup> January 2023 and 2<sup>nd</sup> February 2023

**4 Public Question Time**

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

For those members of the public who have submitted any questions or statements, please note, a three minute time limit applies to each speaker and you will be asked to speak before Councillors debate the issue.

We are now live webcasting most of our committee meetings and you are welcome to view and listen to the discussion. The link to each webcast will be available on the meeting webpage, please see details under 'click here to join online meeting'.

**5 Report of Internal Audit Activity 2022/23 Progress Report - April 2023 (Pages 25 - 46)**

The April 2023 progress update for 2022/23. It reports against the Internal Audit Plan agreed by the Somerset County Council (SCC) Audit Committee in March 2022.

**6 Proposed 2023-24 Internal Audit Plan and Internal Audit Charter (Pages 47 - 62)**

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

**7 Audit Progress Report and Sector Update (Pages 63 - 80)**

A summary of emerging national issues and developments.

**8 Informing the audit risk assessment (Pages 81 - 110)**

The purpose of this report is to contribute towards the effective two-way communication between Somerset County Council's external auditors and Somerset County Council's Audit Committee.

**9 Independent Member appointment**

To appoint a non-biased independent member.

**10 Fraud Policies (Pages 111 - 150)**

As part of the Somerset Council's Constitution and controls and standards the Council's Audit Committee has responsibility for Policies.

**11 Annual Report to Council**

Summary of the work of the Audit Committee.

**12 Treasury Management Practices (Pages 151 - 214)**

A detailed document setting out how day to day treasury activity is undertaken by the Council.

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## Guidance notes for the meeting

### Council Public Meetings

The legislation that governs Council meetings requires that committee meetings are held face-to-face. The requirement is for members of the committee and key supporting officers (report authors and statutory officers) to attend in person, along with some provision for any public speakers. 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.

#### Inspection of Papers

Any person wishing to inspect minutes, reports, or the background papers for any item on the agenda should contact Democratic Services at [democraticserviceteam@somerset.gov.uk](mailto:democraticserviceteam@somerset.gov.uk) or telephone 01823 357628.

They can also be accessed via the council's website on [Committee structure - Modern Council \(somerset.gov.uk\)](#)

### 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: [Code of Conduct](#)

### 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.

### Public Question Time

If you wish to speak or ask a question about any matter on the Committee's agenda please contact Democratic Services by 5pm providing 3 clear working days before the meeting. (for example, for a meeting being held on a Wednesday, the deadline will be 5pm on the Thursday prior to the meeting) Email [democraticserviceteam@somerset.gov.uk](mailto:democraticserviceteam@somerset.gov.uk) or telephone 01823 357628.

Members of public wishing to speak or ask a question will need to attend in person or if unable can submit their question or statement in writing for an officer to read out, or alternatively can attend the meeting online.

A 20-minute time slot for Public Question Time is set aside near the beginning of the meeting, after the minutes of the previous meeting have been agreed. Each speaker will have 3 minutes to address the committee.

You must direct your questions and comments through the Chair. You may not take a direct part in the debate. The Chair will decide when public participation is to finish. If an item on the agenda is contentious, with many people wishing to attend the meeting, a representative should be nominated to present the views of a group.

### **Meeting Etiquette for participants**

Only speak when invited to do so by the Chair.

Mute your microphone when you are not talking.

Switch off video if you are not speaking.

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

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

There is a facility in Microsoft Teams under the ellipsis button called turn on live captions which provides subtitles on the screen.

### **Exclusion of Press & Public**

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

If there are members of the public and press listening to the open part of the meeting, then the Democratic Services Officer will, at the appropriate time, ask participants to leave the meeting when any exempt or confidential information is about to be discussed.

### **Recording of meetings**

The Council supports the principles of openness and transparency. It allows filming, recording, and taking photographs at its meetings that are open to the public - providing this is done in a non-disruptive manner. Members of the public may use Facebook and Twitter or other forms of social media to report on proceedings. No filming or recording may take place when the press and public are excluded for that part of the meeting.





## SOMERSET COUNCIL

### UNITARY COUNCILLORS WHO ARE ALSO TOWN AND/OR PARISH COUNCILLORS

**Somerset**  
Council

<b>UNITARY COUNCILLOR</b>	<b>TOWN AND/OR PARISH COUNCIL</b>
Steve Ashton	Crewkerne Town Council / Hinton St George Parish Council
Suria Aujla	Bridgwater Town Council
Jason Baker	Chard Town Council
Lee Baker	Cheddon Fitzpaine Parish Council / Taunton Shadow Town Council
Marcus Barr	Wellington Town Council
Mike Best	Crewkerne Town Council
Alan Bradford	North Petherton Town Council
Theo Butt Philip	Wells City Council
Simon Carswell	Street Parish Council
Norman Cavill	West Monkton Parish Council / Taunton Shadow Town Council
Peter Clayton	Burnham Highbridge Town Council
Simon Coles	Taunton Shadow Town Council
Nick Cottle	Glastonbury Town Council / St Edmunds Parish Council
Adam Dance	South Petherton Parish Council
Dixie Darch	Taunton Shadow Town Council
Tom Deakin	Taunton Shadow Town Council
Caroline Ellis	Taunton Shadow Town Council
Habib Farbahi	Taunton Shadow Town Council
Ben Ferguson	Axbridge Town Council
Bob Filmer	Brent Knoll Parish Council
David Fothergill	Taunton Shadow Town Council
Andrew Govier	Wellington Town Council
Pauline Ham	Axbridge Town Council
Philip Ham	Coleford Parish Council
Ross Henley	Wellington Town Council
Edric Hobbs	Shepton Mallet Town Council
John Hunt	Bishop's Hull Parish Council / Taunton Shadow Town Council
Dawn Johnson	Taunton Shadow Town Council
Val Keitch	Ilminster Town Council
Andy Kendall	Yeovil Town Council
Jenny Kenton	Chard Town Council
Tim Kerley	Somerton Town Council
Marcus Kravis	Minehead Town Council

Tony Lock	Yeovil Town Council
Martin Lovell	Shepton Mallet Town Council
Mike Murphy	Burnham Highbridge Town Council
Graham Oakes	Yeovil Town Council / Yeovil Without Parish Council
Sue Osborne	Ilminster Town Council
Kathy Pearce	Bridgwater Town Council
Emily Pearlstone	Ilchester Parish Council
Derek Perry	Taunton Shadow Town Council
Evie Potts-Jones	Yeovil Town Council
Hazel Prior-Sankey	Taunton Shadow Town Council
Wes Read	Yeovil Town Council
Leigh Redman	Bridgwater Town Council
Mike Rigby	Bishop's Lydeard and Cothelstone Parish Council
Tony Robbins	Wells City Council
Dean Ruddle	Somerton Town Council
Peter Seib	Brympton Parish Council / Chilthorne Domer Parish Council
Heather Shearer	Street Parish Council
Gill Slocombe	Bridgwater Town Council
Brian Smedley	Bridgwater Town Council
Fran Smith	Taunton Shadow Town Council
Federica Smith-Roberts	Taunton Shadow Town Council
Jeny Snell	Yeovil Town Council / Brympton Parish Council
Andy Soughton	Yeovil Town Council
Richard Wilkins	Curry Rivel Parish Council
Dave Woan	Yeovil Town Council
Ros Wyke	Westbury-sub-Mendip Parish Council

**Their memberships of Parish or Town Councils will be taken as being declared by these Councillors to be Personal Interests in the business of the Somerset Council meeting and need not be declared verbally.**

**Any Unitary Councillor who has a Prejudicial Interest by virtue of their Membership of a Parish or Town Council, or who has a special involvement by virtue of being a Parish or Town Councillor, in a matter to be discussed by the Somerset Council will be expected to declare that prejudicial interest personally or bring to the attention of the Somerset Council meeting their special involvement.**

**H CLARKE, Unitary Solicitor, April 2023**

**Draft minutes of a meeting of the Audit Committee held on 19<sup>th</sup> January 2023 at 10am in the Luttrell Room, County Hall, Taunton TA1 4DY**

**Committee members present:** Cllr Andy Sully (Chair), Cllr Simon Carswell, Cllr Dixie Darch, Cllr Mike Stanton, Cllr Mandy Chilcott, Cllr Mike Lewis, Cllr Habib Farbahi, Cllr Mike Hewitson, Cllr Steve Ashton, Cllr John Hunt.

**Officers present:**

Jason Vaughan	Head of Finance and S151 Officer Somerset County Council (SCC)
Barrie Morris	Managing Director Grant Thornton UK LLP,
Oscar Edwards	Assistant Manager Grant Thornton UK LLP
Pam Pursley	Risk Manager and Audit committee Manager SCC
Paul Griffin	Service Manager Chief Accountant SCC
Angela Farmer	LGR Risk Manager Sedgemoor District Council
Alastair Woodland	Assistant Director SWAP Internal Audit Services
Connor McLaughlin	Internal Auditor SWAP Internal Audit Services
Stephanie Gold	Senior Democratic Services Officer SCC
Lee Willment	Democratic Services Officer SCC

**Agenda item 1: Apologies for absence**

Apologies were received from Cllr Dean Ruddle (sub Cllr Mike Hewitson), Cllr Mike Caswell (sub Cllr Steve Ashton), Cllr Simon Coles (sub Cllr Dixie Darch) and Cllr Hugh Davies (sub Cllr John Hunt) Cllr Tim Kerley (sub Cllr Mike Stanton)

**Agenda item 2: Declarations of Interest**

No declarations of interest received by members.

**Agenda item 3: Minutes from the meeting held on 24<sup>th</sup> November 2022**

Members approved the minutes of the previous meeting held on 24<sup>th</sup> November 2022.

**Agenda item 4: Public Question Time**

There were no members of the public registered to speak.

**Agenda item 5: Annual Audit findings report 21/22 final sign off**

Barrie Morris Grant Thornton LLP presented members with the final 21/22 Annual Audit findings report for members approval at the meeting. He talked members through some of the changes since the report was presented at the meeting of the 24<sup>th</sup> November 2022, including some minor amendments to wording of the accounting policy. He highlighted some of the headlines from the report i.e., the processes around declarations of interest

made by members and senior officers, contract management and some changes to capital commitments. The following comments and questions were received and discussed -

- Page 26 - The valuation of infrastructure assets – What is the procurement process, and could one be assured that this process is conducted with due diligence?

Answer

The Managing Director Grant Thornton LLP advised that this is a national issue, and that he was comfortable that the Council is following the appropriate guidance on this.

- Page 22 - The findings on journals are concerning.

Answer

The S151 officer reassured members that, as discussed at the previous meeting, a new system would soon be in place which would help resolve many of the issues identified.

- Page 28 - Members and officers discussed the detail around the increased pension liability.
- There was a query around MRP and the use of 50-year terms.

Answer

The S151 officer advised that a new MRP Statement would be coming to committee on 2<sup>nd</sup> February which would bring together the MRP Policy of all five councils. The Managing Director Grant Thornton UK LLP added that MRP reflects the borrowing period to fund the purchase of land, so land that is funded over a borrowing period of 50 years has an MRP of 50 years.

- Cllr Liz Leyshon, Lead Member Finance thanked all those involved for the great work in getting this audit completed.
- Regarding the Certificate of Closure for the audit, when would this be this issued?

Answer

The Managing Director Grant Thornton UK LLP advised that at this stage they are issuing the opinion only, and that the certificate can't be issued until confirmation from the NAO. It was standard practice for certificates of closure to be issued around 18 months after the audit period ends.

All members approved the Annual Audit Findings report 21/22 and it was agreed that Cllr Andy Sully (acting as Chair in Cllr Dean Ruddles absence) would sign off the report on behalf of the committee.

## **Agenda item 6: Statement of Accounts 21/22 final sign off**

Paul Griffin, Chief Accountant Somerset County Council, presented members with the final 21/22 Statement of Accounts for members approval and sign off by the Chair. He explained that this report was very much aligned to the audit findings report so many of the changes had already been covered under that report and applied to this report too. He therefore asked members to consider both the Annual Audit findings report 21/22 and the Statement of Accounts 21/22 together. He advised that aside from some minor amendments to wording around how infrastructure was disclosed, and a revised letter of representation to allow for Cllr Andy Sully to sign the accounts in Cllr Dean Ruddles absence, there were very little change to this report since it was brought to this committee on 24<sup>th</sup> November 2022.

The following comments and questions were received and discussed -

- Page 168 - Adult Services – The figures from 20/21 and 2021/22 were very different, what was the reason for this?

### Answer

The Chief Accountant advised that he would look into this variance and provide the committee with a written response.

- A question regarding pensions liability and materiality level used was asked.

### Answer

The Managing Director Grant Thornton UK LLP explained that the materiality level they used was approx. 13 million, so this is quite low in comparison.

- Have the most recent inflationary factors had any impact on these figures? Had it been factored in there?

### Answer

The Chief Accountant advised that he would check that and provide the committee with a written response.

- Page 20 - 14.4 million was queried.

### Answer

The Managing Director Grant Thornton UK LLP explained the use of performance materiality.

All members agreed to approve the Somerset County Council Statement of Accounts 21/22 and it was agreed that Cllr Andy Sully (acting as Chair in Cllr Dean Ruddle's absence) would sign off on behalf of the committee.

## **Agenda item 7: SWAP Internal Audit Update**

Alistair Woodland SWAP Internal Audit Services presented the regular progress report from SWAP on the completion of the current Internal Audit Plan, he highlighted the high risks that had arisen from their work. He introduced Connor McLaughlin, Internal Auditor, to talk members through the published report which highlighted the key findings for members to consider. The following comments and questions were received and discussed –

- Page 331 - Regarding contract management and the risk of being unable to deliver key services, how was this being addressed?

### Answer

The Assistant Director SWAP advised that, as this had been given limited assurance it would be tracked on the internal audit dashboard. He reassured members that an appropriate action plan was in place, and this would be monitored very closely. The S151 officer advised that a Contract Management team existed within the authority, and that they would ensure that any training needs would be provided.

- Regarding auditing of contract managers, did SWAP contact all contract managers in the authority, or just a sample?

### Answer

The Internal Auditor advised that all contract managers on the contracts register have been contacted and that there has been a 26.7% response rate on that survey.

- One member felt that the 26.7% participation rate was unsatisfactory and felt that this was an organisational culture issue. How could this be improved going forward?
- Could this internal audit update be presented by directorate, and shared with lead members on a regular basis? The Chair requested that this be given some further consideration after the meeting.
- Page 341 - More detail on LEP grants was requested.

### Answer

The Assistant Director SWAP explained that part of their work was to ensure that LEP grants were administered diligently.

- Page 327 - Regarding overdue actions related to safeguarding complaints, how was this being addressed?

### Answer

- The Internal Auditor advised that the overdue actions for Safeguarding had been reported because they were still waiting for the data. He felt confident that the recommended actions were being implemented.
- Page 327 - What was being done at Berkley school?

Answer

The Assistant Director SWAP advised that a review on Berkely School would be complete in a couple of days.

- Limited assurance on contract managers was queried.

Answer

This was to do with management effectiveness, not just training.

- Cllr Liz Leyshon, Lead member Finance, advised the committee that Corporate Performance reporting would be a focus for the new Somerset Council.

Audit committee members noted the report.

### **Agenda item 8: Somerset Council Risk Management Policy & Strategy**

Pam Pursley, Corporate Risk Manager SCC presented the report and explained that it was a strategy for the new Somerset Council and had been developed with officers from all five councils as part of the LGR Risk workstream. Part of this work involved amalgamating the risk registers of all five councils and this new risk register would be coming back to this committee in March 2023. The Corporate Risk Manager explained that there were several dependencies as shown on page 344, including staff structures, which would be confirmed. A decision had been made to continue using JCad software for consistency, but this would be reviewed later.

She advised that herself and the LGR risk manager would begin looking at operational risks across all five councils next week and that there was also a need to work with the district councils on any major project risks. The Corporate Risk Manager confirmed that this strategy proposed continuation of the risk scoring matrix used by Somerset County Council for consistency. The Corporate Risk Manager advised that as part of this strategy there would be risk training for senior officers from all five councils held in February/March 2023, as well as training for this committee in May 2023. The Chair asked if this training invitation could be extended to all members and the Risk Manager confirmed that this could be done. The following questions and comments were received and discussed –

- One member asked about 'Gravity', a project in Bridgwater.

Answer

Cllr Liz Leyshon, Lead member Finance, informed the committee that due to commercial sensitivities of the project at this time it could not be discussed in public session. She offered to discuss this with the Councillor in confidence after the meeting.

- Page number 359 - one member asked if annual reporting to Executive Directors was enough?

Answer

The Corporate Risk Manager advised that currently reporting to the Senior Leadership Team was taken on a quarterly basis and that this would be likely to continue. She would reconsider the reporting mechanism for Executive Directors and bring this back to the committee.

- It was noted that there seemed to be a lack of information on members' operational risks, those risks that occurred as a result of the day-to-day work of a councillor. i.e., reputational risk, failure to deliver services.

Answer

Cllr Liz Leyshon, Lead member for Finance, advised that there was work ongoing regarding the casework management system that would help to manage this. The S151 officer added that this would come in the form of an intranet system for members. Members discussed the potential benefits of a members' intranet for reporting and managing casework and risk. One member felt that upskilling members on Teams software would be very beneficial to members and the Chair agreed that whilst Teams was a good tool for communication, what was needed was a system where members casework could be monitored and managed to properly regulate the risks associated with their work.

The Corporate Risk Manager thanked the committee for their comments and questions and advised that these would be considered carefully before the Risk Management Strategy was taken to the Executive for approval.

**Agenda item 9: Somerset County Council Strategic Risk Update**

Pam Pursley Corporate Risk Manager SCC presented members with the regular update report on the SCC Risk Register and the progress in mitigating the highest scoring risks. She advised the committee that there had not been a lot of change since the last report, and that this was, in part, due to resource capacity and some difficulties in obtaining all the data from all risk owners across the organisation.

Audit committee members noted the update report.

**Agenda item 10: Local Government Reorganisation Strategic Programme Risk update**



Angela Farmer, Local Government Reorganisation Risk Manager presented members with the regular update of the LGR programme risks and advised members that this update considered the findings of the SWAP internal audit update report as discussed at item 7 of this agenda. She advised that the LGR programme was moving into the day 1 business readiness phase and that work on a transitional risk register was underway. The following comments and questions were received and discussed -

- Page 391 - Risk ref 10 had a score of 20 but was then reduced to 8 at the end of March. Why was this, when clearly the budget risks did not cease to exist on the 31st of March 2023?

Answer

The LGR Risk Manager explained that this risk score was about the LGR programme specifically, rather than the council's financial position.

- It was queried whether this report was going to be moved to the next meeting of the LGR Scrutiny committee?

Answer

- The LGR Risk Manager confirmed that this update was due to go to LGR scrutiny later that day, and then on to the LGR Programme board the following week.
- Cllr Liz Leyshon, Lead member Finance advised that the work of the service alignment workstreams had been quite extraordinary, and that this team were working on bringing together the best service standards from across all five councils into the new Somerset Council.

### **Agenda item 11: Committee Future Work Programme**

Jason Vaughan, Head of Finance and S151 Officer gave members several verbal updates regarding the committee future work programme for the remainder of the financial year including,

- The Special meeting scheduled for the 2<sup>nd</sup> of February was for the Audit committee to consider the MTFP strategies before being approved at the budget setting meeting of Full Council on 22<sup>nd</sup> of February 2023.
- He asked members to consider cancelling the Audit meeting scheduled for the 16<sup>th</sup> of February 2023, deferring all of the items to the 23<sup>rd</sup> of March 2023. There were no objections from any members of the committee and the cancellation of the 16<sup>th</sup> of February meeting was agreed.
- Finally, he advised that he would be bringing a report regarding the appointment of a second independent member to the meeting on the 23<sup>rd</sup> of March 2023.

The following questions and comments were received and discussed -

- It was queried why the LGR risk item scheduled for the 23<sup>rd</sup> of March meeting was needed?

Answer

The LGR Risk Manager explained that this item would be a report to close the LGR risk workstream.

- Cllr Bill Revans, leader of the Council, reminded all members of the committee that Local Government Reorganisation was a process and not an event. There was a lot of work to be done after vesting day and therefore he felt that LGR risk should remain on the agenda.
- The Committee was asked to clarify what criteria was used in the appointment of an independent audit committee member?

Answer

The S151 Officer advised that this appointment was based on the candidate's ability to add skills and knowledge that may not already exist within the membership of the committee currently. He added that recruitment of independent members could be difficult, and for this reason The Council would be considering remuneration to attract good candidates.

- It was queried whether the Annual Report to Council item that was scheduled for the 16<sup>th</sup> of February meeting could be deferred to the 23<sup>rd</sup> of March meeting?

Answer

- This request was agreed by all members, with the support of the Audit committee Manager and the S151 Officer.
- Would there continue to be two risk items on the agenda post April 2023?

Answer

The Risk Manager LGR explained that from April 2023 Somerset Council Risk update would become one item on the agenda.

**Agenda item 12: Any other urgent items of business**

There were no urgent items of business raised by the Chair

Draft minutes of a Special Somerset County Council Medium Term Financial Planning Audit Committee meeting, held at 2pm on 2<sup>nd</sup> February 2023 in the Luttrell Room, County Hall, Taunton, TA1 4DY.

**Committee members present:** Cllr Andy Sully (Chair) Cllr Mandy Chilcott, Cllr Peter Clayton, Cllr Habib Farbahi, Cllr Tim Kerley, Cllr Mike Lewis, Cllr Simon Carswell, Cllr Mike Caswell, Cllr Hugh Davies, Cllr Martin Lovell (as sub), Cllr Mike Stanton (as sub) Jennifer Whitten Independent committee member(virtual).

**Officers present:**

Jason Vaughan	Head of Finance and S151 Officer, Somerset County Council (SCC)
Pam Pursley	Risk Manager and Audit Committee Manager, SCC
Alan Sandford	Principal Investments Manager, SCC
Jill Byron	Monitoring Officer, South Somerset District Council (SSDC)
Paul Fitzgerald	S151 Officer, Somerset West and Taunton District Council (SW&T)
Donna Parham	Head of Corporate Finance and Deputy 151 Officer, SCC
Jonathon Hallows	Democratic Services Officer, SCC
Stephanie Gold	Senior Democratic Services Officer, SCC

**Agenda item 1: Apologies for absence**

Apologies for absence were received from Cllr Dean Ruddle (who had asked the Vice Chair Cllr Andy Sully to Chair the meeting in his absence) Cllr Lee Baker (substituted by Cllr Mike Stanton), Cllr Simon Coles (substituted by Cllr Martin Lovell) and Cllr Norman Cavill.

**Agenda item 2: Declarations of Interest**

There were no declarations of interest received from members.

**Agenda item 3: Minutes from the meeting held on 19<sup>th</sup> January 2023**

Members were advised that approval of the minutes of the previous meeting held on 19<sup>th</sup> January 2023 have been deferred to the next meeting.

**Agenda item 4: Public Question Time**

There were members of the public registered to speak.

**Agenda item 5: Somerset Council Audit committee terms of reference (Pages 9 - 18)**

Jill Byron, Monitoring Officer for South Somerset District Council (SSDC) presented the New Somerset Council Audit Committee Terms of Reference (TOR) and advised that this TOR had been developed in line with the most recently published CIPFA guidance. The following questions and comments were received and discussed with members -

- A member felt disappointed that this committee had not had any earlier involvement in the development of this Terms of Reference (TOR).
- Will this TOR be reviewed in the first 12 months? The Monitoring Officer, SSDC confirmed that this would be the case, as per the recommendation.
- What has changed since the previous CIPFA guidance was written? In response the monitoring officer advised that the latest guidance is more strategic than previous versions, and that the guidance is less focussed on operational audit committee best practice.
- Will Bad Debt still fall under the remit of this committee? The S151 Officer SCC advised that Bad Debt usually goes through Scrutiny and The Executive as part of the Councils Budget Monitoring updates.
- Do we have a training policy in development currently? The Monitoring Officer SSDC advised that this would be done in the future as per the recommendation. The S151 Officer SCC added that there is a need to do a full skills analysis of all audit committee members, including independent members.
- Should lead members or associates' members sit on this committee or be substitutes? The Monitoring Officer SSDC advised that CIPFA guidance suggests that the audit committee should be standalone, non-political and not a part of or linked to the Executive function.
- What route does this Terms of Reference to be approved? The Monitoring Officer SSDC informed the committee that this TOR will go to the next meeting of the Constitution and Governance committee for approval, and then on to Full Council as part of the adoption of the New Somerset Council Constitution.
- Why is there a 3-year term for independent members? The Monitoring Officer SSDC suggested that this term helps with continuity of membership during changing periods of office.
- Regarding Audit Committee substitutes, should they receive the same level of training as Audit committee members?
- Regarding work programming, should this be committee led? The S151 Officer recommended that work planning needs to be done collaboratively between members and officers. Members discussed page 12 item 3 Responsibilities of the Chair, regarding seeking to get permission from the committee via the chair, and some felt that this section may not be clear. The Monitoring Officer SSDC advised that the wording of this section could be reviewed and amended in necessary.
- A non-committee member online felt that the committee should be aware that there can be grey areas between audit and scrutiny functions.
- Regarding the number of independent members numbers and potential for remuneration, the S151 Officer SCC advised that this is following the new CIPFA guidance. Members discussed the need for skills audits to help with recruitment of Independent members.
- Regarding recommendations on number of members (15) and quorum (4), can this be reviewed? There is a need for consistency and alignment with other committees and members felt that with a committee of 15 members the quorum number of members should be 5.

Members of the Audit Committee voted to approve the New Somerset Council Terms of Reference with one suggested amendment to increase the quorum to 5 (a third of the total number of members).

### **Agenda item 6: Treasury Management Strategy Statement 2023/2024 (Pages 19 - 110)**

Alan Sandford, Principal Investments Officer SCC presented the Treasury Management Strategy Statement 2023/2024 and the following comments and questions were received and discussed with members -

- The S151 Officer SCC advised that Appendix D Treasury Management Practices is out of date and will need to be rewritten. He suggested that this is rewritten immediately and will be brought back to this committee for approval at the March 2023 meeting.
- A member felt that it was difficult to read these papers in isolation, and that some parts overlap or contradict with other papers on this agenda.
- Regarding the graph re liability benchmarking, this is difficult to read due to there being no lower axis on the graph.
- A member felt now is not the time to increase yield, and that the base rate of 4% is still very low.
- Has this report been signed off by Head of Finance and Lead Member Finance?
- Regarding assurance on the level of debt from external auditors, the S151 Officer SCC assured members that the finance teams work closely with Grant Thornton UK LLP on this.
- Pg 109 regarding the Risk Management schedule, do these banks and buildings societies include the other District Councils or just Somerset County Council? The Principal Investments officer advised that this section needs to be updated as part of the update on the Treasury Management Practices for Somerset Council.
- One member felt concerned that approval of these papers is a matter of faith and trust, and that the committee does not understand the reports well enough to be able to give confident assurance.

There were no suggestions or amendments made by the Audit Committee regarding the Treasury Management Strategy Statement 2023/2023

### **Agenda item 7: Non-Treasury Management Investment Strategy 2023/2024 (Pages 111 - 168)**

Karen Watling, S151 Officer South Somerset District Council (SSDC) presented the Non-Treasury Management Investment Strategy 2023/2024 and the following comments and questions were received and discussed with members -

- Page 113 regarding flexibility of obtaining loaned finances, can we still use the Public Works Loan Board for regeneration projects?

- Is the number of investments in in table 3 consolidated? The S151 SW&T confirmed that this is the case.
- Page 132 regarding risk exposure, will this authority continue to use a 5/5 risk matrix. The S151 Officer SCC confirmed that it would.
- Regarding Opium Power Ltd and dividends, the interest rates seem to vary considerably? The S151 Officer SSCD provided clarification but explained that due to confidentiality this paper does not contain all of the detail.
- With regard to page 117, the S151 Officer SW&T advised that valuation of investment properties are valued every year.

The Audit Committee voted unanimously to recommend approval of the Non-Treasury Management Strategy 2023/2024 to the Somerset County Council Executive and Full Council.

### **Agenda item 8: Capital Strategy for 2023/24 to 2025/26 (Pages 169 - 186)**

Donna Parham, Head of Corporate Finance and Deputy S151 Officer presented the Capital Strategy for 2023/23 to 2025/26 and the following comments and questions were received and discussed with members -

- Table 9 authorised limits of 1.1 billion but table 8 shows borrowing is higher than authorised limits, is that correct?
- Regarding ratio of borrowing to revenue – do we have any data to show comparisons here?
- A member felt that the level of borrowing and how much this impacts on revenue is very concerning.

There were no suggestions or amendments made by the Audit Committee regarding the Capital Strategy 2023/2024 to 2025/2026.

### **Agenda item 9: Flexible Capital Receipts Strategy 2022/23 and 2023/24 (Pages 187 - 192)**

Donna Parham, Head of Corporate Finance and Deputy S151 Officer SCC explained that this report also includes a revised Flexible Capital Receipts Strategy for 2022/2023 which had to be amended due to Minimum Revenue Provision legislation being changed soon after 2022/2023 strategy was approved by Full Council last year.

The following questions and comments were received and discussed with members -

- In response to a question regarding capitalisation downsides. Cllr Liz Leyshon, Lead Member for Finance advised that this is different to Flexible Capital receipts.
- Are we still going to achieve the 18.5 mil projected savings from Local Government Reorganisation? The Deputy S151 Officer and Head of Corporate Finance advised that there had been 16.5 million savings so far, and that this is detailed in the report that had been presented to the Scrutiny committee the previous day.
- One member felt that capital projects such as Decarbonisation of buildings are a Somerset Council priority and that there is a difficult balance to achieve here.

There were no suggestions or amendments made by the Audit Committee on the Flexible Capital Receipts Strategies for 2022/2023 and 2023/2024.

**Agenda item 10: Minimum Revenue Provision Statement 2023/2024 (Pages 193 - 196)**

Donna Parham, Deputy S151 Officer and Head of Corporate Finance SCC presented the Minimum Revenue Provision Statement 2023/2024, and the following comments and questions were received and discussed with members -

- There was a concern that there are lots of financial papers due back to various committees. Is this being managed; it could get very tricky for officers to track what is being done.
- Regarding interest only payments, how does payment of Minimum Revenue Provision work? The Deputy S151 officer explained that Minimum Revenue Provision is based on asset life.

There were no suggestions or amendments made by the Audit Committee regarding the Minimum Revenue Provision Statement 2023/2024.

**Agenda item 11: Audit committee work programme (Pages 197 - 198)**

Jason Vaughan, the S151 Officer, SCC provided the following updates and invited comments and questions from members -

- He would check if the appointment of new members (including independent) would be coming to this committee.
- The Treasury Managements Practice for Somerset Council as mentioned above at Item 6 (Appendix D) would be added to the work programme for the next meeting.
- Regarding Risk Management of Property Investments across all 5 councils, a member asked if this be coming to this committee as part of the new Somerset Council Risk Management update item. The Risk Manager SCC advised that she would look into this and provide a response at next meeting of this committee.

**Agenda item 12: Any other urgent items of business**

There were no other urgent items of business raised by the Chair.

[Meeting closed 4.28pm]

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# Somerset Council

## Report of Internal Audit Activity 2022/23







### Progress Report – April 2023

Page 25

Agenda Item 5

# Internal Audit Update – April 2023 – ‘At a Glance’

Page 26

The Headlines	
	<p><b>No Assurance or Limited Assurance Opinion based reviews in the period to report</b></p> <ul style="list-style-type: none"> <li>One Limited opinion</li> </ul>
	<p><b>Progress against the 2022/23 plan (incl. LGR)</b></p> <ul style="list-style-type: none"> <li>44 planned reviews and support activities completed</li> <li>2 reviews at draft stage</li> <li>10 reviews in progress/on-going</li> <li>1 review waiting to go live</li> <li>26 additional grants certified and one advisory review completed</li> </ul>
	<p><b>Follow-ups in the period</b></p> <p>Three follow-ups have been finalised since the last report.</p>
	<p><b>Additions to the Plan</b></p> <p>One new review was added to the plan following officer request.</p>
	<p><b>Monitoring of agreed management actions</b></p> <p>We continue to monitor implementation of agreed management actions. There are 22 overdue actions, the same as in January 2023. All agreed and outstanding actions are being carried forward to a new Somerset Council dashboard.</p>
	<p><b>Range of innovations and enhancements made to our internal audit process throughout the year</b></p> <p>Data analytics continues to drive and support reviews. Comparative benchmarking exercises offer useful insight and suggested practices.</p>

Internal Audit Assurance Opinions 2022/23	
	YTD
Substantial	0
Reasonable	5
Limited	6
No Assurance	0
Advisory and Grants	25
Follow Up	8
<b>Total</b>	<b>44</b>

Internal Audit Agreed Actions 2022/23	
	YTD
Priority 1	7
Priority 2	33
Priority 3	51
<b>Total</b>	<b>85</b>

## 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:

**Alastair Woodland**

Assistant Director

[alastair.woodland@swapaudit.co.uk](mailto:alastair.woodland@swapaudit.co.uk)

**David Hill**

Chief Executive

[david.hill@swapaudit.co.uk](mailto:david.hill@swapaudit.co.uk)

### Summary

This is the April 2023 progress update for 2022/23. It reports against the Internal Audit Plan agreed by the Somerset County Council (SCC) Audit Committee in March 2022. The schedule provided at **Appendix D** details progress made to date and any new work agreed.

The assurance opinion ratings have been determined in accordance with the Internal Audit “Audit Framework Definitions” as detailed at **Appendix A** of this document. The Committee can take assurance that improvement actions have been agreed with management to address each finding reported.

To assist the Committee in its important monitoring and scrutiny role, a summary of the key audit findings that have resulted Limited assurance opinions can be found at **Appendix B**. There was one Limited opinion audit to report over the period which also had a High Corporate Risk. This audit was in relation to the Athena Contract. This contract concluded on 31 March 2023 and therefore the risk is no longer effective from 1 April 2023.

We perform follow-up reviews for all No and Limited assurance opinion audits. The results of follow-up reviews performed this year can be found in **Appendix C**. Follow-up reviews provide assurance that recommendations to mitigate identified risks have been implemented. Three follow-up audits have been finalised since our last report.

As well as assurance provided by follow-up audits, managers responsible for agreed actions relating to No or Limited assurance audits have provided us with progress updates. The final position for Somerset County Council is outlined on page 4.

**Appendix E** is a summary of work agreed and completed in addition to the core SCC Internal Audit Plan. This comprises grant certifications and advisory reviews for the Heart of the South West Local Enterprise Partnership (LEP).

# 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 against strategic risks

The table below maps planned audit work to SCC’s key strategic risks to provide assurance of coverage.

Strategic Risk	Coverage
Climate Change	<ul style="list-style-type: none"> <li>Climate Emergency: Governance Arrangements</li> </ul>
Organisational resilience	<ul style="list-style-type: none"> <li>Adults Workforce Planning</li> <li>LGR workstream support</li> </ul>
Adults Sufficiency and Capacity	<ul style="list-style-type: none"> <li>Athena Contract</li> <li>Eclipse Benefits Realisation</li> <li>Adults Workforce Planning</li> </ul>
Supplier Disruption	<ul style="list-style-type: none"> <li>Contract Management</li> <li>Supplier Resilience Follow Up</li> </ul>
Sustainable MTFP	<ul style="list-style-type: none"> <li>Establishment Control</li> <li>Good Financial Governance</li> <li>Baseline Fraud Assessment Follow Up</li> <li>Highways Application for Payment Follow Up</li> </ul>
Safeguarding Children	<ul style="list-style-type: none"> <li>Children Missing from Education</li> <li>Supporting Families Programme</li> </ul>
Local Government Reorganisation	<ul style="list-style-type: none"> <li>LGR workstream support (See Appendix D table 2)</li> <li>New Finance system support</li> </ul>
Market Management and development	<ul style="list-style-type: none"> <li>Contract Management</li> <li>LEP grants</li> </ul>

<span style="color: green;">■</span>	Good coverage in plan
<span style="color: blue;">■</span>	Adequate coverage in plan
<span style="color: red;">■</span>	No coverage in plan

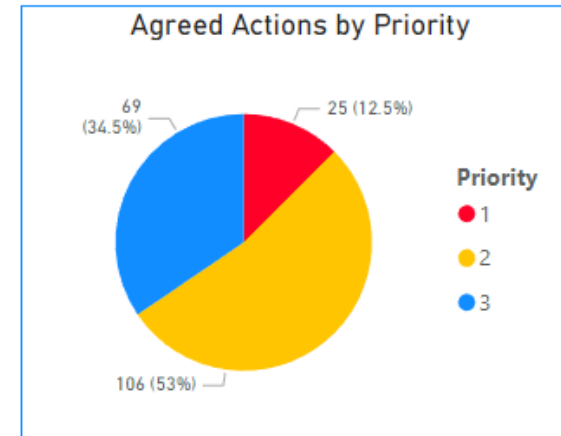
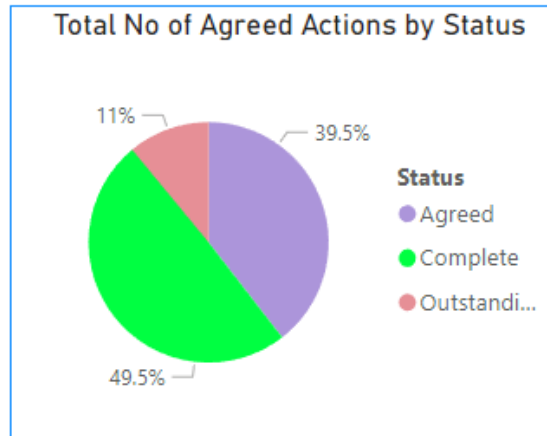
# Internal Audit Plan Update

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

## Implementation of Agreed Management Actions

As well as assurance provided by follow-up audits, managers responsible for agreed actions relating to limited assurance audits have provided progress updates to internal audit. The chart below shows the final position for Somerset County Council in March 2023.

### Agreed Actions made by Internal Audit



There are 22 overdue actions. This is the same as in January 2023. 15 of these actions are rated Priority 1 or 2. These actions relate to:

- CSC Training & Safeguarding
- Education Safeguarding – Complaints and Concerns
- Community Learning Partnerships

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# Internal Audit Plan Update

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

## Implementation of Agreed Management Actions Continued

- School Balances
- Transport Budget Governance

Planned follow-ups for CSC Training and Safeguarding, Safeguarding – Complaints and Concerns, Community Learning Partnerships and School Balances have been deferred to 2023/24 – please see **Appendix D** for further information.

Berkley School Follow Up – 12 out of the 14 recommendations raised in the original audit have been completed, with 2 currently in progress.

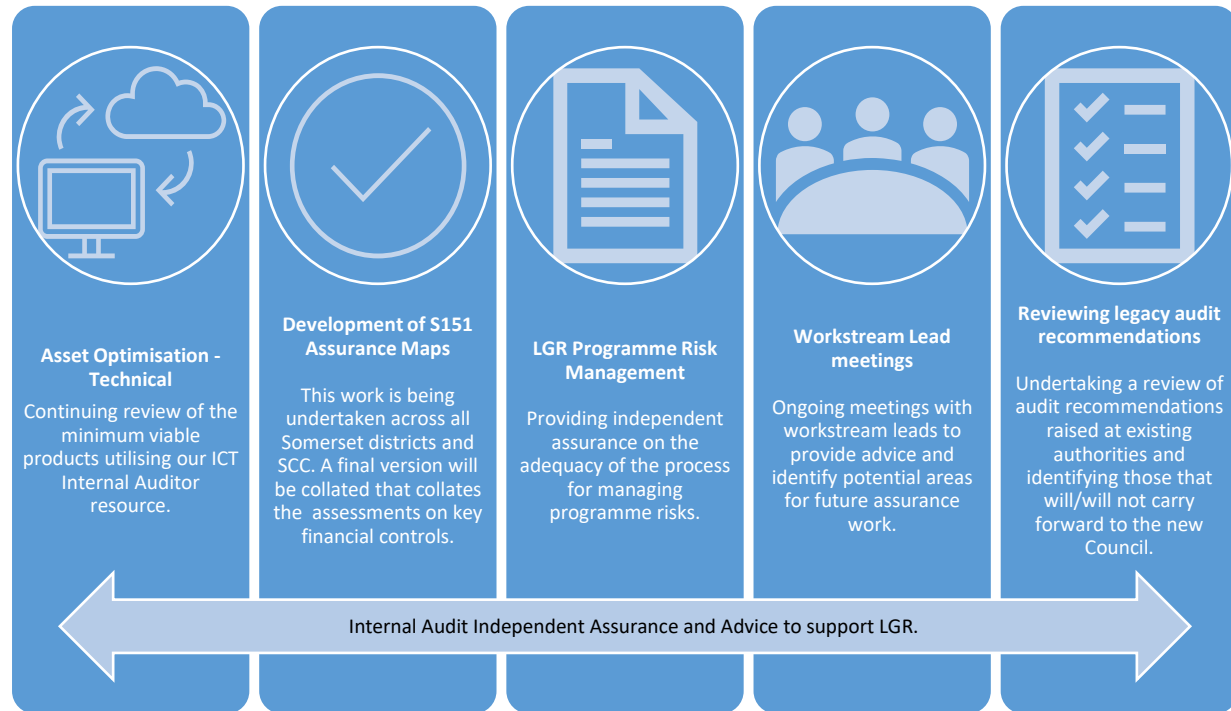
The 101 outstanding and agreed management actions are being reviewed together with any actions outstanding from the Somerset Districts to produce a new dashboard which will be shared separately with Members.

# Internal Audit Plan Update

Supporting the formation of the new unitary authority by providing advice and independent assurance on activities being undertaken via the workstreams.

## Support for LGR

As part of our planning for 2022/23 we included time to provide Unitary Programme Assurance Work as well as Unitary Workstream support. Most Programme Quality Assurance will be covered by the PWC Quality Reviews. We should be able to take assurance from their work to contribute to the Internal Audit Annual Opinion to avoid any duplication. We will provide a critical friend role to LGR work supporting delivery of outcomes. This is advisory/consultative work with rapid feedback via meetings/e-mail, or brief summary reports. Some of the areas we are focussing on are detailed in the chart below.



Assurance Definitions	
<b>No Assurance</b>	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.
<b>Limited</b>	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
<b>Reasonable</b>	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.
<b>Substantial</b>	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.

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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.



Athena Contract – Final Report – February 2023



**Audit Objective** To determine whether Athena has delivered the Council's responsibilities at the expected quality and cost through its contracted arrangements.

Assurance Opinion	Number of Actions	
	Priority	Number
<p>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.</p>	Priority 1	3
	Priority 2	5
	Priority 3	3
	Total	11

Risks Reviewed	Assessment
The council's responsibilities have not been delivered at the expected quality and cost by Athena through its contracted arrangements.	<b>High</b>

Key Findings	
	The SCC procurement process was not followed, resulting in a breach of SCC rules. Adults Services (AS) staff with responsibility for procurement and contract management of the Athena contract have not completed SCC's procurement training and did not involve commissioners in the procurement process.
	Oversight of this contract has been fragmented due to staff turnover and changes in responsibility. AS have not demonstrated that they have robust oversight of Athena's work, despite Athena having been responsible for delivering SCC's statutory obligations.
	AS cannot demonstrate that they have validated the invoices submitted by Athena. Because the contract has been extended multiple times, the council's expenditure (£1.11m) has exceeded the stipulated contract value (£600k).
	The Key Performance Indicators set for Athena are not consistent with those for in-house provision. This means AS cannot easily compare the quality of service provided by Athena to the service provided by their in-house staff. There is no central repository of key information relating to management of this contract, meaning key information is not available for analysis. Athena did not prepare an Exit Plan within the contracted timescale.

Audit Scope
<p>We evaluated the following areas:</p> <ul style="list-style-type: none"> <li>whether Athena has delivered services to the expected quality, including differences in practice to or learning for Somerset County Council (SCC)'s in-house delivery;</li> <li>whether the contract has been cost-effective / provided value for money;</li> <li>the methods used by SCC management to consider whether there is value in using similar outsourced services to provide a temporary winter workforce;</li> <li>SCC's exit strategy from the contracted service provision; and</li> <li>SCC's contract monitoring and management.</li> </ul>

**Additional Information**

It is important to acknowledge the extreme challenges imposed on Adult Services as the effects of Covid lockdown isolation combined with pressures from ~180,000 new Covid cases per day negatively impacted elderly and vulnerable adults. The council commissioned the Athena contract as a way of releasing acute hospital beds and unblocking intermediate care beds. We note that a similar contract was put out to tender and awarded to another third-party service provider at a similar time. This reflects ongoing local and national workforce pressures.

We would like to emphasise that, while our assessment of the risk associated with this audit is High, this is not a reflection of the work that Athena has performed, which we believe SCC deems to be of a satisfactory quality due to the continued use of them to provide this service. Our assessment reflects the way that the contract was awarded and ongoing lack of clarity regarding responsibility within SCC for managing of this contract. Adults Services has agreed to complete ten actions by 1<sup>st</sup> January 2024.

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Vendor Management – Final Report – January 2023



**SWAP**  
INTERNAL AUDIT SERVICES  
Helping Organisations to Succeed

**Follow Up Audit Objective**

To provide assurance that agreed actions to mitigate against risk exposure identified within the 2021/22 audit report have been implemented.

**Follow Up Progress Summary**

Priority	Complete	In Progress	Not Started	Summary
Priority 1	0	0	0	0
Priority 2	2	1	0	3
Priority 3	2	0	0	2
<b>Total</b>	<b>4</b>	<b>1</b>	<b>0</b>	<b>5</b>

**Follow Up Assessment**

We provided a Limited assurance opinion for the original Vendor Management audit we completed in June 2021. In that audit, we reviewed controls designed to prevent fraudulent, invalid, or incorrect information leading to financial loss and reputational damage. We identified several weaknesses. Management agreed to complete five actions to improve the control framework.

In this follow up audit, we found the Master Data team has completed most of the agreed actions. Key findings from the audit follow up is summarised below.

**Key Findings**



The Master Data (MD) team has not completed a full vendor data cleanse due to turnover and capacity issues. MD intend to complete a full cleanse as part of the transfer to Microsoft Dynamics, the financial management system that will be used by Somerset Council.



MD has embedded new guidance and improved existing practices. This includes additional daily checks to ensure staff have followed agreed verification procedures and enhancements to cross-reference checks.

**Further Information**

We have performed testing or reviewed evidence to support of progress assessment for all priority-2 actions. Updates for priority-3 actions are based on manager self-assessment. Please refer to Appendix A for details of all actions.

Because we have identified sufficient progress against most of the agreed actions, we will now cease monitoring these actions.

Baseline Assessment of Maturity in relation to Fraud – December 2022 - Follow Up



Baseline Assessment of Six Themed Areas



- Resource and Communication
- Fraud Risk Management
- Policy Related
- Committee Related
- Culture and Awareness
- Reporting, Investigating and Monitoring

Scope and Ambition

This baseline assessment is a corporate view of fraud maturity within the organisation. This exercise is a revisit of the assessment performed in 2021 and shows any progress with regards to counter fraud work and any increase in the level of maturity at the authority.

Management should ensure the key findings from this work are considered to reduce risk of fraud and to protect the public purse.

SWAP's Counter Fraud Team is committed to helping Partners and Clients to reduce the risk of fraud and to protect the public purse.

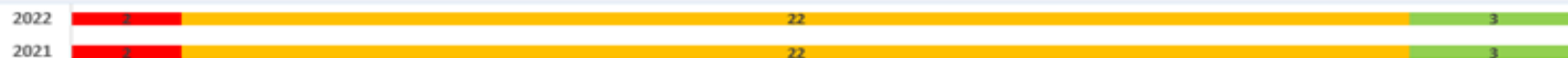
Key Findings

- There is still no process for vetting candidates in respect of fraud, by assessing specific posts for financial fraud risk and conducting specific checks on the candidate's history.
- The Council has not updated its risk management documents since the last audit. The LGR Risk & Opportunity workgroup is developing a risk management framework for the new Somerset Council.
- Improvements have been made with regard to updating certain policies, such as Whistleblowing which SWAP have been involved with, but there are still gaps that need addressing.
- There has been no recent training for Members, although SWAP is planning to deliver this in March 2023. There is also no current Portfolio Lead Member for fraud.
- The Anti-Fraud & Corruption Policy and Strategy now includes key areas noted as missing in the 2021 review.

Assessments per Area Reviewed



Comparison of Results Between Years



- Assessed not to be in place/ operating ineffectively – requires significant improvement.
- Assessed to be partially in place – requires improvement.
- Assessed as in place/ operating effectively.

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**Table 1: SCC Internal Audit Plan**

Audit Type	Audit Name	Status	Opinion	No of Rec	1 =	↔	3 =
					Major		Medium
					Recommendation		
	1	2	3				
<b>Complete</b>							
Assurance	School Condition Surveys	Complete	Limited	6	2	2	2
Follow Up	Mental Health – Care Plan Reviews and Financial Decision Making	Complete	N/A				
Follow Up	Supplier Resilience	Complete	N/A				
Assurance	LEP Financial Controls	Complete	Reasonable	3	0	0	3
Follow Up	Highways Maintenance – Application for Payment	Complete	N/A				
Grant Certification	BDUK Grant Certification	Complete	Certified				
Grant Certification	Universal Drug Treatment Grant	Complete	Certified				
Advisory	Audit Committee Training following Elections	Complete	N/A				
Advisory	Good Financial Governance Checklist	Complete	N/A				
Grant Certification	Supporting Families Claim: May 2022	Complete	Certified	0	0	0	0
Assurance	Children Missing from Education	Complete	Limited	6	1	5	0
Follow Up	School Exclusion Data	Complete	N/A				
Grant Certification	Supporting Families Claim: September 2022	Complete	Certified	1	0	0	1
Follow Up	Effectiveness of Schools Forum	Complete	N/A				
Grant Certification	Contain Outbreak Management Fund (COMF)	Complete	Certified				

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Audit Type	Audit Name	Status	Opinion	No of Rec	1 =	↔	3 =
					Major		Medium
					Recommendation		
1	2	3					
Assurance	Contract Management	Complete	Limited	4	0	3	1
Grant Certification	Supporting Families Claim: December 2022	Complete	Certified	0	0	0	0
Investigation	Whistleblowing Allegation	Complete	N/A				
Follow Up	Vendor Management	Complete	N/A				
Follow Up	Baseline Assessment of Maturity in Relation to Fraud	Complete	N/A				
Assurance	SFVS: Westonzoyland Community Primary School	Complete	Reasonable	12	0	1	11
Assurance	SFVS: Thurlbear Primary School	Complete	Reasonable	7	0	2	5
Advisory	BDUK Milestone Testing	Complete	N/A				
Assurance	Athena Contract	Complete	Limited	11	3	5	3
Assurance	Adults Workforce Planning	Complete	Reasonable	4	0	3	1
Assurance	Schools Financial Value Standard – Central Controls	Complete	Reasonable	3	0	1	2
Assurance	SFVS: St John’s CofE Infants’ School	Complete	Limited	11	0	3	8
Investigation	Early Years Entitlement Allegation	Complete	N/A				
Assurance	SFVS: Kingsbury Episcopi Primary School	Complete	Limited	17	0	6	11
Grant Certification	Supporting Families Claim: February 2023	Complete	Certified	0	0	0	0
Follow Up	Berkley School Financial Review	Complete	N/A				
Advisory	Whistleblowing	Complete	N/A				

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Audit Type	Audit Name	Status	Opinion	No of Rec	1 =	↔	3 =
					Major		Medium
					Recommendation		
Grant Certification	Local Authority Bus Subsidy (Revenue) Grant Determination 2021/22	Complete	<b>Certified</b>				
<b>Draft</b>							
Assurance	Climate Emergency: Governance Arrangements	Draft					
Advisory	Establishment Control	Draft					
<b>In progress/Ongoing</b>							
Grant Certification	Local Transport Capital Block Funding Grant (21/22 audit)	In progress					
Advisory	Cifas Support – Blue Badges	Ongoing					
Assurance	Public Health – Reaching Areas of Deprivation	In progress					
Advisory	New Finance System – Build Controls	Ongoing	Work to continue in 2023/24 plan.				
Follow Up	Commissioning and Delivery of New Schools	In progress					
Assurance	Schools Financial Value Standard (SFVS) Theme Report	In progress					
Assurance	SFVS: Ashlands CofE Primary School	In progress					
Assurance	Adults – Eclipse Benefits Realisation	In progress					
Investigation	<b>New:</b> Supplier Fraud Allegation	In progress					
Advisory	Audit Committee Development and Annual Report Support	In progress					

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Audit Type	Audit Name	Status	Opinion	No of Rec	1 =	↔	3 =
					Major		Medium
				Recommendation			1
<b>Waiting to Start</b>							
Advisory	Fraud related members and officers training	Waiting to Start					
<b>Deferrals and Removals</b>							
Follow Up	Career Development and Pathways	Removed	Actions to be addressed through the People workstream.				
Follow Up	Cash Handling	Removed	New finance system being implemented. Actions to be addressed via Finance workstream.				
Assurance	Charging for Services	Removed	Fees are being aligned for the new Somerset Council, so there is limited value in reviewing current arrangements.				
Follow Up	Compliance with Corporate Purchasing Policy	Removed	Follow-up conducted last year showed some progress made. Actions to be addressed via Finance workstream.				
Follow Up	Corporate Management of Health and Safety	Removed	Health and safety arrangements are being reviewed for LGR. Actions to be addressed via People workstream.				
Follow Up	Creditors	Removed	New finance system being implemented. Actions to be addressed via Finance workstream.				
Follow Up	Debt Management	Removed	New finance system being implemented. Actions to be addressed via Finance workstream.				
Assurance	Adults – Financial Assessments	Deferred	Deferred due to forthcoming reform. Deferral agreed with the Director – Adults Services.				
Follow Up	Adults – Imperium/Diverse Rec Contract	Removed	Removal agreed with the Director – Adults Services.				
Advisory	Fraud Recruitment and Selection	Deferred	Deferred to Q1 2023-24 and look to build in fraud checks as part of recruitment process.				
Assurance	Finance – Capital Key Controls	Deferred	New finance system being implemented. External audit will cover during preparation of the accounts.				

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Audit Type	Audit Name	Status	Opinion	No of Rec	1 =	↔	3 =
					Major		Medium
				Recommendation			1
Follow Up	Children’s – School Balances	Deferred	Advised by Finance that actions are not yet implemented due to staff turnover.				
Follow Up	Children’s – Community Learning Partnerships	Deferred	Advised by Finance that actions are not yet implemented due to staff turnover.				
Grant Certification	Bus Recovery Grant	Deferred	The Government has extended this grant to April 2023, so it cannot be audited before 2023/24.				
Grant Certification	Emergency Active Travel Grant	Deferred	This grant cannot be audited before it is expended. Finance projections indicate the grant will be spent by the end of 2022/23.				
Grant Certification	Standard Highways Grant (DFT Funding)	Removed	Added to the plan in error; this is the same as the Local Transport Capital Block grant already included.				
Assurance	CDM Regulations (Construction Design Management) Maintenance and Infrastructure Highways	Deferred	Deferred to make way for LGR Programme Risk Management audit.				
Assurance	Property – Compliance with Regulations	Deferred	Deferred to make way for LGR Programme Risk Management audit.				
Assurance	Children’s – Recruitment of School Head Teachers and Staff	Deferred	Deferred due to LGR support requests.				
Follow Up	Children’s SEND – Costed Packages	Deferred	Deferred due to Education & Inclusion restructure.				
Follow Up	Education Safeguarding Complaints & Concerns	Deferred	Deferred due to Education & Inclusion restructure.				
Grant Certification	Test and Trace Support Grant	Removed	This grant was administered by the district councils, so there is no apparent requirement to audit.				
Assurance	Heathfield School Financial Controls	Removed	Financial control assessment recently completed by Education Financial Services.				
Follow Up	Adults – Quality Assurance Framework	Deferred	Rescheduled because the service expects to complete all actions by July 2023.				
Follow Up	Children’s – Training & Safeguarding	Deferred	Deferred to 2023-24.				



Audit Type	Audit Name	Status	Opinion	No of Rec	1 =	↔	3 =
					Major		Medium
					Recommendation		
	1	2	3				
Advisory	Commercial Investments	Deferred	Deferred to 2023-24.				
Assurance	Flood and Water Management	Deferred	Deferred to 2023-24.				
Grant Certification	Local Transport Capital Block Funding including the Pothole Action Fund	Deferred	Deferred to 2023-24.				
Advisory	New Finance System – Data Validation	Deferred	Deferred to 2023-24.				

**Table 2: LGR Support & Assurance Work**

Audit Type	Audit Area	Status	Opinion	No of Rec	1 – Major 3 – Minor			Comments
					1	2	3	
<b>Complete</b>								
Advisory	PCIDSS	Complete	Advisory	-	-	-	-	
Advisory	Data Centre	Complete	Advisory	-	-	-	-	
Advisory	IT Minimum Viable Products	Complete	Advisory	-	-	-	-	
Advisory	M365 and Active Directory	Complete	Advisory	-	-	-	-	
Advisory	Cyber Security Strategy Framework	Complete	Advisory	-	-	-	-	
Advisory	Cyber Security Training and Awareness	Complete	Advisory	-	-	-	-	
Advisory	Disaster Recovery and Incident Response	Complete	Advisory	-	-	-	-	
Advisory	S151 Assurance Map	Complete	Advisory	-	-	-	-	
Advisory	LGR Programme Risk Management	Complete	Advisory	-	-	-	-	
Advisory	Local Community Networks (Support)	Complete	Advisory	-	-	-	-	
Advisory	Business Continuity	Complete	Advisory	-	-	-	-	
<b>In progress/Ongoing</b>								
Advisory	Risk Management Workstream Support	Ongoing						
Advisory	Asset Optimisation: Technical Workstream Support	Ongoing						

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Audit Type	Audit Area	Status	Opinion	No of Rec	1 – Major 3 – Minor			Comments
					1	2	3	
Advisory	Legacy Audit Recommendations & AGS Actions	In progress						
Assurance	Payroll – Data matching/validation	In progress						
<b>Deferred</b>								
Advisory	Tech Forge Data Validation	Deferred						Deferred following discussion with workstream officers.

The follow table provides members of the Audit Committee with an overview of the additional work SWAP has undertaken on behalf of SCC during 2022-23 in addition to the core partner plan. The list below provides a summary of the LEP grants signed off during 2022-23 as Somerset County Council is the administering body.

Audit Type	Audit Name	Status	Opinion	No of Rec	1 =	↔	3 =
					Major		Medium
					Recommendation		
<b>Complete</b>							
Grant Certification	ERDF – Co Adapt on-the-spot	Complete	<b>Certified</b>				
Grant Certification	Getting Building Fund – M5 J23 Dunball 21/22	Complete	<b>Certified</b>				
Grant Certification	Getting Building Fund – Trenchard Way 20/21	Complete	<b>Certified</b>				
Grant Certification	Getting Building Fund – Trenchard Way 21/22	Complete	<b>Certified</b>				
Grant Certification	Growth Deal – Bruton 20/21	Complete	<b>Certified</b>				
Grant Certification	Growth Deal – Bruton 21/22	Complete	<b>Certified</b>				
Grant Certification	Growth Deal – iAero fit out 20/21	Complete	<b>Certified</b>				
Grant Certification	Growth Deal – iAero fit out 21/22	Complete	<b>Certified</b>				
Grant Certification	Growth Deal – M5 J25	Complete	<b>Certified</b>				
Grant Certification	Growth Deal – Somerset Rivers Authority	Complete	<b>Certified</b>				
Grant Certification	Growth Deal – Taunton Digital Innovation Centre	Complete	<b>Certified</b>				
Grant Certification	Growth Deal – Toneway (18/19)	Complete	<b>Certified</b>				
Grant Certification	Growth Deal – Toneway (21/22)	Complete	<b>Certified</b>				
Grant Certification	Growth Deal – Wells	Complete	<b>Certified</b>				

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Audit Type	Audit Name	Status	Opinion	No of Rec	1 =	↔	3 =
					Major		Medium
					Recommendation		
	1	2	3				
Grant Certification	Growth Deal – Wiveliscombe	Complete	<b>Certified</b>				
Grant Certification	Growth Deal – YWC	Complete	<b>Certified</b>				
Grant Certification	Growth Hub – Core Grant	Complete	<b>Certified</b>				
Grant Certification	Growth Hub – Peer Networks	Complete	<b>Certified</b>				
Grant Certification	LEP Growth Deal – Broadband	Complete	<b>Certified</b>				
Grant Certification	LEP Growth Deal – Mobile Boost 20/21 and 21/22	Complete	<b>Certified</b>				
Grant Certification	Wiveliscombe Enterprise Centre Office Rental Accounts	Complete	<b>Certified</b>				
Grant Certification	Bruton Enterprise Centre Office Rental Accounts	Complete	<b>Certified</b>				
Grant Certification	Wells Technology Enterprise Centre Office Rental Accounts	Complete	<b>Certified</b>				
Grant Certification	ERDF – Triple C Final Claim	Complete	<b>Certified</b>				
Grant Certification	ERDF – Co Adapt December 2022 Claim	Complete	<b>Certified</b>				
Grant Certification	Growth Hub – Core Grant (2022/23)	Complete	<b>Certified</b>				
Advisory	Heart of the South West LEP – Growing Places Fund	Complete	N/A				

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# Somerset Council

## Proposed 2023-24 Internal Audit Plan and Internal Audit Charter

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Agenda Item 6

# The Internal Audit Plan: Summary

The internal audit plan provides a summary of the audit approach that the internal audit team will follow to deliver the 2023/24 internal audit plan. This includes a detailed plan for the first six months of the year.

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

## Introduction and Objective of the Internal Audit Plan

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

SWAP, in conjunction with senior management, agree a proposed audit approach to deliver an internal audit plan. The objective of our planning process and subsequent programme of work agreed is to put us in a position to provide a well-informed and comprehensive annual audit opinion, based on sufficient and appropriate coverage of key business objectives, associated risks, and risk management processes.

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

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

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



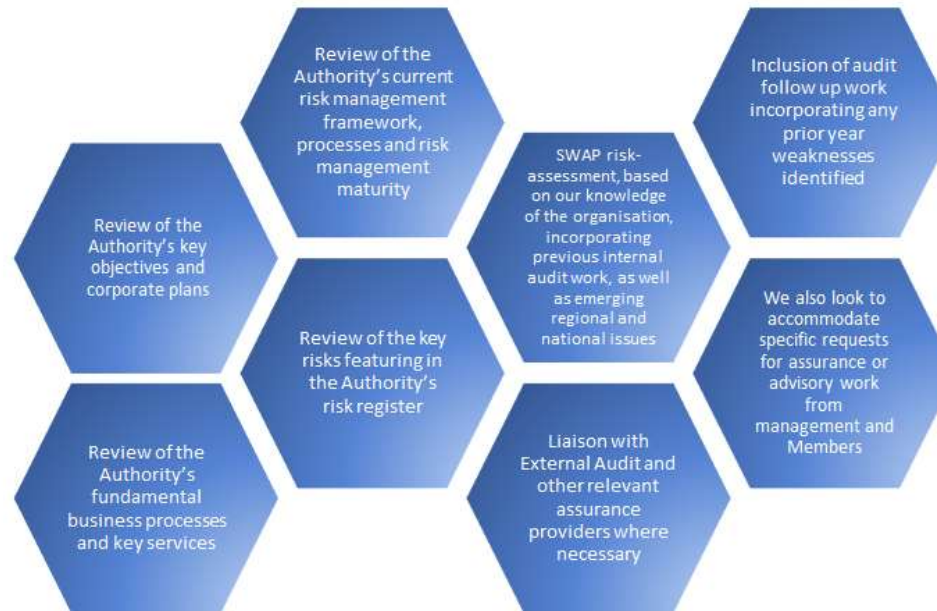


# The Internal Audit Plan: Approach

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

## Approach to Internal Audit Planning 2023/24

The factors considered in putting together the 2023/24 internal audit plan have been set out below:



The above factors are used to identify the areas of highest risk across the Council, in line with our risk-based approach.

Our approach to delivering your internal audit plan will remain flexible to respond to new and emerging risks. We will adopt an 'agile rolling plan' approach and whilst this will be a 'live' continuous approach, confirmed work will only cover every 6 months with a rolling 'back-log' for future consideration. Priorities will be assessed in conjunction with Senior Management. Members of the Audit Committee are welcome to share thoughts of priorities areas for Assurance work.

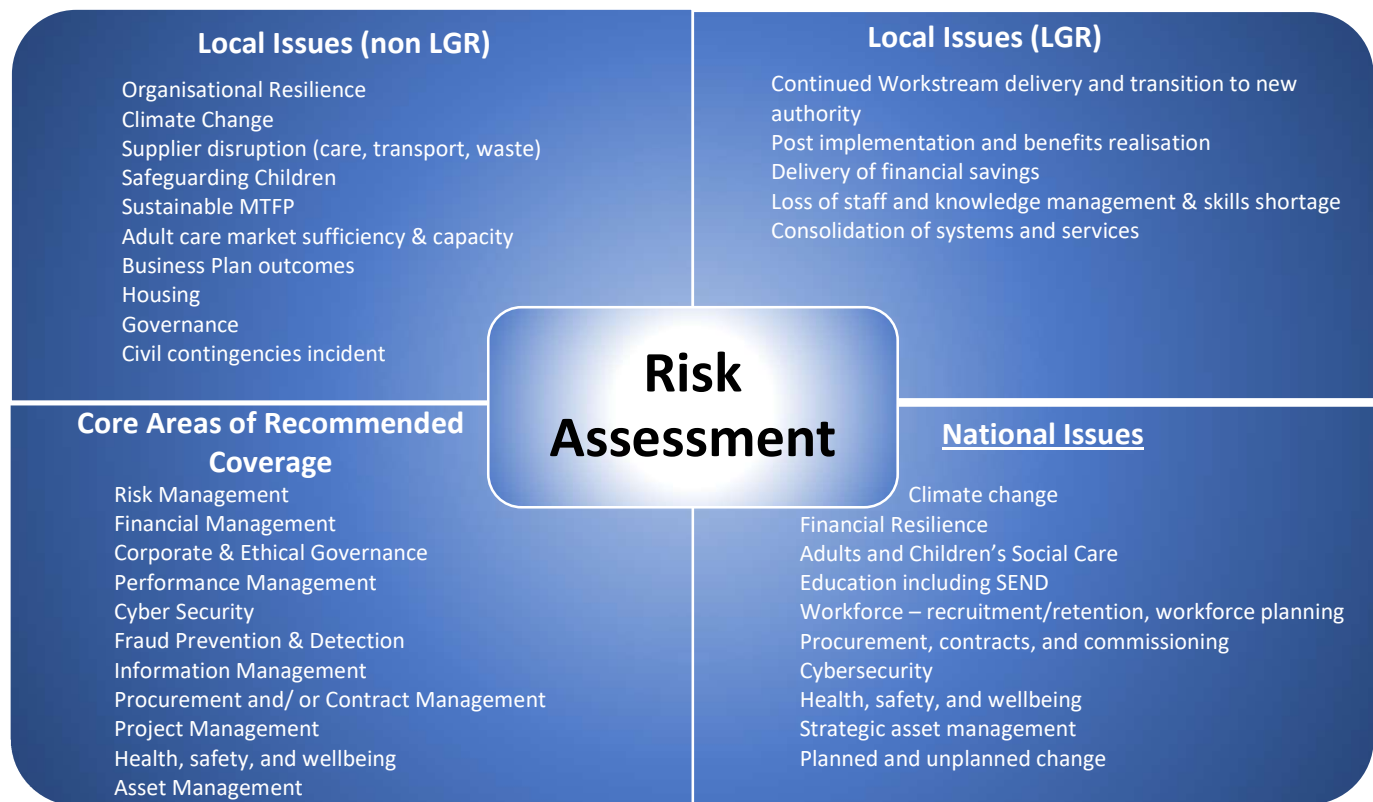
# The Internal Audit Plan: Risk Assessment

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

## Internal Audit Annual Risk Assessment

Our 2023/24 internal audit programme of work is based on a documented risk assessment. SWAP will re-visit this assessment regularly.

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



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# The Internal Audit Plan: Risk Assessment

Following our SWAP Risk Assessment above, we have set out how the proposed 2023/24 quarter 1 & 2 plan presented in Appendix A provides coverage of the Authority's key corporate objectives and risks, as well as our core areas of recommended audit coverage.

Internal audit is only one source of assurance and should be considered in this context.

## Internal Audit Coverage in 2023/24

Our aim is to produce an agile, risk-assessed work plan, containing key areas of coverage. For 2023/24 it therefore follows that service transition and new organisational governance will need to be a key driver of audit work.

Given the rapid pace of change post vesting day we recognise that the Internal Audit plan needs to remain flexible. This means that instead of agreeing an annual plan we are going to move to a flexible one, with continued risk assessment through engagement with senior management and risk officers.

The six-monthly planning approach means that the 2023/24 audit plan is flexible to respond to new and emerging risks as and when they are identified. We have set out the proposed quarter 1 and 2 plan in **Appendix A**. Please refer to the **SC Rolling Placeholder Planning Overview Document** for potential audits for Q3 & Q4 which will be shared with Members separately.

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

# The Internal Audit Plan: SWAP

SWAP Internal Audit Services is a public sector, not-for-profit partnership, owned by the public sector partners that it serves. The SWAP Partnership now includes 25 public sector partners, providing services throughout the UK.

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

- Candid
- Relevant
- Inclusive
- Innovative
- Dedicated

## Your Internal Audit Service

### Conformance with Public Sector Internal Audit Standards

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

Every five years, SWAP is subject to an External Quality Assessment of Internal Audit Activity. The last of these was carried out in February 2020 which confirmed conformance with the Public Sector Internal Audit Standards. An annual self-assessment process confirms ongoing compliance.

### Conflicts of Interest

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

### Consultancy Engagements

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

### Approach to Fraud

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

### Internal Audit Charter

The nature, role, responsibility, status and authority of internal auditing within Somerset Council and an outline of the scope of internal audit work is provided in the Charter at [Appendix C](#).



# The Internal Audit Plan: Approach

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

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

## Reporting

### Our Reporting

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

### Internal Audit Performance:

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

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

These are currently under review and may be updated during the course of the year.



The audit titles included below are only indicative at this stage for planning our resources. At the start of each audit, we will hold an initial discussion to agree the specific terms of reference for the audit, which includes the objective and scope for the review. The scheduling of reviews is dependent on officer availability, resourcing, and priorities.

Service	Audit Title	Planned Quarter	Healthy Organisation Theme	Link to Corporate Plan
<b>Adult Services</b>	Direct Payments	Q1	Financial Management	A Healthy and Caring Somerset
	Mental Health Follow Up	Q1	Corporate Governance	A Healthy and Caring Somerset
	Disabled Facilities Grant	Q2	Financial Management	A Fairer, Ambitious Somerset
<b>Children's Services</b>	Independent Placements	Q1	Contract Management, Commissioning and Third-Party Resilience	A Fairer, Ambitious Somerset
	Supporting Families Claims	Q1-4	Financial Management	A Healthy and Caring Somerset
	Education Safeguarding Complaints and Concerns Follow Up	Q1	Corporate Governance	A Fairer, Ambitious Somerset
	Value for Money: Pupil Referral Units and Behaviour Partnerships	Q2	Corporate Governance	A Fairer, Ambitious Somerset
<b>Climate and Place</b>	BDUK Grant	Q1	Financial Management	A Flourishing and Resilient Somerset
	Mobile Boost Grant	Q1	Financial Management	A Flourishing and Resilient Somerset
	Flood and Water Management	Q1	Corporate Governance	A Greener, More Sustainable Somerset
	Emergency Active Travel Fund Grant	Q1	Financial Management	A Healthy and Caring Somerset
<b>Communities</b>	SDC Home Upgrade Grant	Q1	Corporate Governance	A Greener, More Sustainable Somerset
	Octagon Theatre Project Support	Q1-4	Financial Management	A Flourishing and Resilient Somerset
	Brewhouse Theatre Support	Q1-4	Financial Management	A Flourishing and Resilient Somerset
	Housing Merger Project Support	Q1-4	Corporate Governance	A Fairer, Ambitious Somerset
	Housing Tenancy Fraud	Q1	Corporate Governance	A Flourishing and Resilient Somerset
	Housing Landlord Safety: Electrical Compliance	Q1	Asset Management	A Fairer, Ambitious Somerset
	Environmental Health Project Support	Q1-4	Corporate Governance	A Greener, More Sustainable Somerset
	Registrars	Q1	Information Management	A Healthy and Caring Somerset
	LGR Benefits Realisation	Q1-2	Programme and Project Management	A Flourishing and Resilient Somerset

Service	Audit Title	Planned Quarter	Healthy Organisation Theme	Link to Corporate Plan
Public Health	Covid Outbreak Management Fund (COMF) Grant	Q1	Financial Management	A Healthy and Caring Somerset
Resources & Corporate Services	Creditors	Q1-4	Financial Management	A Flourishing and Resilient Somerset
	Debtors	Q1-4	Financial Management	A Flourishing and Resilient Somerset
	Procurement Cards	Q1-4	Financial Management	A Flourishing and Resilient Somerset
	Fraud Referrals, including Revenues & Benefits	Q1-4	Corporate Governance	A Flourishing and Resilient Somerset
	IT Asset Infrastructure	Q1	Asset Management	A Flourishing and Resilient Somerset
	Asset Management	Q1	Asset Management	A Flourishing and Resilient Somerset
	Commercial Investments	Q1-2	Financial Management	A Flourishing and Resilient Somerset
	Financial Control and Reporting	Q2-4	Financial Management	A Flourishing and Resilient Somerset
	Microsoft Dynamics Post Implementation Review	Q2-4	Information Management	A Flourishing and Resilient Somerset
	Baseline Assessment of Fraud Maturity	Q2-3	Corporate Governance	A Flourishing and Resilient Somerset
	Fraud Risk Assessment	Q2	Corporate Governance	A Flourishing and Resilient Somerset
Strategy, Performance & Localities	Disaster Recovery	Q2	Information Management	A Flourishing and Resilient Somerset
	Health and Safety Framework	Q1	Corporate Governance	A Healthy and Caring Somerset
	Taunton Town Council: Post Transfer Asset Review	Q1-2	Asset Management	A Flourishing and Resilient Somerset

In addition to the programme of audits and planned support, we will also use our time to provide the support listed below during 2023/24:

Advice & Support	<ul style="list-style-type: none"> <li>• Committee attendance and reporting</li> <li>• Head of Internal Audit role</li> <li>• Internal audit planning</li> <li>• Recommendation tracking and dashboard</li> <li>• Business partner support</li> <li>• Risk management liaison</li> </ul>
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These reviews form part of our rolling plan for 2023/24. The plan will continue to be added to as the year progresses to reflect current organisational risks. Ahead of each quarter a risk assessment will be undertaken to determine the priority areas to include in the plan. The scheduling of reviews is dependent on officer availability, resourcing, and priorities.

Service	Audit Title	Healthy Organisation Theme	Corporate Plan Priority
<b>Adult Services</b>	Market Shaping	Contract Management, Commissioning and Third-Party Resilience	A Healthy and Caring Somerset
	Liberty Protection Safeguards	Corporate Governance	A Healthy and Caring Somerset
	Quality Assurance Follow Up	Corporate Governance	A Healthy and Caring Somerset
	Athena Follow Up	Contract Management, Commissioning and Third-Party Resilience	A Flourishing and Resilient Somerset
<b>Children's Services</b>	Value for Money: Pupil Premium Grant for Children Looked After	Corporate Governance	A Fairer, Ambitious Somerset
	Section 157/175 Safeguarding	Corporate Governance	A Fairer, Ambitious Somerset
	CSC Training & Safeguarding Follow Up	Workforce	A Healthy and Caring Somerset
	School Balances Follow Up	Financial Management	A Fairer, Ambitious Somerset
	Community Learning Partnerships Follow Up	Financial Management	A Fairer, Ambitious Somerset
	SEND Costed Packages Follow Up	Financial Management	A Fairer, Ambitious Somerset
	School Exclusion Data Follow Up	Corporate Governance	A Fairer, Ambitious Somerset
	School Condition Surveys Follow Up	Asset Management	A Fairer, Ambitious Somerset
	Children Missing Education Follow Up	Corporate Governance	A Fairer, Ambitious Somerset
SFVS School Follow Ups	Financial Management	A Fairer, Ambitious Somerset	
<b>Climate and Place</b>	Business Continuity	Corporate Governance	A Healthy and Caring Somerset
	Emergency Planning	Corporate Governance	A Healthy and Caring Somerset
	Climate Change Strategy Follow Up	Corporate Governance	A Greener, More Sustainable Somerset
	Transport Budget Governance Follow Up	Corporate Governance	A Fairer, Ambitious Somerset

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Service	Audit Title	Healthy Organisation Theme	Corporate Plan Priority
<b>Communities</b>	Street Cleansing	Asset Management	A Greener, More Sustainable Somerset
	Housing Landlord Safety: Fire Compliance	Asset Management	A Fairer, Ambitious Somerset
	Housing Compliance - Damp and Mould	Asset Management	A Fairer, Ambitious Somerset
	Housing Compliance – Social Housing Charter	Asset Management	A Fairer, Ambitious Somerset
<b>Resources &amp; Corporate Services</b>	Bank Reconciliations	Financial Management	A Flourishing and Resilient Somerset
	Main Accounting	Financial Management	A Flourishing and Resilient Somerset
	Council Tax	Financial Management	A Flourishing and Resilient Somerset
	Business Rates	Financial Management	A Flourishing and Resilient Somerset
	Housing Benefits	Financial Management	A Flourishing and Resilient Somerset
	Contract Management	Contract Management, Commissioning and Third-Party Resilience	A Flourishing and Resilient Somerset
	Supplier Resilience	Contract Management, Commissioning and Third-Party Resilience	A Flourishing and Resilient Somerset
<b>Strategy, Performance &amp; Localities</b>	IT Asset Management	Asset Management	A Flourishing and Resilient Somerset
	Health and Safety Compliance	Corporate Governance	A Healthy and Caring Somerset
	Local Community Networks	Corporate Governance	A Healthy and Caring Somerset
	Strategic Commissioning Follow Up	Contract Management, Commissioning and Third-Party Resilience	A Flourishing and Resilient Somerset
	Culture and Behaviours	Corporate Governance	A Fairer, Ambitious Somerset
Ethical Governance	Corporate Governance	A Fairer, Ambitious Somerset	

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## **Purpose**

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

## **Approval**

This Charter is based on the previously approved Charter that was last reviewed by the Somerset County Council's Audit Committee in March 2022.

## **Provision of Internal Audit Services**

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

The budget for the provision of the internal audit service is determined by the Council, in conjunction with the Members Meeting. The general financial provisions are laid down in the legal agreement, including the level of financial contribution by the Council, and may only be amended by unanimous agreement of the Members Meeting. The budget is based on an audit needs assessment which is reviewed each year by the S151 Officer in consultation with the Chief Executive of SWAP.

## **Role of Internal Audit**

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

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

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

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

Management is responsible for ensuring SWAP has:

- the support of management and the Council;
- direct access and freedom to report to senior management, including the Council's Chief Executive and the Audit Committee; and
- Notification of suspected or detected fraud, corruption, or impropriety.

Management is responsible for establishing (including the tracking and implementation of Internal Audit recommendations) and maintaining internal controls, including proper accounting records and other management information and is also responsible for the appropriate and effective management of risk.

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

The Audit Committee is responsible for approving the scope of internal audit work, receiving communications from the SWAP Assistant Director (as Head of Internal Audit<sup>3</sup>) on the progress of work undertaken, reviewing the independence, objectivity, performance, professionalism and effectiveness of the Internal Audit function,

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

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

<sup>3</sup> PSIAS refers to the 'chief audit executive'.

and obtaining reassurance from the SWAP Assistant Director as to whether there are any limitations on scope or resources.

### **Internal Audit**

The SWAP Assistant Director is responsible for determining the scope, except where specified by statute, of internal audit work and for recommending the action to be taken on the outcome of, or findings from, their work designed to provide assurance and add value.

Internal audit is responsible for operating under the policies established by management in line with best practice. A range of SWAP policies exist to underpin staff and service development, including to seek out and implement new innovative audit techniques and increase technological solutions to ensure provision of an efficient and effective service and consolidate the role of Trusted Advisor.

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

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

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

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

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

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

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

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

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

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

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

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

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

Management understand that the work being undertaken is not internal audit work although the outcomes may contribute to the annual opinion.

### **Planning and Reporting**

SWAP will submit an internal audit plan to Management and the Audit Committee for approval, setting out the recommended scope of work and which will be developed with reference to current and emerging risks. The plan will be reviewed on a regular basis to ensure it remains relevant and adequately resourced.

SWAP will carry out the work as agreed, report the outcomes and findings both during and on completion of reviews, and make recommendations on action to be taken to the appropriate officers and copied to the S151 Officer. SWAP will present a regular summary of their work to Management and the Audit Committee, including assessing the organisation's implementation of previous recommendations along with any significant, persistent and outstanding issues.

Internal audit reporting will normally comprise a brief presentation to relevant officers and accompanied by an appropriately detailed written report, with the format tailored as necessary to the nature of the work. The detailed report will also be copied to the Section 151 Officer and to other relevant line management.

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

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

**Revised April 2023**

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# Somerset County Council Audit Progress Report and Sector Update

March 2023

April 2023

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

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# Introduction

## Your key Grant Thornton team members are:

### Barrie Morris

Director  
T 0117 305 7708  
E barrie.morris@uk.gt.com

### Grace Hawkins

Senior Manager  
T 029 2034 7542  
E grace.e.hawkins@uk.gt.com

### Macaulay Gulliford

Audit Supervisor  
T 029 2034 7563  
E macaulay.gulliford@uk.gt.com

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

The paper also includes:

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

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 <https://www.grantthornton.co.uk/en/services/public-sector-services/>

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.

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# Progress at April 2023

## Financial Statements Audit

We have completed our work on your financial statements for 2021-22 in January 2023.

We are due to undertake our initial planning for the 2022/23 audit in mid-April 2023.

Our interim fieldwork includes:

- Updated review of the Authority's control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Understanding how the Authority makes material estimates for the financial statements
- Early work on emerging accounting issues

The results of our work to date are included in this report.

In June we plan to issue a detailed audit plan, setting out our proposed approach to the audit of the Authority's 2022/23 financial statements.

We will report our work in the Audit Findings Report and aim to give our opinion on the Statement of Accounts by January 2024.

The deadline for publishing audited local authority accounts is 30 September for 2022/23 onwards.

## Value for Money

Under the 2020 Code of Audit Practice, for local government bodies auditors 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.

NOA have issued Auditor Guidance Note 3 (AGN 03) in relation to Auditors' Work on Value for Money (VFM) Arrangements for 22-23 audits.

The ongoing delays in local audit continue to significantly impact audited bodies and the financial reporting and auditing process, and may therefore affect the timing of when the work on VFM arrangements set out in AGN03 is performed and reported.

The guidance states that the auditor should perform the procedures required as part of their work on VFM arrangements under AGN3 and issue their Auditor's Annual Report when their work is complete.

The Auditor's Annual Report should be issued no more than three months after the date of the opinion on the financial statements for all local government bodies.

We anticipate issuing our Auditor's Annual Report by January 2024.

---

# Progress at April 2023 (cont.)

## Other areas

### Certification of claims and returns

We certify the Authority's annual Teachers' Pensions return in accordance with procedures agreed with Teachers' Pensions. The certification work for the 2021/22 was completed by the deadline of 30 November 2022.

### Meetings

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

## Events

We provide a range of workshops, along with network events for members and publications to support the Authority. Your officers attended our Accounts Workshop in February 2023, where we highlighted financial reporting requirements for local authority accounts and gave insight into elements of the audit approach.

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

## Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2022/23 is the fifth and final year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in the period 2018/19 to 2021/22 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the "limited improvements needed" (2) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We have discussed this with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited, and have communicated fully with the Audit Committee.

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

# Audit Deliverables

2022/23 Deliverables	Planned Date	Status
<b>Audit Plan</b> 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 2022/23 financial statements and to issue a commentary on the Authority's value for money arrangements in the Auditor's Annual Report	June 2023	Not yet due
<b>Audit Findings Report</b> The Audit Findings Report will be reported to the January Audit Committee.	January 2024	Not yet due
<b>Auditors Report</b> This includes the opinion on your financial statements.	January 2024	Not yet due
<b>Auditor's Annual Report</b> This report communicates the key outputs of the audit, including our commentary on the Authority's value for money arrangements.	January 2024	Not yet due

2022/23 Audit related Deliverables	Planned date	Status
<b>Teachers Pensions Scheme – certification</b> This is the report we submit to Teachers Pensions based upon the mandated agreed upon procedures we are required to perform.	November 2023	Not yet due

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# Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

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

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

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

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

A teal rectangular button with the text "Public Sector" in white, sans-serif font, centered within the button.

Public Sector

A dark purple rectangular button with the text "Local government" in white, sans-serif font, centered within the button.

Local  
government

# Delayed publication of audited local authority accounts

In December 2022 there were over 600 local audit opinions outstanding. This means that many stakeholders can't rely on audited accounts to inform decision making – a significant risk for governance and control.

Local authority accounts are becoming increasingly complex as accounting standards evolve and local authorities enter more and more innovative financing arrangements and income generation projects. A significant challenge in managing local audits is the differing needs of various stakeholders. The local government sector, central government and regulators need to agree on the purpose of local audit and find a consensus on improving efficiency in publishing accounts.

Grant Thornton has produced a report that explore the reasons for delayed publication of audited local authority accounts.

Table 1 below illustrates the declining performance against the target date for publication of audited accounts in recent years.

**Table 1 Audited accounts published by target date over the last six years**

Financial year	Deadline for publication of unaudited accounts	Target date for publication of audited accounts	% audited accounts published by target date (all firms average)	% audited accounts published by target date (Grant Thornton audits)
2016/17	30 June 2017	30 September 2017	95	97
2017/18	31 May 2018	31 July 2018	87	91
2018/19	31 May 2019	31 July 2019	58	65
2019/20	1 September 2020	30 November 2020	45	54
2020/21	1 August 2021	30 September 2021	9	12
2021/22	1 August 2022	30 November 2022	12	20

## About time?

Exploring the reasons for delayed publication of audited local authority accounts

March 2023



# Delayed publication of audited local authority accounts

What more can be done?

All key stakeholders in the local audit system will need to continue their efforts to secure improvement and a return to high levels of compliance with timely publication of audited accounts. The report explores several of the causes of delay and steps which might be taken to reduce the incidence of delays.

These steps relate to systems leadership, holding both authorities and auditors to account for their performance, a continued focus on the quality of accounts preparation and audit, and the effective engagement between auditors and audited bodies.

The report makes 20 recommendations for improving timeliness in publishing audited accounts.

The report also sets out a checklist which management and the audit committee should consider. The report recommends DLUHC, CIPFA or the FRC set out expectations for the system as a whole.

[Click here for full report](#)

## About time?

Exploring the reasons for delayed publication of audited local authority accounts

March 2023



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# Local government procurement and contract management

## Background

Local authorities in England spend around £82.4 billion a year on goods and services. More than a third of all UK government spending on goods and services is spent in the local government sector<sup>1</sup>. Allowing for capital spending as well, the UK public sector procures around £300 billion a year overall.

We reviewed a large number of reports, inspections and interventions issued by a number of firms, including 53 Annual Auditor Reports issued by Grant Thornton UK LLP. To help build on existing good practice, in this report we highlight some common themes for members and officers to consider:

This report considers a selection of issues we identified under each theme and makes recommendations both to local authorities and, in one case, to central government. The report presents a good practice checklist for local authority members and officers to reflect on.

The analysis sets out five key themes for ensuring good practice:

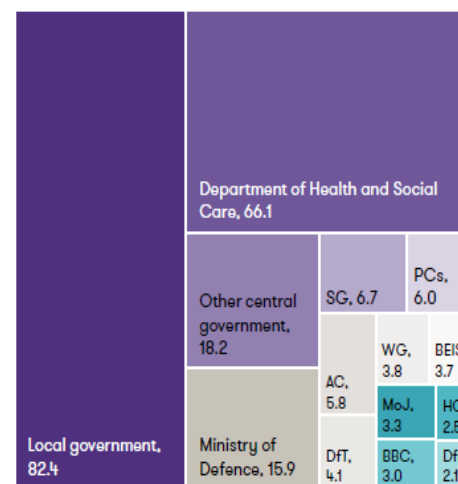
- Strategic planning
- Internal control
- Time, technical expertise, and people
- Commercial awareness
- Contract management

[full report here](#)

More than a third of all UK government spending on goods and services is spent by local government, so it's important councils have effective arrangements for procurement and contract management

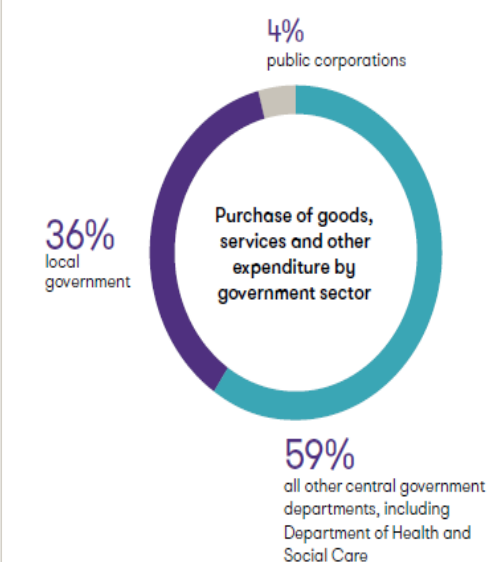
## UK public spending

Public spending on goods and services, £ billions - analysis by segment and department<sup>2</sup>



PCs Other Public Corporations AC Academies  
 DfT Department for Transport MoJ Ministry of Justice  
 WG Welsh Government BBC British Broadcasting Corporation  
 HO Home Office  
 DfE Department of Education BEIS Department of Business, Industry Strategy  
 SG Scottish Government

Goods, services and other expenditure by segment<sup>4</sup>



<sup>1</sup> HM Treasury, Whole of Government Accounts: year ended 31 March 2020, June 2022  
<sup>2</sup> Cabinet Office, Transforming Public Procurement: Government response to consultation, December 2021  
<sup>3</sup> HM Treasury, Whole of Government Accounts: year ended 31 March 2020, June 2022  
<sup>4</sup> HM Treasury, Whole of Government Accounts: year ended 31 March 2020, June 2022



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# Stonewall Gold Employer: GT's LGBTQIA+ inclusion journey

## Background

15 Feb 2023, Stonewall, Europe's largest charity for Lesbian, Gay, Bi, Trans, and Queer (LGBTQIA+) rights, launched its widely anticipated Top 100 Employers List – recognising us for our work in supporting LGBTQIA+ colleagues to be the best versions of themselves at work and awarding us Gold Employer, the highest award.

We're proud to announce that we've ranked among the UK's leading employers from the public, private, and third sectors in the Stonewall Workplace Equality Index (WEI). We've also been recognised as a Gold Employer. Overall, we've ranked 38th in the latest WEI results, and 26th in the private sector, and 9th in the financial services sector.

# Sustainability: Finance at the heart of decision making

In November 2022 CIPFA published an article on public sector specific response to climate change. Below is an extract from CIPFA's website:

## “Role of the finance profession

Finance and accounting professionals need to move beyond simply measuring and reporting the impact of climate change, environmental regulation, supply chain pressure and rising energy costs. They must focus on understanding those implications and integrating them into financial management and business planning. The ability to integrate climate risks into overall operational risks is a major challenge. The finance profession will need to be able to collect data from different professions (scientists, valuation experts, biologists, meteorologists etc) and be able to understand but also challenge assumptions and projections. The importance of effective communication to both internal and external stakeholders must not be underestimated. Climate reporting should result in decision makers having all the information necessary to be effective, to measure progress and to hold those responsible to account.

Opportunities and risks must be identified and stress tested using various scenarios, including temperature rises of 2C and more. The impact of collapsed ecosystems must not be ignored – from rising sea levels to food scarcity and the mass migration of people whose land is no longer inhabitable. We need honesty, transparency and above all leadership to tackle the climate issues that exist and lie ahead.

## Conclusion

The current focus on net zero emissions by 2050 misses the point that climate change is already happening. There is an urgent need for adaptation measures to be introduced that allow the UK to live with higher temperatures, wetter winters and warmer, drier summers. At the moment we are severely under prepared. This is a call for urgent action from government, both at central and local level. The IPCC recommended threshold of limiting temperature rises to 1.5C is **set to be broken**. Temperature rises above 2.5C will mean ecosystems will collapse which will have severe repercussions on our society as a whole. CIPFA and ICAEW share the view that the finance function has an important role to play in combating climate change. We would like to see the finance profession taking the lead for the public sector in its efforts to tackle climate change”.

[Click here for link to the article](#)

# Audit Market Developments

## Financial Reporting Council Report On The Quality Of Local Audit

In late October 2022 the Financial Reporting Council (FRC) published its inspection findings into the quality of major local body audits in England, which includes large health and local government bodies.

The Quality Assurance Department (QAD) of the Institute of Chartered Accountants in England and Wales (ICAEW) inspects a sample of local audits that do not meet the definition of a 'major' local audit and the FRC's report also includes a summary of their findings.

The FRC reported that 71% of Grant Thornton audits inspected (7 in total) were assessed as either good or limited improvements required.

This is a pleasing result and reflects on our significant investment in audit quality over recent years. The positive direction of travel over the past five years is illustrated below:

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The FRC also inspected our work on VfM arrangements at four bodies.

It is pleasing to note that all of these inspections were assessed as requiring no more than limited improvements (which is the same as the previous year).

As far as the ICAEW are concerned, overall, the audit work reviewed was found to be of a good standard.

Seven of the eight files reviewed (88%) were either 'good' or 'generally acceptable', but one file 'required improvement'.

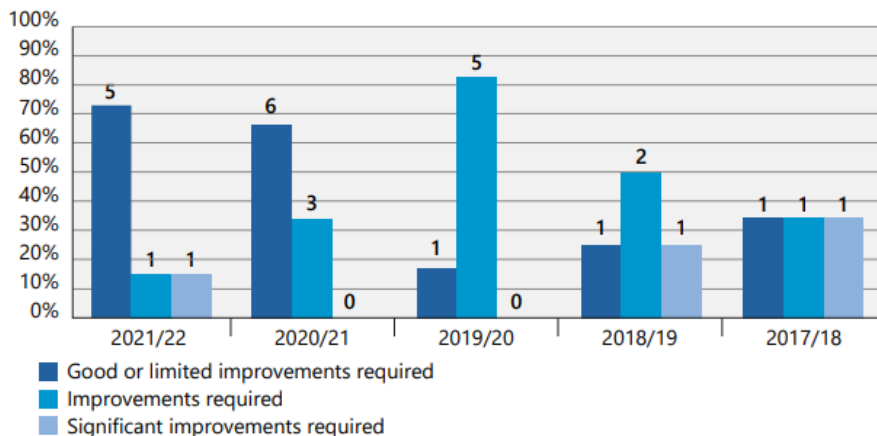
The ICAEW identified one of our files as requiring 'Improvement' – but it should be noted that this was a 2019-20 file and therefore the learnings from prior years' review could not have been taken into account, an issue recognised by the ICAEW in their report to us.

The ICAEW found that our VfM work was good on each of the files reviewed, and they did not identify any issues with this aspect of the audit teams' work.

Whilst are pleased with our continuing improvement journey, we continue to invest in audit quality to ensure that the required standards are met.

The full report can be found [here](#).

Our assessment of the quality of financial statement audits reviewed



Financial Reporting Council



# Audit Market Developments (continued)

## Local Government External Audit Procurement

Public Sector Audit Appointments Ltd (PSAA) has recently announced the outcome of its national procurement of audit services across the Local Government sector.

This exercise covers the audits from 2023/24 to 2027/28 and covers the 470 local government, police and fire bodies (99% of eligible local bodies) that opted into the national scheme.

We are delighted to have been reappointed as the largest supplier of local government audit. The public sector has played a significant role within the firm for over 30 years and we remain committed to the success of the sector.

Our UK Public Sector Assurance (PSA) team employs 440 people, including 29 Key Audit Partners and specialists in financial reporting, audit quality, and value for money.

The team is dedicated to public audit work in local government and the NHS, with contracts with PSAA, Audit Scotland and over 100 health bodies. The Public Sector Assurance team is a regular commentator on issues facing the sector and oversees the firm's thought leadership, such as its series of publications on grants and public interest reports.

Mark Stocks, lead Partner for PSA at Grant Thornton, said 'This is a very welcome outcome and reflects our previous delivery as well as our ongoing commitment to invest in the public sector.'

Further information can be found [here](#)



# Grant Thornton – Nearly 60 councils at risk of ‘running out of money’ next year

Grant Thornton has warned that the soaring cost of living combined with a decade of austerity could see up to a sixth of English councils fully deplete their reserves in 2023-24 without substantial spending cuts.

Research found that, as a result of higher inflation, councils are expected to have a cumulative budget deficit of £7.3bn by 2025-26 – an increase of £4.6bn since forecasts made at the beginning of this year.

Grant Thornton said that although reserves were bolstered by more than £5bn in 2020-21 due to higher government funding, these balances will “continue to unwind through the long tail of Covid-19” with close to 60 councils forecast to use all earmarked and unallocated reserves next year.

Without additional income, authorities would need to make savings of over £125 per person by 2025-26, equal to the average yearly spend on homelessness, sports and leisure, parks and open spaces, libraries and waste services.

Phillip Woolley, Head of Public Services Consulting at Grant Thornton, said: “Local government has faced unprecedented demands and pressures over the last decade and without action from both central government and councils, in the face of these inflationary pressures, the list of authorities in need of exceptional support looks set to grow quickly.

“Our research shows the additional Covid-19 funding, while critical to support immediate challenges, has not addressed underlying systemic issues or the precariousness of councils’ financial sustainability in the face of economic instability.

“Local authorities are also now facing the risk of interest rate rises, increasing debt financing costs and the real risk of reduced funding from central government, in response to the current economic turmoil facing the country. Without committed intervention from all sides, there is a risk that the sector levels down instead of up.”

Grant Thornton estimated unitary authorities would have the largest budget gap (£1.8bn) by 2025-26, but district councils would have the largest gap compared to net spending at 10.2%.

The firm added that austerity and changing policy demands have left councils struggling to innovate in their services and prevented investment in finance and procurement, diminishing the sector’s ability to tackle medium-term challenges.

Grant Thornton said additional government funding alone will not lead to improvements, and that councils should focus on improving governance and developing financial stability plans.

Joanne Pitt, local government policy manager at CIPFA, said: “With no spending review and no fair funding review, CIPFA shares Grant Thornton’s concerns about the financial sustainability of some in the sector.

“While there are actions local authorities can take to strengthen their own financial resilience, they are facing significant inflationary pressures and rising demand which makes this hugely challenging for the sector.”



# Audit Committees: Practical Guidance For Local Authorities And Police – CIPFA

In October CIPFA published this guide, stating “This fully revised and updated edition takes into account recent legislative changes and professional developments and supports the 2022 CIPFA Position Statement. It includes additional guidance and resources to support audit committee members, and those working with and supporting the committee’s development.”

CIPFA go on to state “Audit committees are a key component of governance. Their purpose is to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements. They play an important role in supporting leadership teams, elected representatives, police and crime commissioners and chief constables.

This edition updates CIPFA’s 2018 publication to complement the 2022 edition of the CIPFA Position Statement on audit committees.

The suite of publications has separate guidance resources for audit committee members in authorities, members of police audit committees, and a supplement for those responsible for guiding the committee.

New aspects include legislation changes in Wales and new expectations in England following the Redmond Review. All authorities and police bodies are encouraged to use the publication to review and develop their arrangements in accordance with the Position Statement.

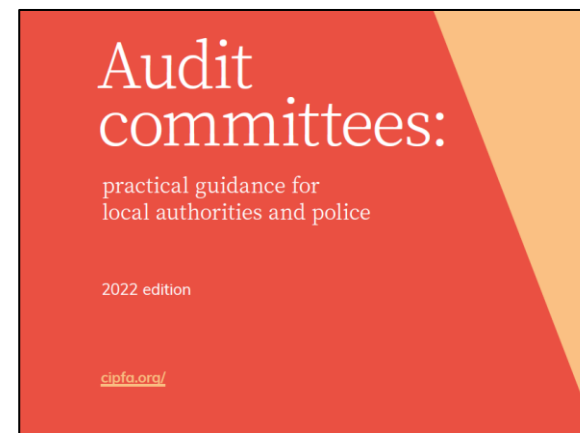
The appendices include suggested terms of reference, a knowledge and skills framework and effectiveness improvement tools.”

The guide covers a number of key areas for Audit Committees, including:

- Purpose
- Core functions:
  - Governance, Risk and Control
  - Accountability and Public Reporting
  - Assurance and Audit arrangements
  - Ensuring focus
- Independence and accountability
- Membership and effectiveness

The guide can be purchased via the CIPFA website:

[Audit Committee Guidance: 2022 update | CIPFA](#)





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# Informing the audit risk assessment for Somerset County Council

2022/23

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Agenda Item 8

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

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## Purpose

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

## Background

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

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

## Communication

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

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

## Purpose

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

# General Enquiries of Management

Question	Management response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2022/23?</p>	<p>The cost of living crisis, and high rates of inflation will have had a significant impact on service budgets in 2022/23. The in-year preparatory work for the upcoming LGR has also impacted significantly on staff time.</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by Somerset County Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?</p>	<p>Compliance with the CIPFA Code will mean that we use appropriate accounting policies.</p>
<p>3. Is there any use of financial instruments, including derivatives? If so, please explain</p>	<p>All financial instruments are disclosed in our notes to the accounts within our Statement of Accounts. There is no use derivatives by SCC.</p>
<p>4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?</p>	<p>No</p>

# General Enquiries of Management

Question	Management response
<p>5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?</p>	<p>No, none. An assessment is made annually by our valuers of our non-current assets and whether any impairment has occurred in the year.</p>
<p>6. Are you aware of any guarantee contracts? If so, please provide further details</p>	<p>Guarantee bonds that are in place have been assessed as not material.</p>
<p>7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details</p>	<p>Yes, we are aware of all outstanding legal cases which are assessed for any loss contingencies as part of our Statement of Accounts processes.</p>
<p>8. Other than in house solicitors, can you provide details of those solicitors utilised by Somerset County Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?</p>	<p>Browne Jacobson – Adult Social Care advice Bevan Brittan – Adult Social Care advice Anthony Collins – Funding agreement/Unitary advice Burgess Salmon – drafting in respect of an adjudication Goughs – s106 Mendip District Council – s106</p>

# General Enquiries of Management

Question	Management response
<p>9. Have any of the Somerset County Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details</p>	<p>Potentially fraudulent claim on the Quantock Landscape Partnership Scheme has been reported to SWAP. A supplier has admitted (inadvertently?) to submitting a falsified invoice.</p> <p>Our internal controls identified the issue, and no payment was made.</p>
<p>10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?</p>	<p>The council has regularly used advisors / consultants across various services on a range of issues to provide expert advice. For finance, we use advice for various specialisms such as specific VAT advice, insurance brokers, treasury advisors and LG Futures for financial forecasting &amp; modelling.</p> <p>Some external advice was sought regarding Local Government Reorganisation in Somerset</p> <p>If there is a particular area that further details are required this can be provided.</p>
<p>11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details</p>	<p>The council regularly reviews its financial assets, and no material credit loss provisions have been recognised in 2022/23. A final review will be carried out at year-end, and a loss provision will be recognised if required under IFRS9.</p>

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# Fraud

## Matters in relation to fraud

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

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

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

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

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

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

# Fraud risk assessment

Question	Management response
<p>1. Has Somerset County Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Council's risk management processes link to financial reporting?</p>	<p>We do not believe this to be an issue as no material frauds have been identified during the year. We believe that the risk of unknown material fraud to be low.</p> <p>Our control environment around fraud control has not changed from previous years. A key part of our arrangements is the use SWAP Ltd as our Internal auditors. SWAP has now completed a baseline assessment for fraud and we have been following the action plan for improvement.</p> <p>There is robust medium term financial plan in place to ensure a sound budget is set for the year. This has been risk assessed and those risks have been included in the budget report. These risks will continue to be monitored and reported as part of budget monitoring. Comprehensive monthly budget monitoring ensures the risks of over or underspending are well managed and projects remain on track. Budget monitoring is part of the overall system of internal controls designed to mitigate against risks of incorrect financial reporting.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Accounts payable and payroll</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Somerset County Council as a whole, or within specific departments since 1 April 2022? If so, please provide details</p>	<p>Potentially fraudulent claim on the Quantock Landscape Partnership Scheme has been reported to SWAP. A supplier has admitted (inadvertently?) to submitting a falsified invoice.</p> <p>Our internal controls identified the issue, and no payment was made.</p>

# Fraud risk assessment

Question	Management response
<p>4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>Regular risk updates are presented to the Audit Committee and annually an Anti-Fraud and Corruption Paper is also presented to this committee. This paper includes a summary of actual, suspected and alleged frauds over the previous year.</p>
<p>5. Have you identified any specific fraud risks? If so, please provide details</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Somerset County Council where fraud is more likely to occur?</p>	<p>Areas at risk of fraud are identified by:</p> <ul style="list-style-type: none"> <li>• SWAP audit work</li> <li>• SWAP Fraud alerts</li> <li>• Staff allegations</li> <li>• Risk register/assessments</li> </ul> <p>Cases of attempted electronic fraud through phishing and impersonation are increasing. We have seen this through vendor set up, accounts payable and payroll.</p>
<p>6. What processes do Somerset County Council have in place to identify and respond to risks of fraud?</p>	<p>South West Audit Partnership (SWAP) fraud alerts are circulated to appropriate managers and departments. The Council has an Anti Fraud and Corruption Policy, Anti Money Laundering Policy, Anti – Bribery Policy, Anti Tax Evasion Policy and Whistleblowing Policy</p> <p>The Council holds a register that records reports of fraud and any consequent actions to improve processes. A dedicated anti-fraud email address for notifications has been set-up.</p>

# Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for Somerset County Council including:</p> <ul style="list-style-type: none"> <li>the existence of internal controls, including segregation of duties; and</li> <li>the process for reviewing the effectiveness the system of internal control?</li> </ul> <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details</p>	<p>Through effective audit through SWAP. The Finance Business Partners work closely with services in upholding those controls</p> <p>The Council has a Fraud and Corruption Policy, Whistle blowing Policy, Anti money Laundering Policy, Anti Bribery Policy and Anti Tax Evasion Policy</p> <p>No</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>None identified</p>

# Fraud risk assessment

Question	Management response
<p>9. How does Somerset County Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details</p>	<p>The Council operates a Code of Conduct for both officers and members. Regular updates through CORE brief, staff induction &amp; training. All outside organisations contracted are bound by strict ethical behaviours contained within their contract.</p> <p>Reporting procedures laid out in Anti-Fraud and Corruption Policy. Also through the Council's whistleblowing policy.</p> <p>Staff must report any concerns they may have regarding fraud and corruption, whether it relates to dishonest behaviours by Council employees, Members, Contractors or by others.</p> <p>No significant issues have been reported during the financial year 2022/23.</p>
<p>10. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>Because of the overall governance framework and internal control environment there are no posts that are considered to be high-risk.</p>
<p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>No. All elected members and senior officers are required to provide details of any related party relationships on an annual basis.</p> <p>SCC staff are bound by the Council's Contract Standing Orders to ensure proper procurement practices are followed at all times.</p>

# Fraud risk assessment

Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Audit Committee?</p> <p>How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>The Anti-Fraud and Corruption Policy sets out the ways to report and investigate fraud. An annual fraud report is made to Audit Committee each year. SWAP also report regularly to the Audit Committee. The Audit Committee can also call in any report with a Partial assessment and will review that recommendations have been carried out. The Audit Committee also review any high priority findings of non-opinion audits.</p> <p>There have been no instances of fraud relating to breaches of internal controls to be reported in 2022/23. A full report of fraud (including suspected) instances will be taken to Audit Committee in the new year as part of our annual reporting.</p>
<p>13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>Yes, an incidence of whistle blowing was reported during 2022/23. SWAP were informed of the incidence and are completing a review.</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>No</p>

# Law and regulations

## Matters in relation to laws and regulations

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

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

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

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

# Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Somerset County Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?</p>	<p>Somerset County Council's constitution and scheme of delegation outlines the rights, responsibilities and duties of the Council and it's officers. The Monitoring Officer oversees compliance with the constitution and scheme of delegation, and reports on matters he believes are or are likely to be illegal or amount to maladministration. The Monitoring Officer seeks legal advice should he require it, additionally he checks that Legal Services are consulted as part of any decision making process</p>
<p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>All committee reports require sign off by statutory officers and other key officers and there is a clear section on legislation</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2021 with an on-going impact on the 2022/23 financial statements? If so, please provide details</p>	<p>No</p>
<p>4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details</p>	<p>No</p>



# Impact of laws and regulations

Question	Management response
5. What arrangements does Somerset County Council have in place to identify, evaluate and account for litigation or claims?	Legal Services evaluate instructions upon receipt and advise internal service clients accordingly. Service departments (with the support of Corporate) make their own arrangements in respect of accounting for litigation or claims
6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details	No

# Related Parties

## Matters in relation to Related Parties

Somerset County Council are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

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

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

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

# Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in Somerset County Council's 2022/23 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> <li>the nature of the relationship between these related parties and Council</li> <li>whether Somerset County Council has entered into or plans to enter into any transactions with these related parties</li> <li>the type and purpose of these transactions</li> </ul>	<p>No</p>
<p>2. What controls does Somerset County Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>The authorities elected Members are sent an annual questionnaire to identify any material related party transactions, and the findings from the responses are disclosed in the published accounts.</p> <p>The authority reviews existing contractual arrangements to determine whether the authority has significant influence over the other parties due to the considerable proportion of business provided to them by the authority. Any material findings are disclosed in the published accounts.</p> <p>The authority publishes an annual Partnership Register, and a review of all key decisions is carried out annually to identify any new transactions/relationships.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>There are no material related parties</p>
<p>194. What controls are in place to authorise and approve significant transactions outside of the</p>	<p>Following approved processes regarding segregation of duties and payment approval protocols.</p>

# Going Concern

## Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, 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 of accounting will apply where the body'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.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

# Going Concern

Question	Management response
<p>1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by Somerset County Council will no longer continue?</p>	<p>The CIPFA 2020/21 Accounting Code of Practice confirms that on the basis that local authorities 'cannot be created or dissolved without statutory prescription, it would not therefore be appropriate for their financial statements to be provided on anything other than a going concern basis'.</p> <p>The s151 officer conducts an annual Going Concern assessment. The main factors underpinning this assessment will include:</p> <ul style="list-style-type: none"> <li>• 2022/23 Outturn</li> <li>• Cost of Living Crisis/High Inflation</li> <li>• Balance Sheet</li> <li>• 2023/24 Budget</li> <li>• Budget Monitoring Process</li> <li>• MTFP &amp; Future years</li> <li>• CIPFA Resilience Index</li> <li>• Borrowing &amp; Cash flow</li> <li>• The Council's Vision and Financial Planning Process</li> <li>• Council's Governance Arrangements</li> <li>• Local Government Reorganisation</li> <li>• Regulatory and control environment applicable to the Council as a local authority.</li> <li>• Financial Sustainability</li> </ul>
<p>2. Are management aware of any factors which may mean for Somerset County Council that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?</p>	<p>No</p>
<p>3. With regard to the statutory services currently</p>	<p>Somerset County Council expects to continue delivering its statutory services until 31<sup>st</sup> March 2023.</p>

# Accounting estimates

## Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

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

# Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	These are all disclosed in the Statement of Accounts.
2. How does the Council's risk management process identify and address risks relating to accounting estimates?	The authority reviews the previous year's Statement of Accounts and the Auditor's report to add further assurances and review any areas requiring further robustness
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	The team attends technical updates to ensure they are aware of any changes required and follow CIPFA Code guidance.
4. How do management review the outcomes of previous accounting estimates?	Material variations would impact on budget monitoring.
5. Were any changes made to the estimation processes in 2022/23 and, if so, what was the reason for these?	No changes

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# Accounting Estimates - General Enquiries of Management

Question	Management response
<p>6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?</p>	<p>Disclosure of existing critical judgements is made within the notes to the accounts within our Statement of Accounts.</p>
<p>7. How does the Council determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?</p>	<p>These are reviewed by the Chief Accountant and the S151 Officer</p>
<p>8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?</p>	<p>We ensure that those providers are suitably qualified. In addition to this we are introducing more check and challenge to accounting estimates. In the area of property valuations further internal check and challenges have been introduced.</p>
<p>9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> <li>- Management's process for making significant accounting estimates</li> <li>- The methods and models used</li> <li>- The resultant accounting estimates included in the financial statements.</li> </ul>	<p>Accounting estimates are tested for reasonableness and also compared to previous years to pick up any anomalies. The Chief Accountant is professionally qualified and very experienced. Also see above response re property valuations.</p> <p>The methods and models used are consistent with those used in similar authorities</p>

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# Accounting Estimates - General Enquiries of Management

Question	Management response
<p>10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?</p>	<p>No</p>
<p>11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?</p>	<p>All accounting estimates are considered by suitably qualified professionals.</p>
<p>12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?</p>	<p>Audit Committee members attend a training session each year prior to the Statement of Accounts being presented for approval. The Committee are then walked through the Statement of Accounts including the accounting policies. Any material variations compared to previous years are explained</p>

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## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Land and buildings valuations	Current or Fair Value (based on Existing Use Value; Highest and Best Use, and DRC – depending on class of asset)	The authorities professional team of in-house valuers follow RICS guidance and incorporate a peer review to ensure the correct estimation method is adopted.	The authority uses its own in-house team of RICS qualified valuers.	The authority's in-house team of qualified valuers assess the uncertainty, and elect the most suitable estimate based on RICS guidance.	The DRC rates used for Externals is now based on evidencable data rather than a historic rate.
Depreciation	<p>Management consider a combination of accounting guidance (from CIPFA and RICS) and professional knowledge/experience of the authority's asset portfolio to select/design the estimation models used.</p> <p>Depreciation/Amortisation is calculated on a straight-line basis over the assets useful life.</p>	Information provided is peer reviewed within the Property Services team prior to submission to management.	The authority uses its own in-house team of RICS qualified valuers.	Management rely on the authority's in-house team of property professionals to consider the sensitivity of the estimate, and the level of disclosure in the financial statements.	No

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions	Service finance teams process their own provisions based on service knowledge. Approval is required from the Service manager prior to processing SAP. Corporate closing guidance is provided to service teams to make them aware of any rule changes and confirm the correct SAP entries.	Postings are monitored and controlled through the authority's monthly budget monitoring process, and Corporate approval from the Chief Accountant is required prior to any posting	No	Assumptions are based on service knowledge, and statutory guidance.	No
Accruals	Service finance teams process their own accruals based on service knowledge. Approval is required from the Service manager prior to processing SAP. Corporate closing guidance is provided to service teams to make them aware of any rule changes and confirm the correct SAP entries.	Accrual postings are monitored and controlled through the authority's monthly budget monitoring process.	No	Assumptions are based on service knowledge, and statutory guidance.	No
Fair value estimates	The FV models used have been provided by the authority's treasury management advisors	Management uses its in-house finance experts to sense check the models and	Yes, Arlingclose	Estimation uncertainty is considered by the authority's treasury management advisors, and in-house finance team. Where uncertainty exists, the authority	No

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Credit loss and impairment allowances Page 108	<p>Service finance teams process their own impairment allowances based on service knowledge of the debt. Approval is required from the Service manager prior to processing SAP. Corporate closing guidance is provided to service teams to make them aware of any rule changes and confirm the correct SAP entries.</p> <p>The Council's in-house Treasury Mgt and Corporate Finance teams assess the need for any impairment to the Councils investment portfolio,</p>	<p>Corporate review of aged debt.</p> <p>Corporate check/challenge of service impairments.</p>	<p>No</p>	<p>Assumptions are based on service knowledge, and statutory guidance.</p>	<p>No</p>



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Somerset Council  
Audit Committee  
- April 2023

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## Anti-Fraud and Corruption Review

Lead Officer: Jason Vaughan – Executive Director – Finance and Corporate Services

Author: Donna Parham Head of Corporate Finance and Deputy S151

Contact Details: donna.parham@somerset.gov.uk

Executive Member: Cllr Liz Leyshon Deputy Leader and Lead Member for Finance and Performance

Division and Local Member: All

### 1. Summary

- 1.1. This report is to introduce the review of policies that was undertaken as part of the preparation for Local Government Reorganisation in Somerset aimed at the prevention, detection and reporting of fraud and corruption. This is in accordance with our Financial Regulations and acknowledged best practice.
- 1.2. Anti-fraud and corruption work forms an important part of our corporate governance and internal control framework. With assistance from trained SWAP staff, the council compares systems and processes against typical fraud target areas for fraud, and against national trends and guidance.
- 1.3. The new Council has a sound framework in place, although more could be done to raise awareness and clear the reporting lines.
- 1.4. The Council has an established suite of Anti-Fraud and Corruption Policies covering; Anti-Fraud, Anti-Bribery, Anti-Tax Evasion and Money Laundering, all are subject to regular approval by this Committee. The policies set out what actions the Council proposes to take over the medium-term future to continue to develop its resilience to fraud, corruption and other financial irregularity. It also covers the key responsibilities with regard to fraud prevention, what to do if fraud or financial irregularity is suspected and the action that will be taken by management.

### 2. Issues for consideration / recommendations

- 2.1. The Committee is asked to confirm the updated Anti-Fraud and Corruption (**Appendix A**), the Anti-Bribery (**Appendix B**), the Anti-tax evasion policy (**Appendix C**) and the Anti-Money Laundering policies (**Appendix D**).
- 2.2. The committee is asked to approve delegated authority to the Service Director - Finance and Procurement for updating the policies with any changes to job titles or reporting lines.

### **3. Background**

**3.1.** Fraud prevention is high on the national agenda with a sustained level of instances being reported. Many organisations now provide guidance / information about combatting public sector fraud.

**3.2.** The Chartered Institute of Public Finance and Accountancy (CIPFA) has a large role to guide counter fraud work in the public sector, with a dedicated Counter Fraud Centre, and it's published "Code of practice on managing the risk of fraud and corruption".

#### **3.3. Policies update**

As part of a review of the new Council's anti-fraud and corruption measures, a refresh has been carried out of our Anti-Fraud and Corruption Policy (**Appendix A**), the Anti- bribery (**Appendix B**), the Anti-tax evasion policy (**Appendix C**), and Anti-money laundering (**Appendix D**). The updates mainly focus on the new authority's structure. The Key change is the role of Money Laundering Reporting Officer (MLRO), which is a specifically set out one to support the legislation in the event of any such case arising. The Money Laundering Reporting Officer (MLRO) is the Service Director – Finance and Procurement. It will be for the MLRO to ensure the appropriate investigate of any Money Laundering allegations and to liaise with the Police.

Fraud remains a clearly stated example of gross misconduct within the relevant HR policies.

### **4. Consultations undertaken**

**4.1.** All policies were reviewed in conjunction with the S151 Officer and SWAP

### **5. Implications**

**5.1.** Measures contained within this report will be used to protect Somerset Council from fraud in the forthcoming year.

### **6. Background papers**

**6.1.** None

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





**Somerset**  
Council

**Anti-Tax Evasion Policy  
2023 (Appendix C)**

For queries on VAT and non-PAYE tax issues please contact:  
Paul Griffin, Service Manager – Chief Accountant – [paul.griffin@somerset.gov.uk](mailto:paul.griffin@somerset.gov.uk)

For queries on PAYE issues please contact:  
Rachel Ellins, Strategic Manager HR Amin and Payroll Services –  
[Rachel.Ellins@somerset.gov.uk](mailto:Rachel.Ellins@somerset.gov.uk)

This policy will be reviewed on a bi-annual basis and updated as required.

# Introduction

Somerset Council is determined to pursue a policy of zero tolerance in relation to all areas of fraud and corruption. As part of the Council's Constitution and controls and standards the Council's Audit Committee has responsibility for Anti-Fraud and Corruption Policy. The purpose of the Anti-Tax Evasion policy is to support the specific area of Tax Evasion alongside the existing zero tolerance stance on fraud and corruption, to provide guidance to staff and others on action to prevent or report on tax evasion or the perception of tax evasion and to emphasise the need to be aware and to continue the Council's good record.

This Policy Statement is supplementary to the Council's wider Anti-Fraud and Corruption Strategy (the Strategy), which sets out what actions the Council proposes to take over the medium-term future to continue to develop its resilience to fraud, corruption and other financial irregularity. The Strategy sets out the key responsibilities with regard to fraud prevention, what to do if fraud or financial irregularity is suspected and the action that will be taken by management.

Somerset Council controls millions of pounds of public money and takes very seriously its stewardship of this money. The Council is proud of the excellent reputation it has established for integrity and honesty. Acts of dishonesty within the Council are rare and the Council has a very good track record on anti-tax evasion.

Somerset Council is, however, determined to protect itself against all areas of fraud including tax evasion both from within and from external sources. Somerset Council already has in place a Constitution, which includes the Members' Codes of Conduct and Protocols setting out expected behaviours of both members and employees. It also includes Financial Regulations which provide clarity about accountabilities of individuals, Members, Senior Leadership Team etc. The HR content on the Council's Intranet site includes detailed Standards of Conduct expected of Officers.

The Anti-Tax Evasion Policy brings together the key elements from the Council's and government documents and provides a link to where further information may be found. As part of its aim to ensure Value For Money (VFM) and Efficiency, the Council is committed to an effective Anti-Tax Evasion policy designed to:

- ensure prevention
- facilitate detection, and
- identify a clear pathway for investigation and remedial action.



# Approach

This policy sets out Somerset Council's (the Council's) policy in relation to tax evasion. It has the full support of both the Council's senior management in the form of the senior officers and elected members through the Audit Committee.

Part 3 of the Criminal Finances Act 2017 creates a new corporate criminal offence where a corporate entity fails to prevent the facilitation of tax evasion by its staff, agents and contractual associates.

The Council has a zero-tolerance approach to all forms of tax evasion, whether under UK law or under the law of any foreign country. Employees of the Council, its agents and contractual associates must not undertake any transactions which:

- (a) Cause the Council to commit a tax evasion offence; or
- (b) Facilitate a tax evasion offence by a third party.

The Council is committed to acting professionally, fairly and with integrity in all its dealings and relationships wherever we operate and implementing and enforcing effective systems to counter tax evasion facilitation. At all times, Council business should be conducted in a manner such that the opportunity for, and incidence of, tax evasion is prevented.

Governance and internal control procedures are already in place to meet the statutory requirements; and there is no suggestion that the Council tolerates tax evasion, or that staff engage in such behaviour. However, adopting an express corporate policy will help the Council defend any allegation that it has facilitated tax evasion.

This Policy Statement is supplementary to the Council's wider Anti-Fraud and Corruption Strategy (the Strategy), which sets out what actions the Council proposes to take over the medium-term future to continue to develop its resilience to fraud, corruption and other financial irregularity. The Strategy sets out the key responsibilities with regard to fraud prevention, what to do if fraud or financial irregularity is suspected and the action that will be taken by management.

# 1. What is Tax Evasion?

**Tax evasion** is the illegal non-payment or under-payment of taxes, usually as the result of making a false declaration (or no declaration) of taxes due to the relevant tax authorities, which results in legal penalties if the perpetrator is caught.

Tax evasion involves all forms of tax, including income tax, corporation tax, VAT, national insurance, landfill tax, Council tax and excise duties such as road fund licence and tax on the sale of alcohol and tobacco. This list is not exhaustive.

**Tax avoidance**, by contrast, is seeking to minimise the payment of taxes without deliberate deception. This is often legitimate but is sometimes contrary to the spirit of the law, e.g. involving the exploitation of loopholes.

Importantly the corporate criminal offence of facilitation only applies to tax evasion. The third party must be found guilty of tax evasion before the Council can be found to have facilitated it.

## 2. Examples of Tax Evasion

It is not possible to give examples covering every possible scenario, however, some 'red flag' indicators are detailed below to give a flavour of the scope of the legislation:

- *You become aware, in the course of your work, that a third party has made or intends to make a false statement relating to tax; has failed to disclose income or gains to, or to register with, HMRC; has delivered or intends to deliver a false document relating to tax; or has set up or intends to set up a structure to try to hide income, gains or assets from a tax authority.*
- *You become aware, in the course of your work, that a third party has deliberately failed to register for VAT (or the equivalent tax in any relevant non-UK jurisdiction) or failed to account for VAT.*
- *A third-party requests payment in cash and/or refuses to provide an invoice or receipt for a payment made.*
- *You become aware, in the course of your work, that a third party working for us as an employee asks to be treated as a self-employed contractor, but without any material changes to their working conditions.*

## 3. The Criminal Finances Act 2017

Under the Criminal Finances Act 2017, a separate criminal offence is automatically committed by a corporate entity where the tax evasion is facilitated by a person acting in the capacity of an “associated person” to that body. For the offence to be made out, the associated person must deliberately and dishonestly take action to facilitate the tax evasion by the taxpayer. If the associated person accidentally, ignorantly, or negligently facilitates the tax evasion, then the corporate offence will not have been committed. The Council does not have to have deliberately or dishonestly facilitated the tax evasion itself; the fact that the associated person has done so creates the liability for the Council.

***Specifically, staff, agents and associates must not knowingly do anything that helps someone else evade tax.***

It is a defence to the corporate criminal offence of facilitating tax evasion if the Council can prove that it has in place such prevention procedures as it is reasonable to expect in the circumstances. Government guidance (“Tackling tax evasion: Government guidance for the corporate offences of failure to prevent the criminal facilitation of tax evasion”) suggests an appropriate set of prevention measures which gives due recognition to the following:

- risk assessment;
- the proportionality of risk-based prevention procedures;
- top level commitment;
- due diligence;
- communication (including training);
- monitoring and review.

The Council must ensure a policy on prevention is brought to the attention of all staff. This policy will therefore be published on the Council’s web-site.

## 4. Penalties

As an employer, if the Council fails to prevent its employees, workers, agents or service providers facilitating tax evasion, the Council can face both criminal sanctions including an unlimited fine, and associated reputational damage. The Council therefore takes its legal responsibilities seriously.

## 5. Policy Statement – Tax Evasion

Somerset Council has a zero-tolerance approach to all forms of tax evasion, whether under UK law or under the law of any foreign country. Employees of the Council, its agents and contractual associates must not undertake any transactions which:

- Cause the Council to commit a tax evasion offence; or
- Facilitate a tax evasion offence by a third party.

## 6. Objective of this policy

This policy provides a coherent and consistent framework to enable the Council's employees (and other "associated persons") to understand and implement arrangements enabling compliance. In conjunction with related policies and key documents it will also enable employees to identify and effectively report a potential breach.

The Council requires that all relevant persons:

- Act honestly and with integrity at all times so as to safeguard the Council's resources for which they are responsible
- Comply with the spirit, as well as the letter, of the laws and regulations of all jurisdictions in which the Council operates, in respect of the lawful and responsible conduct of activities

## 7. Scope of this policy

This policy applies to all of the Council's activities. For partners, joint ventures and suppliers, it will seek to promote the adoption of policies consistent with the principles set out in this policy.

Responsibility to control the risk of tax evasion occurring resides at all levels of the organisation including all services, business units and corporate and support functions.

This policy covers all personnel, including all levels and grades, those permanently employed, temporary agency staff, contractors, non-executives, agents, Members, volunteers and consultants.



## 8. The Council's commitment to action

The Council commits to:

- Setting out a clear anti-tax evasion policy and keeping it up to date
- Making all employees aware of their responsibilities to adhere strictly to this policy at all times
- Raising awareness of the risks of tax evasion with employees so that they can recognise and avoid occurrences of potential tax evasion by themselves and others
- Undertaking a risk assessment to identify those areas of the Council's business where risk is considered to be highest
- Targeted training of services where the perceived risk is higher
- Promoting good ethical behaviour by staff in all of its forms
- Encouraging its employees to be vigilant and to report any suspicions of tax evasion, providing them with suitable channels of communication and ensuring sensitive information is treated appropriately
- Investigating instances of alleged tax evasion
- Referring investigations to the Police where it is appropriate to do so
- Taking firm and vigorous action against any individual(s) involved in tax evasion, or the facilitation of it
- Providing information to all employees on how to report breaches and suspected breaches of this policy
- Including appropriate clauses in contracts to prevent tax evasion.

The Council seeks to maintain relevant procedures, including top-level commitment to tackling tax evasion and effective communication, including training. Senior Officers have an additional responsibility (beyond that of the employees own) for ensuring this policy is communicated effectively to staff and frequently refreshed throughout their department along with other good practice regarding ethical behaviour.

## 9. Tax Evasion is not tolerated

It is unacceptable to:

- Engage in any form of facilitating tax evasion (including foreign tax evasion);

- Aid, abet, counsel or procure the commission of a tax evasion offence by another person;
- Fail to promptly report any request from any third party to facilitate the fraudulent evasion of tax by another person;
- Engage in any other activity that might lead to a breach of this policy;
- Threaten or retaliate against another individual who has refused to commit a tax evasion offence or who has raised concerns under this policy;
- Commit an offence under the law of any part of the UK consisting of being knowingly concerned in, or taking steps with a view to, the fraudulent evasion of tax.

## 10. Staff responsibilities

The prevention, detection and reporting of all forms of financial irregularity, including suspected tax evasion, are the responsibility of all those working for the organisation or under its control (“associated persons”). All staff are required to avoid activity that breaches this policy.

As individuals you must:

- Ensure that you read, understand and comply with this policy
- Raise concerns as soon as possible if you believe or suspect that a conflict with this policy has occurred, or, may occur in the future.

As well as the possibility of civil legal action and criminal prosecution, staff that breach this policy will face disciplinary action, which could result in dismissal for gross misconduct.

## 11. Raising a concern

The Council is committed to ensuring that there is a safe, reliable, and confidential way of reporting any suspicious activity, and wants each and every member of staff to know how they can raise concerns.

All have a responsibility to help detect, prevent and report instances of tax evasion. If you have a concern regarding a suspected instance of tax evasion, please speak up – your information and assistance will help. The sooner it is brought to attention, the sooner it can be resolved.

There are multiple channels to help raise concerns. Please refer to the Council's Whistleblowing Policy and determine the favoured course of action. Preferably the disclosure will be made and resolved internally (e.g. to a line manager or head of department). Secondly, where internal disclosure would not be appropriate, concerns can be raised with the Monitoring Officer, the Executive Director – Resources and Corporate Services, the Service Director, Finance and Procurement, the Strategic Manager – Finance Systems and Governance, the Chief Internal Auditor or the External Auditor. Raising concerns in these ways may be more likely to be considered reasonable than making disclosures publicly (e.g. to the media). Concerns can be raised anonymously. In the event that an incident of suspected wrong doing is reported, the Council will act as soon as possible to evaluate the situation. It has clearly defined procedures for investigating fraud, misconduct and non-compliance issues and these will be followed in an investigation of this kind. This is easier and quicker if concerns raised are not anonymous.

Staff who raise concerns or report wrongdoing could understandably be worried about the repercussions. The Council aims to encourage openness and will support anyone who raises a genuine concern in good faith under this policy, even if they turn out to be mistaken. The Public Interest Disclosure Act 1998 (PIDA) protects individuals who make certain disclosures of information in the public interest. Our Whistleblowing Policy complies with PIDA. The Council is committed to ensuring nobody suffers detrimental treatment through the reporting of a concern in good faith.

## 12. Other relevant policies

Further information on relevant Council policy and practice can be found in the following internal documents:

- [The Council's Constitution, incorporating the Members' Code of Conduct, Officers' Code of Conduct, Contract Standing Orders, Financial Regulations;](#)
- [Anti-Fraud and Corruption Policy;](#)
- [Employee Whistleblowing Policy;](#)

## 13. Useful links

- [Criminal Finances Act 2017, Part 3 - Corporate Offences of Failure to Prevent Facilitation of Tax Evasion](#)
- [HM Revenue & Customs](#)

## 14. Policy review

The Executive Director – Resources and Corporate Services (s.151 Officer), the Council’s Corporate Governance Board and the Audit Committee are responsible for ensuring the continuous review and amendment of this policy document, to ensure that it remains compliant with good practice and legislative requirements.

Next Review date: April 2025



**Somerset**  
Council

**Anti-Bribery Policy**  
**2023**  
**(Appendix B)**

- 1 [Introduction](#)
- 2 [What constitutes bribery](#)
- 3 [Application of the policy](#)
- 4 [Overall Approach](#)
- 5 [Reporting money laundering](#)
- 6 [Risk assessment](#)
- 7 [Communication of the policy](#)

*Updated April 2023, for next review April 2025*

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## **1. Introduction**

Somerset Council has a **zero tolerance** for any acts of bribery, improper inducement or similarly corruption, and will take all necessary steps (including through the courts) to protect the public purse from these activities.

Somerset Council does not, and will not, pay bribes or offer improper inducements to anyone for any purpose, nor do we or will we, accept bribes or improper inducements. To use a third-party as a conduit to channel bribes to others is a criminal offence. We do not, and will not, engage indirectly in or otherwise encourage bribery.

We are committed to the prevention, deterrence and detection of bribery. We aim to maintain anti-bribery compliance as “business as usual”, rather than as a one-off exercise.

This policy provides the framework to enable the organisation’s employees and members to understand and implement arrangements enabling compliance. In conjunction with related policies and key documents it will also enable members and employees to identify and effectively report a potential breach.

Somerset Council requires that all members and staff, including those permanently employed, temporary agency staff and contractors:

- act honestly and with integrity at all times and to safeguard the Council’s resources for which they are responsible and to safeguard the council’s good reputation;
- comply with the spirit, as well as the letter, of the laws and regulations of all jurisdictions in which Somerset Council operates, in respect of the lawful and responsible conduct of activities.

It is unacceptable to:

- give, promise to give, or offer a payment, gift or hospitality with an expectation or hope that a business advantage will be received, or to reward a business advantage already given;
- give, promise to give, or offer a payment, gift or hospitality to a government official, agent or representative to “facilitate” or expedite a routine procedure;
- accept payment from a third party that you know or suspect is offered with the expectation that it will obtain a business advantage for them;
- accept a gift or hospitality from a third party if you know or suspect that it is offered or provided with an expectation that a business advantage will be provided by us in return;
- retaliate against or threaten a person who has refused to commit a bribery offence or who has raised concerns under this policy;
- engage in activity in breach of this policy

As well as the possibility of civil and criminal prosecution, staff and members that breach this policy will face disciplinary action, which could result in dismissal for gross misconduct.

## **2. What Constitutes Bribery?**

The Bribery Act 2010 (‘the Bribery Act’) aims to promote anti-bribery practices amongst businesses. It applies to both the private and public sectors and so applies to the Council. An organisation will commit a criminal offence under the Bribery Act if it fails to prevent bribery that is intended to obtain or retain business or an advantage in the conduct of business for the organisation. An individual can also be guilty of an offence under the Bribery Act.

There are four key offences under the Act :

- Section 1 - Bribing another person
- Section 2 - Taking a bribe
- Section 6 - Bribing a foreign public official
- Section 7 - Failing to prevent bribery.

Bribery is a criminal offence. Bribery is an inducement or reward offered, promised or provided to gain personal, commercial, regulatory or contractual advantage.

The Bribery Act 2010 <http://www.legislation.gov.uk/ukpga/2010/23/contents>

makes it an offence to offer, promise or give a bribe (section 1). It also makes it an offence to request, agree to receive, or accept a bribe (section 2). Section 6 of the Act creates a separate offence of bribing a foreign public official with the intention of obtaining or retaining business or an advantage in the conduct of business. There is also a corporate offence under Section 7 of the Act for failure by a commercial organisation to prevent bribery that is intended to obtain or retain business, or an advantage in the conduct of business, for the organisation. An organisation will have a defence to this corporate offence if it can show that it had in place adequate procedures designed to prevent bribery by or of persons associated with the organisation.

The guidance states that a “commercial organisation” is anybody formed in the United Kingdom and “...it does not matter if it pursues primarily charitable or educational aims or purely public functions. It will be caught if it engages in commercial activities, irrespective of the purpose for which profits are made.”

For the purpose of applying the Act Somerset Council is treated as a “commercial organisation”.

An individual guilty of an offence under sections 1, 2 or 6 is liable:

- on conviction in a magistrates court, to imprisonment for a maximum term of 12 months or to a fine not exceeding £5,000, or to both;
- on conviction in a crown court, to imprisonment for a maximum term of ten years, or to an unlimited fine, or both
- Organisations guilty of an offence under section 7 are liable to an unlimited fine

### **Public contracts and failure to prevent bribery**

Under the Public Contracts Regulations 2015 (which gives effect to EU law in the UK), Somerset Council is automatically and perpetually debarred from competing for public contracts where it is convicted of a corruption offence within the last 5 years.

Organisations that are convicted of failing to prevent bribery are not automatically barred from participating in tenders for public contracts. Somerset Council has the discretion to exclude organisations convicted of this offence if it occurred within the last 5 years.

### **Facilitation payments**

Facilitation payments are not tolerated and are illegal. Facilitation payments are unofficial payments made to public officials in order to secure or expedite actions. This, for example, includes customs officers.



### **3. Application**

This Anti-Bribery Policy will apply to all employees and Members of the Council and all contractors, agencies and partners working within the Council.

This policy applies to all of Somerset Councils activities. For partners, joint ventures and suppliers, we will seek to promote the adoption of policies consistent with the principles set out in this policy. Where others are to deliver services on behalf of the Council, it is essential during the procurement or service transfer process that they are made aware of the standards that are expected of them in relation to anti-bribery measures, and the support that the Council will expect in delivering our Policy.

Within Somerset Council, the responsibility to control the risk of bribery occurring resides with all members and officers. It does not rest solely within assurance functions, but in all service areas, business units and corporate functions.

### **4. Overall Approach**

Somerset Council is committed to having a zero tolerance approach to bribery through the creation of an anti-bribery culture: This will involve:

- setting out a clear anti-bribery policy and reviewing at least annually (through the Audit Committee);
- making all employees aware of their responsibilities to adhere to this policy at all times;
- providing training and guidance to key employees so that they can recognise and avoid the risk of bribery by themselves and others;
- encouraging its employees to be vigilant and to report any suspicions of bribery, providing them with suitable channels of communication and ensuring sensitive information is treated as such;
- rigorously investigating instances of alleged bribery and assisting police and other appropriate authorities in any resultant prosecution;
- taking firm and vigorous action against any individual(s), (employees, Members, contractors, agents) involved in bribery;
- provide information to all employees to report breaches and suspected breaches of this policy;
- including appropriate clauses in contract documents to prevent bribery;
- fostering a culture within the organisation, (from SLT and Members downwards) in which bribery is never acceptable.

## 5. Reporting

The prevention, detection and reporting of bribery and other forms of corruption are the responsibility of all those working for the organisation or under its direction. All staff and members are required to avoid activity that breaches this policy.

Council employees and members should report any concerns they may have regarding fraud and corruption, whether it relates to dishonest behaviour by Council employees, Members, Contractors or by others. That action will be free from recrimination. Such concerns will be treated in confidence and will be properly investigated. In the first instance a member of staff should contact a senior manager within the line management structure. However, if the member of staff considers the matter too serious or sensitive or inappropriate to raise within the line management structure then one of the following may be contacted – in person, by telephone or e-mail (marked confidential):

- Chief Executive
- Executive Director – Resources and Corporate Services
- Service Director – Finance and Procurement
- Strategic Manager – Finance Systems & Governance
- Chief Internal Auditor - SWAP Internal Audit Services
- Monitoring Officer
- Chair of Audit Committee.

Concerns can also be raised directly to the SWAP Internal Audit Services Counter Fraud Team through their Confidential Reporting Line:

<b>SWAP Confidential Reporting Line</b>	
Confidential Helpline	020 8142 8462
Confidential Email	confidential@swapaudit.co.uk
<a href="https://www.swapaudit.co.uk/contact-us">https://www.swapaudit.co.uk/contact-us</a>	Report It

All matters will be treated in confidence and an expressed wish not to reveal the identity of a complainant will be respected wherever possible. (Concerns expressed anonymously are much less powerful but will be considered by the Council). Alternatively, any person with a concern may use the Council's Confidential Whistleblowing Policy, or as an external contact point our external auditors, currently Grant Thornton.

Staff/Members who refuse to accept or offer a bribe, or those who raise concerns or report wrong-doing can understandably be worried about the repercussions. Somerset Council aims

to encourage openness and will support anyone who raises a genuine concern in good faith under this policy, even if they turn out to be mistaken.

Somerset Council is committed to ensuring nobody suffers detrimental treatment through refusing to take part in bribery or corruption, or because of reporting a concern in good faith.

## **6. Risk Assessment**

Somerset Council's procedures to prevent bribery by persons associated with it are proportionate to the bribery risks it faces and to the nature, scale and complexity of its activities. They are intended to be clear, practical, accessible, effectively implemented and enforced.

Somerset Council will assess the nature and extent of its exposure to potential external and internal risks of bribery on its business by persons associated with it. "Key areas" for regular re-assessment are to include procurement and payment, recruitment, insurance claims, officer and member decision-making. Such reviews will be at least annually, and whenever a change in process is made for any of these areas.

If the review of anti-bribery controls reveals a potentially increased risk, this will be taken to the Strategic Risk Management Group for consideration and monitoring. The risk will be added to JCAD, together with appropriate mitigations, and will be owned by the Service Director – Finance and Procurement unless a more suitable officer is nominated.

## **7. Communication**

Somerset Council seeks to ensure that its bribery prevention policies and procedures are understood throughout the organisation through internal and external communication, including training that is proportionate to the key officers and key risks it faces.

All staff will be alerted to the anti-bribery policies by means of Core Brief and the inclusion of the policy on key intranet governance sites. All staff engaged in what are deemed "key areas" for anti-bribery will also receive additional guidance.

### **Gifts and hospitality**

This policy is not intended to change any of the requirements of our gifts and hospitality policy.

The Council has decided that all offers of gifts/hospitality worth £50 or more, whether accepted or not, **must** be declared and recorded in order to ensure openness and transparency.



**Somerset**  
Council

**Anti-Fraud and Corruption  
Policy and Strategy 2023  
(Appendix A)**

- 1 [What Constitutes Fraud and Corruption](#)
- 2 [Key Principles](#)
- 3 [Relevant Legislation](#)
- 4 [Reporting Fraud](#)
- 5 [Investigation of Fraud](#)
- 6 [Prevention](#)
- 7 [Detection](#)
- 8 [Recovery of Losses](#)
- 9 [Conclusion](#)

*Updated April 2023, for next review April 2025.*

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## **Statement on Fraud and Corruption by the Executive Leadership Team**

Somerset Council takes its responsibilities to protect the public purse seriously and is fully committed to the highest ethical standards, to ensure the proper use and protection of public funds and assets.

The Council will not tolerate fraud or corruption by its councillors, employees, suppliers, contractors, partners or service users and will take all necessary steps to investigate all allegations of fraud or corruption and pursue appropriate sanctions available in each case, including removal from office, disciplinary action, dismissal and/or prosecution. The required ethical standards are included in both our Members Code of Conduct and Employees Code of Conduct.

To fulfil the Council's Strategy, we must be able to maximise the financial resources available to us. In order to do this, we aim to reduce fraud and corruption to zero. This policy statement is underpinned by an Anti-Fraud and Corruption Strategy, which sets out the key responsibilities regarding fraud prevention, what to do if fraud is suspected and the action that will be taken by management.

The strategy is based upon the five pillars: Govern, Acknowledge, Prevent, Pursue and Protect for effective fraud management and adheres to England's counter fraud and corruption strategy for local government Fighting Fraud and Corruption Locally – A Strategy for the 2020's.

### **1. Purpose**

- 1.1 The purpose of this Policy is to set out clearly:
- The Council's commitment and approach to tackling fraud, bribery, and corruption.
  - The responsibilities of Members and employees to report any suspicions they have.
  - The importance of the public in tackling fraud.
- 1.2 This policy applies to:
- Members
  - Employees
  - Agency staff
  - Contractors
  - Consultants
  - Suppliers
  - Service users
  - Employees and committee members of organisations funded by Somerset Council
  - Employees and principals of partner organisations
  - Volunteers working for Somerset Council
- 1.3 In addition to the above Somerset Council expects members of the public to be honest in their dealings with the Council.
- 1.4 Other relevant policies include:
- The Constitution (including Financial Regulations and Contract Standing Orders)
- Financial Regulations
  - Members' Code of Conduct
  - Standards of Conduct
  - Complaints procedures
  - Disciplinary Policy
  - Whistleblowing Policy
  - Anti-Money Laundering Policy
  - Anti-Bribery Policy
  - Risk Strategy
  - Audit Committee reports
- 1.5 The arrangements set out in this policy will be reviewed annually to ensure the Council remains resilient to fraud threat.

2 **Key Principles**The Council has its arrangements in line with the Fighting Fraud and Corruption Locally Strategy (2020) – the Local Government blueprint for tackling fraud in Local Government. The strategy outlines its 5 pillars for effective fraud management, as below:

Pillar 1	Pillar 2	Pillar 3	Pillar 4	Pillar 5
Govern	Acknowledge	Prevent	Pursue	Protect
having robust arrangements embedded throughout the organisation	acknowledging and understanding fraud risks	preventing and detecting more fraud	being stronger in punishing fraud/ recovering losses	protecting itself and its residents



Having robust arrangements and executive support to ensure anti-fraud, bribery and corruption measures are embedded throughout the organisation.  Having a holistic approach to tackling fraud is part of good governance.	Assessing and understanding fraud risks.  Committing support and resource to tackling fraud.  Maintaining a robust anti-fraud response.	Making better use of information and technology.  Enhancing fraud controls and processes.  Developing a more effective anti-fraud culture.	Prioritising fraud recovery and the use of civil sanctions.  Developing capability and capacity to punish fraudsters.  Collaborating with law enforcement.	Recognising the harm that fraud can cause in the community.  Protecting itself and its' residents from fraud.
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- 2.2 The Council will not tolerate fraud, bribery or corruption and if proven employees will face possible dismissal and/or prosecution.
- 2.3 The Council expects that Members and officers at all levels will lead by example to ensure high standards of propriety, integrity and accountability and operate within relevant Codes of conduct.
- 2.4 The Council will endeavour to raise fraud awareness among employees both at induction and periodically throughout their employment.



- 2.5 The Council expects Members and Senior Officers to emphasise the importance of anti-fraud work and to actively promote and support the fight against fraud.
- 2.6 The Council expects individuals and organisations with whom it comes into contact with to act with integrity towards the Council.
- 2.7 The Council understands the fraud risks it faces and will implement policies and procedures to identify and prevent fraud, bribery and corruption, but will also take all action necessary to investigate and identify it.
- 2.8 The Council will take appropriate action against those responsible for fraud and where possible recover losses incurred. (see Recovery of Losses)
- 2.9 Members of the public are asked to contribute to the Council's fight against fraud by remaining vigilant to the potential for fraud and reporting it where they suspect the Council is being targeted. Employees and Members have a duty to do so, and concerns should be raised when it is reasonably believed that one or more of the following has occurred, is occurring or is likely to occur:
- A criminal offence.
  - A failure to comply with a statutory or legal obligation.
  - Improper or unauthorised use of public or other official funds, or assets.
- 2.10 The investigation of fraud will be fair, independent, and objective. Officers will be mindful of the Equality Act 2010 and will not let their political or personal views regarding suspects, victims or witnesses unduly influence their decisions. Officers will not be affected by improper or undue pressure from any source.
- 2.11 Somerset Council will endeavour not to facilitate fraud against other bodies including tax evasion. If through its operation or investigation work, it identifies possible fraud against another organisation, it will report this to the 'appropriate body'.
- 2.12 Work with service areas to help raise awareness of fraud risk and scams that affect the public relative to the service area.
- 3 Relevant Legislation**
- 3.1 Fraud is defined in the Fraud Act 2006 which came into effect from 15 January 2007. There are three basic types of fraud:

- **False representation**  
Where a person makes a representation that is intentionally and dishonestly made, knowing that it is, or might be, untrue or misleading with intent to make a gain for him/herself or another, to cause loss to another or to expose another to risk of loss.
- **Failing to disclose information**  
Where a person fails to disclose information to another person when he/she is under a legal duty to disclose that information honestly, intending by that failure to make a gain or cause a loss.
- **Abuse of position**  
Where a person occupies a position in which he/she is expected to safeguard, or not to act against, the financial interests of another person and abuses that position dishonestly intending by that abuse to make a gain/cause a loss (the abuse may consist of an omission rather than an act).

A person can be found guilty even if there is no victim of the crime; all that needs to be proven is the intent to make a gain or cause a loss by the accused.

- 3.2 The Bribery Act 2010 contains two general offences:
- Section 1 - the offering, promising or giving of a bribe (active bribery);
  - Section 2 - and the requesting, agreeing to receive or accepting of a bribe (passive bribery)
- 3.3 The Theft Act 1968 and the Forgery and Counterfeiting Act 1981 define offences of:
- Theft
  - False Accounting
  - Forgery
- 3.4 The Criminal Finance Act 2017 created a criminal offence of failing to put adequate measures in place to prevent tax evasion in the United Kingdom or overseas.
- 3.5 The Proceeds of Crime Act 2002 made it a criminal offence to fail to disclose knowledge of or suspicion of money laundering.

#### 4. Reporting Fraud

- 4.1 Somerset Council employees and members **must** report any concerns they may have regarding fraud and corruption, whether it relates to dishonest behaviour by Council employees, Members, contractors or by others. That action will be free from recrimination. Such concerns will be treated in confidence and will be properly

investigated. In the first instance a member of staff should contact a senior manager within the line management structure.

Any suspected instances of fraud or data breaches should also be emailed to [anti-fraud@somerset.gov.uk](mailto:anti-fraud@somerset.gov.uk) or logged via the intranet self-help service.

However, if the member of staff considers the matter too serious or sensitive or inappropriate to raise within the line management structure then one of the following may be contacted – in person, by telephone or e-mail (marked confidential):

- Chief Executive
- Executive Director – Resources and Corporate Services
- Service Director – Finance and Procurement
- Strategic Manager – Finance Systems & Governance
- Chief Internal Auditor - SWAP Internal Audit Services
- Monitoring Officer
- Chair of Audit Committee.

Concerns can also be raised directly to the SWAP Internal Audit Services Counter Fraud Team through their Confidential Reporting Line:

SWAP Confidential Reporting Line	
Confidential Helpline	020 8142 8462
Confidential Email	confidential@swapaudit.co.uk
<a href="https://www.swapaudit.co.uk/contact-us">https://www.swapaudit.co.uk/contact-us</a>	Report It

- 4.2 All matters will be treated in confidence and an expressed wish not to reveal the identity of a complainant will be respected wherever possible. (Concerns expressed anonymously are much less powerful but will be considered by the Council). Alternatively, any person with a concern may use the Council’s Confidential Whistleblowing Policy or as an external contact point our external auditors, Grant Thornton.
- 4.3 Elected members should normally report any concerns to the appropriate Senior Leadership Team member, the Chief Executive, the Executive Director – Resources and Corporate Services or the Monitoring Officer.
- 4.4 The Council’s Disciplinary Policy clearly identifies the following as gross misconduct:
- Theft or unauthorised possession from other employees, the Council or clients.
  - Fraud or attempt to defraud.

- Falsification and irregular practice in respect of cash, records, returns or attendance recording systems.

A Senior Leadership Team member (or other senior nominated officer, where authorised) may dismiss an employee on the grounds of gross misconduct in accordance with HR policies, procedures and subject to consultation with the Service Director - Workforce.

- 4.5 An accusation of dishonest behavior by a Member of the Council should be referred to the Monitoring Officer for an assessment of whether this is likely to constitute a breach of the Members' Code of Conduct.
- 4.6 If a case involves action against a third party, any action to be taken will be agreed between an Executive Leadership Team member, the Executive Director – Resources and Corporate Services, and where necessary the Monitoring Officer.
- 4.7 Where investigation reveals evidence of suspected criminal activity with regard to fraud and corruption the relevant Senior Leadership Team member in consultation with the Executive Director Resources and Corporate Services **must** refer the matter to the Police. Where an employee is involved, the employee's Senior Leadership Team member should consult with the Executive Director Resources and Corporate Service and where appropriate, the Chief Executive, Monitoring Officer and Service Director - Workforce.

## 5. Investigation of Fraud

- 5.1 The investigation of fraud, bribery and corruption is a complex and specialist area and will usually be undertaken by staff in the Counter Fraud Team – SWAP Internal Audit Services or, for less complicated cases, managers, under advice from the Counter Fraud Team. The Counter Fraud Team or manager will liaise as appropriate with the Chief Executive, Chief Finance Officer (S151), Monitoring Officer, Council Solicitor, Service Director - Workforce, Executive Leadership Team, relevant members and the Police.
- 5.2 To facilitate audit work and investigations, the Counter Fraud Team are accorded rights, by the Accounts and Audit Regulations (England) 2015, to access all necessary documents, records, information and explanations from any member of staff. These access rights are confirmed in Financial Regulations.

## 6. Prevention

- 6.1 There are many ways of preventing fraud and corruption happening. The Council has adopted the following preventative measures including:

- Having a sound Governance Framework with performance against it being reviewed annually by senior management. Reported to Governance Board and Audit Committee.
- Ensuring that the risks of fraud and corruption are controlled via corporate and operational risk registers.
- The Council's Recruitment and Selection procedure requires that references should always be taken up when recruiting posts externally.
- The officers' Standards of Conduct makes clear the expected conduct of its employees.
- The members' Code of Conduct makes clear the expected conduct of its Councillors.
- The Council maintains a register of all pecuniary and personal interests (and where appropriate prejudicial interests) as well as details of gifts and hospitality received.
- Contracts Standing Orders and Financial Regulations prescribe the minimum standards for financial controls that must be in place within all processes throughout the Council.
- The Council subscribes to the National Anti-Fraud Network.

6.2 Each individual employee and Member is responsible for observing these rules and codes. This will go a long way to preventing and detecting improper practice.

## 7. Detection

7.1 The array of preventative systems, particularly internal controls systems with the Council, help to provide indicators of, and help to deter, any fraudulent activity. Where fraudulent activity is suspected, this may be investigated by Internal Audit. It is not Internal Audit's primary responsibility to detect fraud; the role of Internal Audit is to check the adequacy of the controls within systems. However, the assessment of the risk of fraud is routinely taken into account in planning all internal audits.

7.2 It is the responsibility of the Corporate Leadership Team and their managers to prevent and detect fraud and corruption. However, it is often the alertness of staff, Members and the public to the possibility of fraud and corruption, that enables detection to occur and appropriate action to take place when there is evidence that fraud or corruption may

have been committed or is in progress.

- 7.3 Allegations can be a key factor in the detection of fraud and as such the Council treats all suspicions and concerns and complaints seriously and is committed to investigate all such matters.
- 7.4 The Council's Code of Practice on Whistleblowing allows employees and Members to raise any concerns they may have in confidence and anonymously should they so wish.
- 7.5 The Council takes part in the Governments National Fraud Initiative (NFI) which brings together data from NHS bodies, local authorities, government departments and other agencies to detect a wide range of frauds against the public sector. This data matching exercise which is run every two years. Potential frauds uncovered through NFI will be investigated in accordance with this Policy. Along with this the Council subscribes to CiFAS, giving access to their national fraud database.

## **8. Recovery of Losses**

- 8.1 The Council will always seek to recover the losses incurred as a result of fraud and corruption.
- 8.2 The Council's Insurance Manager should be informed as soon as possible of any potential insurable loss. Details of the case should also be given together with an indication of what recovery action is being attempted.
- 8.3 If anyone under investigation offers money in settlement of any losses to the Council, it should be made clear that any monies offered will be accepted:
- without prejudice to any other action the Council may wish to take.
  - that acceptance is only in respect of losses identified to date.
  - and that the Council reserves the right to seek recovery of any further losses that may come to light in the future.
- 8.4 Claims under the Council's insurance arrangements in fraud and corruption cases should be regarded as a "last resort" and will only be instigated once all other avenues of recovery have been fully explored.
- 8.5 Instances of fraud will be reported to the police and consideration will be given to legal action against the perpetrator of fraud or those benefiting from fraud in order to recover

the Council's losses.

## 9. Conclusion

9.1 Somerset Council will maintain a continuous overview of these arrangements and, through the Executive Director Resources and Corporate Service, will ensure a regular review of Contract Standing Orders, Financial Regulations, Financial Management, Audit Arrangements and Fraud Management.

9.2 This Policy Statement will also be subject to regular review at least every other year.

If you have any questions about these procedures, please contact the **Service Director – Finance and Procurement**

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**Somerset**  
Council

Anti-Money Laundering Policy 2023  
(Appendix D)

- 1 [Introduction](#)
- 2 [What Constitutes Money Laundering?](#)
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- 4 [Overall Approach](#)
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- 7 [Communication of the policy](#)

*Updated April 2023, for next review April 2025.*

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## **1. Introduction**

The Proceeds of Crime Act 2002 ('POCA') and the Money Laundering Terrorist Financing & Transfer of Funds (Information on the Payer) Regulations 2017 impact on areas of local authority business and require local authorities to establish internal procedures to prevent the use of their services for money laundering.

Somerset Council has a **zero tolerance** for any acts of money laundering and will take all necessary steps (including through the courts) to protect the public purse from these activities. CIPFA defines money laundering as "to disguise criminally sourced cash or property in order to give the appearance of legitimacy. This is done by mixing the criminal transactions with the legitimate transactions of businesses."

Somerset Council will do all it can to prevent the Council and its staff being exposed to money laundering, to identify the potential areas where it may occur, and to comply with all legal and regulatory requirements, especially with regard to the reporting of actual or suspected cases.

It is acknowledged that the risks to the Council in relation to money laundering are considered very low; however the potential losses and reputational damage could be significant.

This policy provides the framework to enable the organisation's employees and members to understand and implement arrangements enabling compliance. In conjunction with related policies and key documents it will also enable members and employees to identify and effectively report a potential breach.

As well as the possibility of civil and criminal prosecution, staff and members that breach this policy will face disciplinary action, which could result in dismissal for gross misconduct.

## **2. What Constitutes Money Laundering?**

Money laundering is the term used for a number of offences involving the proceeds of crime or terrorism funds. The following constitute the act of money laundering:

- Concealing, disguising, converting, transferring criminal property or removing it from the UK (section 327 of the POCA 2002); or
- Entering into or becoming concerned in an arrangement which you know or suspect facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person (section 328 of the POCA 2002 Act); or
- Acquiring, using or possessing criminal property (section 329 of the POCA 2002 Act);
- Becoming concerned in an arrangement facilitating concealment, removal from the jurisdiction, transfer to nominees or any other retention or control of terrorist property (section 18 of the Terrorist Act 2000).

These are the primary money laundering offences and thus prohibited acts under the legislation. There are also two secondary offences: failure to disclose any of the primary offences and tipping off. Tipping off is where someone informs a person or people who are, or are suspected of being involved in money laundering, in such a way as to reduce the likelihood of their being investigated or prejudicing an investigation.

Potentially any member of staff could be caught by the money laundering provisions if they suspect money laundering and either become involved with it in some way and/or do nothing about it. This Policy sets out how any concerns should be raised.

Money laundering can take place in an almost infinite number of ways. It does however require three distinct phases to be in place for money to be laundered:

1. Placement - the stage at which criminally derived funds are introduced in the financial system.
2. Layering - the substantive stage of the process in which the property is 'washed' and its ownership and source is disguised.
3. Integration - the final stage at which the 'laundered' property is re-introduced into the legitimate economy.

## **3. Application**

This Anti-Money Laundering Policy will apply to all employees and Members of the Council.

This policy applies to all of Somerset Council's activities. For partners, joint ventures and suppliers, we will seek to promote the adoption of policies consistent with the principles set out in this policy. Where others are to deliver services on behalf of Somerset Council, it is essential during the procurement or service transfer process that they are made aware of the standards that are expected of them in relation to money laundering measures, and the support that the Council will expect in delivering our Policy.

Within Somerset Council, the immediate responsibility to control the risk of money laundering occurring resides with all officers who handle external payments and in particular payments in cash. It does not rest solely within assurance functions, but in all service areas, business units and corporate functions.

#### **4. Overall Approach**

Somerset Council is committed to having a zero-tolerance approach to money laundering through the creation of an anti-money laundering and corruption culture: This will involve:

- setting out a clear anti-money laundering policy and reviewing at least annually (through the officer Governance Board and Audit Committee);
- making all employees who are involved in the collection of income aware of their responsibilities to adhere to this policy at all times;
- limiting the amount of cash that the Council will take from a single debtor or single occasion to £5,000;
- encouraging its employees to be vigilant and to report any suspicions of money laundering, providing them with suitable channels of communication and ensuring sensitive information is treated as such;
- rigorously investigating instances of alleged money laundering and assisting police and other appropriate authorities in any resultant prosecution through the Money Laundering Reporting Officer;
- taking firm and vigorous action against any individual(s), (employees, Members, contractors, agents) involved in money laundering;
- provide information to all employees to report breaches and suspected breaches of this policy;
- including appropriate clauses in contract documents to prevent money laundering;
- fostering a culture within the organisation, (from SLT and Members downwards) in which money laundering is never acceptable.

#### **5. Reporting**

The prevention, detection and reporting of money laundering and other forms of corruption are the responsibility of all those working for the organisation or under its direction. All staff and members are required to avoid activity that breaches this policy.

Somerset Council employees and members should report any concerns they may have regarding money laundering and corruption, whether it relates to dishonest behaviour by Council employees, Members, Contractors or by others. That action will be free from recrimination. Such concerns will be treated in confidence and will be properly investigated. In the first instance a member of staff should contact a senior manager within the line management structure. However, if the member of staff considers the matter too serious or sensitive or inappropriate to raise within the line management structure then one of the following may be contacted – in person, by telephone or e-mail (marked confidential):

- Chief Executive
- Executive Director – Resources and Corporate Services (S151 Officer)
- Service Director – Finance and Procurement
- Strategic Manager – Finance Systems & Governance
- Chief Internal Auditor - SWAP Internal Audit Services
- Monitoring Officer
- Chair of Audit Committee.

All matters will be treated in confidence and an expressed wish not to reveal the identity of a complainant will be respected wherever possible. (Concerns expressed anonymously are much less powerful but will be considered by the Council). Alternatively, any person with a concern may use the Council's Confidential Whistleblowing Policy, or as an external contact point our external auditors, currently Grant Thornton.

The **Money Laundering Reporting Officer** (MLRO) is the Service Director – Finance and ~Procurement. In his/her absence, this role will be performed by the Strategic Manager – Finance Systems & Governance. It will be for the MLRO to coordinate an investigation into any allegations and if necessary to liaise with the Police.

Staff/members who refuse to accommodate attempts at money-laundering, or those who raise concerns or report wrong-doing can understandably be worried about the repercussions. Somerset Council aims to encourage openness and will support anyone who raises a genuine concern in good faith under this policy, even if they turn out to be mistaken.

Somerset Council is committed to ensuring nobody suffers detrimental treatment through refusing to take part in money laundering, or because of reporting a concern in good faith.

## 6. Risk Assessment

The Council's procedures to prevent money laundering by persons associated with it are proportionate to the risks it faces and to the nature, scale and complexity of its activities. They are intended to be clear, practical, accessible, effectively implemented and enforced. It is accepted that the overall risk of the Council being targeted and also being a victim of money laundering are **very low** because of the controls in place in our financial systems and policies.

Somerset Council will assess the nature and extent of its exposure to potential external and internal risks of money laundering on its business by persons associated with it on all annual basis.

If the review of anti-money laundering controls reveals a potentially increased risk, this will be taken to the Strategic Risk Management Group for consideration and monitoring. The risk will be added to JCAD, together with appropriate mitigations, and will be owned by the Service Director – Finance and Procurement unless a more suitable officer is nominated.

## 7. Communication

Somerset Council seeks to ensure that its anti-money laundering policies and procedures are understood throughout the organisation through internal and external communication, including training that is proportionate to the key officers and key risks it faces.

All staff will be alerted to the anti-money laundering policies by means of Core Brief and the inclusion of the policy on key intranet governance sites. All staff engaged in what are deemed "key areas" for anti-money laundering will also receive additional guidance.

## **Decision Report - Executive Decision**

Forward Plan Reference: FP/23/--/--

Decision Date – [date]

Key Decision – no



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### **Treasury Management Practices**

Executive Member(s): Cllr Liz Leyshon

Local Member(s) and Division: N/A

Lead Officer: Jason Vaughan, Executive Director – Resources and Corporate Services

Author: Anton Sweet, Service Manager – Investments

Contact Details: [anton.sweet@somerset.gov.uk](mailto:anton.sweet@somerset.gov.uk)

### **Summary / Background**

1. The Treasury Management Practices (TMPs) are a detailed document setting out how day to day treasury activity is undertaken by the Council and is part of a suite of governance documents controlling the Council's Treasury Management activity. It is a requirement of the CIPFA code on Treasury Management for the Council to prepare and maintain TMPs. They are a 'living document' that should be updated as necessary and are formally adopted by the Section 151 Officer and deputy Section 151 Officer.

### **Recommendations**

2. The TMPs are attached as appendix 1. They are being shared with audit committee for information only to help Audit Committee fulfil their role in providing oversight of the treasury function.

### **Other options considered**

3. Not applicable

### **Links to Council Plan and Medium-Term Financial Plan**

4. Effective Treasury Management provides support to the range of business and service level objectives that together help to deliver the Somerset County Plan

### **Financial and Risk Implications**

5. There are no direct implications with respect to TMPs. The financial implications of treasury activity are covered within the annual budget as approved by Full Council.

### **Legal Implications**

6. Treasury Management must operate within specified legal and regulatory parameters. These are detailed within the TMPs.

### **HR Implications**

7. There are no HR implications.

### **Other Implications:**

### **Equalities Implications**

8. There are no equalities implications.

### **Community Safety Implications**

9. There are no community safety implications.

### **Climate Change and Sustainability Implications**

10. The current requirements of Treasury Management activity with respect to climate change are contained within the TMPs.

### **Health and Safety Implications**

11. There are no health and safety implications.

### **Health and Wellbeing Implications**

12. There are no health and wellbeing implications.



## **Social Value**

13. Not applicable

## **Scrutiny comments / recommendations:**

14. The Audit Committee is the body responsible for ensuring effective scrutiny of the treasury management strategy and policies.

## **Background**

15. Not applicable

## **Background Papers**

16 None

## **Appendices**

- **Somerset Council Treasury Management Practices**

# **SOMERSET COUNCIL**

## **TREASURY MANAGEMENT PRACTICES**

**Version 1: April 2023**

**Approved by Section 151 Officer:**

**Date:**

**Approved by Deputy Section 151 Officer:**

**Date:**

# **Introduction**

The CIPFA Code of Practice on Treasury Management in the Public Services (the Code) was last revised in December 2021. The Code requires setting out the responsibilities and duties of members and officers, allowing a framework for reporting and decision making on all aspects of treasury management. There is now no longer a requirement to formally adopt the Treasury Management Code, but instead the Council is now required by law to have regard to the Code. Treasury Management is defined by CIPFA as

**‘The management of the Authority’s investments, cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with these activities; and the pursuit of optimum performance consistent with those risks’.**

The Department for Levelling Up, Housing and Communities (DLUHC) published revised statutory guidance and an informal commentary on Local Authority Investments for England in February 2018.

‘Investments’ covers all the financial assets of the Authority, as well as other non-financial assets which the Authority holds primarily or partially to generate a profit, including but not limited to commercial property. Investments will be categorised in accordance with the primary purpose of the investment.

- Treasury management investments are those investments that arise from the Authority’s cash flows or treasury risk management activity and ultimately represent balances that need to be invested until the cash is required for use in the course of business.
- Service investments are those held primarily and directly for the delivery of public services (including housing, regeneration and local infrastructure) or in support of joint working with others to deliver such services. They may or may not involve financial returns.
- Commercial investments are those held primarily for financial return and are not linked to treasury management activity or directly part of delivering services.

Service and commercial investments assets are not managed as part of the Authority’s normal treasury management, or under treasury management delegations, and separate Investment Management Practices (IMPs) are required for these.

The Code identifies three key principles:

- Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.
- Their policies and practices should make clear that the effective management and control of risk and prime objectives of their treasury management activities and that responsibility for these lies clearly within these organisations. Their appetite for risk should form part of their annual strategy, including any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and portfolio liquidity when investing treasury management funds.
- They should acknowledge that the pursuit for value for money in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.

CIPFA recommends that all public service organisations adopt, as part of their standing orders, financial regulations, or other formal policy documents appropriate to their circumstances, the following four clauses.

(1) The Council will create and maintain, as the cornerstones for effective treasury management

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities.
- Suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

The content of the policy statement and TMPs will follow the recommendations contained in Section 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of the Council. Such amendments will not result in the organisation materially deviating from the Code's key principles.

- (2) The Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.
- (3) The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Executive Committee, and for the execution and administration of treasury management decisions to the Section 151 Officer, who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management
- (4) The Council nominates the Audit Committee to be responsible for ensuring effective scrutiny of treasury management strategy and policies.

The Treasury Management Practices (TMPs) comprise:

TMP1	Risk management
TMP2	Performance measurement
TMP3	Decision making and analysis
TMP4	Approved instruments, methods and techniques
TMP5	Organisation, clarity and segregation of responsibilities, and dealing arrangements
TMP6	Reporting requirements and management information arrangements
TMP7	Budgeting, accounting and audit arrangements
TMP8	Cash and cash flow management
TMP9	Money laundering
TMP10	Training and qualifications
TMP11	Use of external service providers
TMP12	Corporate governance
TMP 13	Environmental, Social, and Governance risk management

Schedules supporting these practices and other documents held at an operational level specify the systems and routines to be employed and the records to be maintained in fulfilling the Council's treasury functions.

The Council has separate Investment Management Practices for Service and Commercial Investments (i.e. for investments that are not part of Treasury Management activity).

Jason Vaughan  
Executive Director - Resources and Corporate Services (Section 151 Officer)

Nicola Hix  
Service Director - Finance and Procurement (Deputy Section 151 Officer)

*For further information please contact:*

Alan Sanford, Treasury Management, Somerset Council  
Tel: 01823 359585  
Email: alan.sanford@somerset.gov.uk

## **TMP1 RISK MANAGEMENT**

### **General statement**

The responsible officer, currently the Executive Director – Resources & Corporate Services (Section 151 Officer), will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least semi-annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in *TMP6 Reporting requirements and management information arrangements*.

In respect of each of the following risks, the arrangements, which seek to ensure compliance with these objectives, are set out in the schedule to this document.

#### **(1) Credit and counterparty risk management**

Somerset Council (SC) regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures cover all external investments. Its counterparty lists and limits will reflect a prudent attitude towards organisations with which funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in *TMP4 Approved instruments methods and techniques* and listed in the schedule to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing or derivative arrangements.

## **(2) Liquidity risk management**

SC will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives.

SC will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

## **(3) Interest rate risk management**

SC will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with *TMP6 Reporting requirements and management information arrangements*.

It will achieve this by the prudent use of its approved instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be subject to the consideration and, if required, approval of any policy or budgetary implications.

It will ensure that any hedging tools such as derivatives are only used for the management of risk and the prudent management of financial affairs and that the policy for the use of derivatives is clearly detailed in the annual strategy.

## **(4) Exchange rate risk management**

It will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

## **(5) Inflation risk management**

SC will keep under review the sensitivity of its treasury assets and liabilities to inflation and will seek to manage the risk accordingly in the context of the whole organisation's inflation exposures.

## **(6) Refinancing risk management**

SC will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective and will avoid over reliance on any one source of funding if this might jeopardise achievement of the above.



## **(7) Legal and regulatory risk management**

SC will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1 [1] *Credit and counterparty risk management*, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may affect with the organisation, particularly with regard to duty of care and fees charged.

SC recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

## **(8) Fraud, error and corruption, and contingency management**

SC will ensure that it has identified the circumstances, which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

## **(9) Market risk management**

SC will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests and will accordingly seek to protect itself from the effects of such fluctuations.

## **TMP2 Performance measurement**

SC is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the organisation's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out in the schedule to this document.

### **TMP3 Decision-making and analysis**

SC will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time.

The guidance on decision making states that relevant due diligence should take place on all transactions. In respect of all investment decisions SC will consider the risks to capital and returns and the implications for future plans and budgets.

The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in the schedule to this document.

### **TMP4 Approved instruments, methods and techniques**

SC will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the schedule to this document, and within the limits and parameters defined in TMP1 *Risk management*.

Where SC intends to use derivative instruments for the management of risks, these will be limited to those set out in its annual treasury strategy. SC will seek proper advice and will consider that advice when entering into arrangements to use such products to ensure that it fully understands those products.

The consideration of skills and experience is particularly critical where organisations request to be treated as professional clients under MIFID II. Designation under MIFID II should be endorsed by the treasury management strategy and regularly reviewed to ensure that designation remains appropriate. SC with current practitioners is designated as a 'Professional' client.

## **TMP5 Organisation, clarity and segregation of responsibilities, and dealing arrangements.**

SC considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when SC intends, as a result of lack of resources or other circumstances, to depart from these principles, the Section 151 Officer will ensure that the reasons are properly reported in accordance with *TMP6 Reporting requirements and management information arrangements*, and the implications properly considered and evaluated.

The Section 151 Officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The Section 151 Officer will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in the schedule to this document.

The Section 151 Officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the schedule to this document.

The delegations to the Section 151 Officer in respect of treasury management are set out in the schedule to this document. The Section 151 Officer will fulfil all such responsibilities in accordance with the organisation's policy statement and TMPs and, if a CIPFA member, the *Standard of Professional Practice on Treasury Management*.

## **TMP6 Reporting requirements and management information arrangements**

SC will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum:

SC (i.e. Full Council) will receive:

- An annual report on the strategy and plan to be pursued in the coming year.
- A mid-year review.
- An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the SC treasury management policy statement and TMPs.

The Section 151 Officer will receive regular (monthly) monitoring reports on treasury management activities and risks.

The Audit Committee will have responsibility for the scrutiny of treasury management policies and practices.

SC will report the treasury management indicators as detailed in the TM Codes sector specific guidance notes.

The present arrangements and the form of these reports are detailed in the schedule to this document.

## **TMP7 Budgeting, accounting and audit arrangements**

The Section 151 Officer will prepare, Council will approve and, if necessary, from time to time amend an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with *TMP1 Risk management*, *TMP2 Performance measurement*, and *TMP4 Approved instruments, methods and techniques*.

The Section 151 Officer will exercise effective controls over this budget and will report upon and recommend any changes required in accordance with *TMP6 Reporting requirements and management information arrangements*.

SC will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

SC will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices.

### **TMP8 Cash and cash flow management**

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of SC will be under the control of the Section 151 Officer and will be aggregated for cash flow and treasury management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Section 151 Officer will ensure that these are adequate for the purposes of monitoring compliance with *TMP1 [2] Liquidity risk management. and for the purpose of identifying future borrowing needs (using a liability benchmark where appropriate)*

The present arrangements for preparing cash flow projections, and their form, are set out in the schedule to this document.

### **TMP9 Money laundering**

SC is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this, are properly trained. The present arrangements, including the post of the officer to whom reports should be made, are detailed in the schedule to this document.

## **TMP10 Training and qualifications**

SC recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The Section 151 Officer will recommend and implement the necessary arrangements.

The Section 151 Officer will ensure that Council members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively. The present arrangements are detailed in the schedule to this document.

## **TMP11 Use of external service providers**

SC recognises that responsibility for treasury management decisions always remains with the Council. It recognises that there may be potential value in employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid over-reliance on one or a small number of companies.

Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the Section 151 Officer, and details of the current arrangements are set out in the schedule to this document.

## **TMP12 Corporate governance**

SC is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

SC has adopted and has implemented the key principles of the TM Code. This, together with the other arrangements detailed in the schedule to this document, are considered vital to the achievement of proper corporate governance in treasury management, and the Section 151 Officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

### **TMP13 Environmental, Social, and Governance risk management**

Environmental, social and governance (ESG) issues are increasingly significant for investors and investment managers. This is better developed in equity and bond markets than for short-term cash deposits, and there is a diversity of market approaches to ESG classification and analysis. This means that a consistent and developed approach to ESG for public service organisations is currently difficult. Organisations are therefore recommended to consider their credit and counterparty policies in light of ESG information and develop their own ESG investment policies and treasury management practices consistent with their organisation's own relevant policies, such as environmental and climate change policies. It is not expected that the organisation's ESG policy will currently include ESG scoring or other real-time ESG criteria at individual investment level.

## **INVESTMENT MANAGEMENT PRACTICES FOR INVESTMENTS THAT ARE NOT PART OF TREASURY MANAGEMENT ACTIVITY**

**Investments for service purposes (or service investments)** are taken or held primarily for the provision and for the purposes of delivering public services (including housing, regeneration and local infrastructure), or in support of joint working with others to deliver such services.

Service investments may or may not involve commercial returns; however, obtaining those returns will not be the primary purpose of the investment.

For local authorities, service investments will normally constitute capital expenditure, and it may be appropriate to borrow to finance service investments.

**Investments for commercial purposes (or commercial investments)** are taken or held primarily for financial return and are not linked to treasury management activity or directly part of delivering services.

This includes non-financial assets such as commercial property, where they are held primarily for financial return.

For local authorities, investments of this type will usually constitute capital expenditure.

‘Commercial’ in this context refers to the purpose of the investment. Commercial investments are not taken to meet treasury management cash flow needs and do not result from treasury risk management activity to prudently manage the risks, costs or income from existing or forecast debt or treasury investments. They are additional investments voluntarily taken primarily to generate net financial return or profit.

The Section 151 Officer will categorise any non-treasury management investments and plans into appropriate portfolios (or individual major investments) reflecting the different purposes, objectives and management arrangements of the investments and covering all the organisation’s financial investments, together with any non-financial assets that are held primarily for financial return (such as commercial property).

For each such portfolio, a schedule sets out the investment objectives, investment criteria, risk management arrangements, decision-making and reporting arrangements, performance measurement and management, and arrangements for training and qualifications.

It is recognised that the risk appetite for these activities may differ from that for treasury management.



### TMP1: RISK MANAGEMENT

#### 1.1 Credit and counterparty risk management

Credit and counter-party risk is the risk of failure by a third party to meet its contractual obligations under an investment, loan or other commitment, especially one due to deterioration in its creditworthiness, which causes the Council an unexpected burden on its capital or revenue resources.

As a holder of public funds, the Council recognises its responsibility to the prudent management of public funds and follows relevant Government guidance. The Department for Levelling-Up, Housing, and Communities (DLUHC) issued guidance on Local Government Investments under section 15(1) of the LGA 2003. This has been revised and revisions are effective from 1<sup>st</sup> April 2018. The overriding aim of the guidance is to encourage authorities to invest prudently, without burdening them with detailed prescriptive regulation.

The guidance defines a prudent investment policy as having two objectives: achieving first of all security (protecting the capital sum from loss) and then liquidity (keeping the money readily available for expenditure when needed). The generation of investment income is distinct from these prudential objectives and is accordingly not a matter for the guidance. However, that does not mean that authorities are recommended to ignore such potential revenues. Provided that proper levels of security and liquidity are achieved, it may then (but only then) be reasonable to seek the highest yield consistent with those priorities. This widely recognised investment policy is sometimes more informally and memorably expressed as follows:

***Security - Liquidity -Yield ...in that order!***

Consequently, SC will seek to optimise returns commensurate with the management of the associated risks.

### **1.1.1 Criteria to be used for creating and managing an approved counterparty list and limits**

The Section 151 Officer will formulate suitable criteria for assessing and monitoring the credit risk of investment counterparties and shall construct criteria comprising time, type, sector and specific counterparty limits.

Treasury Advisors will provide guidance and assistance in setting the criteria.

Members will approve criteria at least annually, as part of the Treasury Management Strategy (TMS).

Credit ratings remain a key source of information, but it is important to recognise that they do have limitations. Credit ratings are only used as a starting point when considering credit risk.

Officers will use credit rating criteria in order to assist selection of creditworthy counterparties for placing investments with. Credit ratings will be used as sourced from all of the following credit rating agencies:

- Fitch Ratings
- Moody's
- Standard & Poor's

The Council will use ratings and information from all three ratings agencies where available (some institutions are only rated by one agency, some by two, some by all three), as part of its counterparty criteria.

SC will remain vigilant to changes in ratings, with reference to information available on the website of the three rating agencies and other sources. All ratings for any proposed counterparty will be verified on the day, before any investment is made. The only exception to this will be when an additional deposit of less than £5m is made to an existing call, or money market fund account.

If a downgrade results in the counterparty or investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately. Changes to ratings of current and most often used counterparties are also highlighted at the regular TM meeting. Any changes to ratings that put the counterparty below the rating criteria whilst they hold a deposit will be brought to the attention of the Section 151 Officer immediately, with an appropriate response decided on a case-by-case basis.

If any counterparty is placed on Rating Watch Negative, further deposits will be suspended until the reasons have been established. Further action will depend on the current rating and possible re-rating. This will be closely monitored with an appropriate response decided on a case-by-case basis.

Sovereign credit ratings will be monitored and acted on as for financial institution ratings.

Current counterparty criteria can be found in TMS and appendix B to the TMS that is agreed by Full Council each year.

### **1.1.2 Approved methodology for changing limits and adding/removing counterparties**

All ratings of currently approved counterparties are reported at regular TM meeting. Proposals for any new counterparties will be discussed and agreed at this meeting. E-mail confirmation, or a letter to the counterparty will be obtained from the Section 151 Officer, and the decision recorded in the minutes of the meeting. Limits are approved annually as part of the TMS and any revision to these would require Full Council approval.

### **1.1.3 List of approved counterparties and date of formal approval**

In order to ensure that the approved counterparty list is at all times up to date, a separate schedule will be kept (Schedule N). As soon as a change is authorised by the Section 151 Officer, this will be updated.

### **1.1.4 Country, sector, and group listings and limits**

These form part of the TMS and appendix B to the TMS that is approved by Full Council each year.

### **1.1.5 Use of credit rating agencies' services**

SC is a registered user of all three stated rating agency websites. It does not subscribe to the detailed research element, but has free access to all ratings, and notification of ratings changes.

### **1.1.6 Use of other sources of information for risk assessment**

The Council understands that credit ratings are good, but not perfect predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests. To supplement information from ratings agencies, relevant information from various publications is continuously garnered and assessed to help build a bigger picture, to help identify generic and specific counterparty risk.

As had previously been the case with SC and is now a requirement of the revised DLUHC guidance, SC will use a range of indicators to assess counterparties, not just credit ratings. Among other indicators to be taken into account will be:

- Credit Default Swaps and Government Bond Spreads.
- GDP, and Net Debt as a Percentage of GDP for sovereign countries.
- Likelihood and strength of Parental Support.
- Banking resolution mechanisms for the restructure of failing financial institutions, i.e. bail-in.
- Share Price of listed institutions.
- Market information on corporate developments and market sentiment towards the counterparties and sovereigns.
- Underlying securities or collateral for 'covered instruments'.
- Other macroeconomic factors.

Supplementary information is sourced daily by reference to the quality press, Internet sources, Bloomberg terminal, and emails from broking and investment houses. There is also regular ongoing contact with a panel of money market brokers, money market fund managers, and other investment industry specialists.

## **1.2 Liquidity risk management**

Liquidity risk is the risk that cash will not be available when it is required. This can jeopardise the ability of SC to carry out its functions or disrupt those functions being carried out in the most cost-effective manner. The Section 151 Officer will therefore have sufficient standby facilities to ensure that there is always sufficient liquidity to deal with unexpected occurrences. They will also seek to ensure that SC cash flow forecasting gives as accurate a picture as possible of the movement and timing of income and expenditure and the resulting residual daily cash balances.

### **1.2.1 Amounts of approved minimum cash balances and short-term investments**

The Treasury Management section shall seek to minimise the balance held in the Council's main bank accounts at the close of each working day. Borrowing, calling on Call A/c or Money Market Fund balances, or lending shall be arranged in order to achieve this aim.

## **1.2.2 The Council has the following facilities available:**

**Standby facilities** – SC operates a number of call accounts, each with differing features in relation to minimum balances to be maintained, number of permitted withdrawals during certain periods, and rates paid. SC will retain balances within these accounts only when it is more advantageous than placing them on short-term deposits.

**Bank overdraft arrangements** - An overdraft at 1.00% over Bank of England base rate has been agreed as part of the banking services contract. The overdraft is assessed on a group basis for the Council's accounts and is agreed annually via a formal document signed by the Section 151 Officer.

**Short-term borrowing facilities** - The Council can access temporary loans through approved brokers on the London money market.

**Insurance/guarantee facilities** - There are no specific insurance or guarantee facilities as the above arrangements are regarded as being adequate to cover all unforeseen occurrences.

## **1.2.3 Policy on borrowing in advance of need**

The overriding objective for all approved borrowing is that it will be carried out in line with the CIPFA TM Code, i.e. that performance measurement should consider risk as well as return (borrowing rate). Priority will be given to risk management, and then the pursuit of minimising rate. There are many circumstances that may force borrowing at rates higher than the lowest achievable rate but may be directly attributable to good risk management or differing risk tolerances. These may include:

- Taking loans of a stated maturity regardless of rate to ensure the desired maturity profile and thereby reduce refinancing risk.
- Taking Lender's Options Borrower's Option (LOBO) loans with greater regard to the structure rather than the cheapest rate where optionality exposes the Authority to refinancing, liquidity, and interest rate risk.
- Taking LOBO loans that dovetail with existing LOBO optionality.
- It may not be policy to borrow in advance of need even though it may be generally accepted that rates will go higher in the near future.
- It may be prudent to wait until capital expenditure has been incurred before loans are taken, even though rates may increase in the interim.

Actual borrowing undertaken and the timing will depend on timing of income and capital expenditure, interest rate forecasts, and market conditions during any given year. This may include borrowing in advance if after suitable risk analysis (including evaluating the cost of carry), market conditions and interest rates are deemed advantageous at that time. The short-term investment of these monies, until they are needed, will follow the same rigorous policies and criteria as the rest of the Council's investment balances.

## **1.3 Interest rate risk management**

### **1.3.1 Interest Rate Monitoring**

Interest rate risk is the risk that unexpected changes in interest rates expose the Council to greater costs or a shortfall in the income contained in the annual estimates. The Section 151 Officer will seek to minimise this risk by continuously monitoring interest rates, and particularly the economic indicators that influence their movement. As well as daily contact with a number of brokers, the opinions of expert analysts are sourced through various market publications.

The direction and timing of potential interest movements and their implications for SC are discussed at the regular TM meeting. A 'house view' is then taken and recorded in the minutes.

### **1.3.2 Interest Rate Strategy**

Appropriate strategy, limits and trigger points are set in light of interest rate expectations and are incorporated into the Treasury Management Strategy. Strategy, limits, and trigger points will be monitored during the relevant year to identify whether modifications are required in light of actual movements in interest rates.

The proportion of fixed and variable rate debt will be considered as part of the annual borrowing strategy to address the issues of affordability but without compromising the longer-term stability of the debt portfolio. The Council will consider matching the level of borrowing at variable rates with investments similarly exposed to changes in interest rates as a way of mitigating any adverse budgetary impact. The proportion will be kept under review on a regular basis.

SC may determine it is more cost effective in the short-term to fund its borrowing requirement through the use of internal resources ('internal borrowing') or short-term loans. The benefits of such borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing or refinancing in future years when interest rates are expected to be higher.

Alternatively, SC may consider forward starting loans where the interest rate is agreed and fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a 'cost of carry' in the intervening period.

### **1.3.3 Trigger points for borrowing/investments**

Trigger points and other guidelines for taking advantage of changes to interest rate levels are discussed at the regular TM meeting and decisions are recorded in the minutes.

Officers will review the Treasury Management Strategy during the year to see whether any modifications are required in the light of actual movements in interest rates.

### **1.3.4 Policies concerning the use of instruments for interest rate management**

**Forward dealing** - Consideration will be given to dealing from forward periods dependent upon market conditions. When forward dealing is more than three months forward, the approval of the Section 151 Officer is required.

**Structured Investments** - The Council may use Callable deposits, Snowballs, Escalators, Range Trades, or other such structured investments as it deems prudent, as part of its overall investment portfolio strategy. The limits for their use in any given year will be set out in the TMS and appendix B to the TMS.

### **1.3.5 Policy concerning the use of derivatives for interest rate risk management**

Currently, Local Authorities' legal power to use derivative instruments remains unclear. The General Power of Competence enshrined in the Localism Bill is not sufficiently explicit. Consequently, the authority does not intend to use derivatives.

Should this position change, the Council may seek to develop a detailed and robust risk management framework governing the use of derivatives, but this change in strategy will require Full Council approval.

## **1.4 Exchange rate risk management**

Exchange rate risk is the risk that unexpected changes in exchange rates expose the Council to greater costs or a shortfall in income than have been budgeted for. The Council has a minimal exposure to exchange rate risk as it has no powers to enter into loans or investments in foreign currency for treasury management purposes. It will also seek to minimise what risk it does have by using the policies below.

### **1.4.1 Approved criteria for managing changes in exchange rate levels**

As a result of the nature of the Council's business, the Council may have an exposure to exchange rate risk from time to time. This will mainly arise from the receipt of income or the incurring of expenditure in a currency other than sterling.

SC maintains a Euro account with its current bankers. This allows income to be received without incurring exchange costs for each transaction. A number of one-off, and recurring monthly payments are also made from the account. A relatively small balance is maintained, for which interest is received.

The Council will consider the use of a hedging strategy to control and add certainty to the sterling value of any transactions, if values are judged by the Section 151 Officer to be significant.

## **1.4.2 Policy concerning the use of derivatives for exchange rate risk management**

Currently, Local Authorities' legal power to use derivative instruments remains unclear. The General Power of Competence enshrined in the Localism Bill is not sufficiently explicit. Consequently, the authority does not intend to use derivatives.

Should this position change, the Council may seek to develop a detailed and robust risk management framework governing the use of derivatives, but this change in strategy will require full Council approval.

## **1.5 Inflation risk management**

### **1.5.1 Investments over 1 year.**

Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

## **1.6 Refinancing risk management**

Refinancing risk is the risk that when loans or other forms of capital financing mature, that they cannot be refinanced where necessary on terms that reflect the assumptions made in formulating revenue and capital budgets. These budgets have therefore been set at a level after considering as many factors and rate forecasts as possible and this risk has thus been reduced to a level that is perceived as acceptable.

### **1.6.1 Debt/other capital financing, maturity profiling, policies and practices**

The Council will establish through its Prudential Indicators the amount of debt maturing in any year/period.

To assist with long-term borrowing decision making the Council creates, with advice and assistance from its treasury advisor, a '**Liability Benchmark**' (**LB**) which is the lowest risk level of borrowing. The LB is an important tool which takes into account maturing loans and represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

The LB is represented as a graph in the annual treasury management strategy. It will be updated regularly by the Council in conjunction with the treasury management advisors with developments and/or timing changes in the capital programme as well as changes to balance sheet resources.

Based on the output of the Liability Benchmark and the Council's outlook on interest rates, any longer-term borrowing will be undertaken in accordance with the Code and will comply with the Council's Prudential Indicators and the Annual Treasury Management Strategy.



Avoiding a concentration of loan maturities in a single financial year or over any 2-3 year period will reduce the risk of having to refinance at a time when interest rates are unfavourable to the Council.

Any debt rescheduling will be considered when the difference between the refinancing rate and the redemption rate is most advantageous and the situation will be continually monitored in order to take advantage of any perceived anomalies in the yield curve. The reasons for any rescheduling to take place will include:

- The generation of cash savings at minimum risk.
- To reduce the average interest rate.
- To amend the maturity profile and /or the balance of volatility of the debt portfolio.

### **1.6.2 Projected Capital Financing Requirement**

The Section 151 Officer will prepare a three-year plan for capital expenditure for the Council. This is approved by members. The capital plan will be used to prepare a three-year revenue budget for all forms of financing charges.

Under the new capital financing system, the definition of capital expenditure and long-term liabilities used in the Code will follow recommended accounting practice.

### **1.6.3 Policy concerning limits on affordability and revenue consequences of Capital Financing**

In considering the affordability of its capital plans, the Council will consider all the resources currently available/estimated for the future together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the forthcoming year and the two following years and the impact these will have on Council tax. It will also take into account affordability in the longer term beyond this three-year period.

### **1.7 Legal and regulatory risk management**

Legal and regulatory risk is the risk that either the Council, or a third party which it is dealing with in its treasury management activities, acts outside of its legal powers or regulatory requirements and as a result the Council incurs loss.

### **1.7.1 References to relevant Statutes and Regulations**

The treasury management activities of the Council shall comply fully with legal statute, guidance, Codes of Practice and the regulations of the Council. The major relevant documents currently are:

- Local Government Act 2003
- Localism Act 2011 (in relation to general power of competence)
- The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 and subsequent amendments
- The Local Authorities (Contracting out of Investment Functions) Order 1996 and subsequent amendments
- DLUHC Statutory Guidance on Local Government Investments (2018 Edition)
- CIPFA Treasury Management in the Public Services: Code of Practice and Cross-sectoral Guidance Notes (2021 Edition) and Guidance Notes for Local Authorities
- CIPFA The Prudential Code for Capital Finance in Local Authorities (2021 Edition) and Guidance Notes for Practitioners
- Relevant CIPFA Bulletins
- Bank of England Money Markets Code (2021 Edition) and Explanatory Notes
  
- Council's Constitution including:
  - Standing Order relating to Contracts
  - Financial Regulations
  - Scheme of Delegation

### **1.7.2 Procedures for evidencing the Council's powers/authority to counterparties**

The Council's powers to borrow and invest are contained in legislation as follows:

Investing: Local Government Act 2003, section 12

Borrowing: Local Government Act 2003, section 1

SC will bring this to the attention of interested counterparties as necessary. Evidence of the SC scheme of delegation, and the individual officers authorised to deal on behalf of the Council is sent to new counterparties.

### **1.7.3 Required information from counterparties concerning their powers / authorities**

Lending will only be made to counterparties who fulfil the prevailing counterparty criteria.

When lending directly to a new counterparty, a list of permitted contacts is requested, along with Standard Settlement Instructions (SSIs) and bank details on headed paper.

When lending via a broker we rely on the broker to provide bank details and payment instructions.

### **1.7.4 Statement on the Council's political risks and management of same**

The Section 151 Officer shall take appropriate action with the Council, the Chief Executive, and the Leader of the Council to respond to and manage appropriately political risks such as change of majority group, leadership in the Council, change of Government etc..

### **1.7.5 Responsibility for ensuring legality of Treasury Management function**

The Monitoring Officer is the Service Director - Governance, Democratic and Legal Services. The duty of this officer is to ensure that the treasury management activities of the Council are lawful.

The Chief Financial Officer (Section 151 Officer) is the Executive Director - Resources and Corporate Services; the duty of this officer is to ensure that the financial affairs of the Council are conducted in a prudent manner and to make a report to the Council if he has concerns as to the financial prudence of its actions or its expected financial position.

## **1.8 Fraud, error and corruption, and contingency risk management**

Fraud, error and corruption risk is the risk that the Council may fail to employ adequate systems, procedures and other arrangements that identify and prevent losses through such occurrences.

### **1.8.1 Fraud, Corruption, and Anti-Money Laundering Policies and Practices**

The Council has a fraud and corruption, and an anti-money laundering policy in place. All members of the Investments team are familiar with the policies, which are posted on the SC Internet site.

The Council is committed to the use of procedures and practices that will reduce the risk of the above, and will therefore:

- Seek to ensure an adequate division of responsibilities and maintenance at all times of an adequate level of internal procedures that minimise such risks.
- Fully document all its treasury management activities so that there can be no possible confusion as to what proper procedures are.
- Staff will not be allowed to take up treasury management activities until they have had proper training in procedures and are then subject to an adequate and appropriate level of supervision.
- Records will be maintained of all treasury management transactions so that there is a full audit trail and evidence of the appropriate checks being carried out.

### **1.8.2 Details of systems and procedures to be followed, including internet services**

#### **Authority**

The Scheme of Delegation to Officers sets out the delegation of duties to officers. All loans and investments are negotiated by the Principal Investment Officer, or in his absence, the Funds and Investments Manager or the Senior Investment (the dealer).

Cash movements and justification for Loan(s) are verified by one of a panel of checkers, with resulting CHAPS, BACS, International payments and Inter-Account Transfers being authorised by a designated senior finance officer, via Nat West proprietary on-line systems, using passwords and CHIP & PIN technology.

## **Procedures**

A fully documented procedures guide is kept for reference. This provides a very brief and simplified outline of the key stages for daily Treasury Management.

Overall daily balances are determined from downloaded bank information. ENPA and SWRB balances are separately identified and transfers to or from the main SC bank account are affected to bring balances back to zero.

Payments or receipts of loans or loan interest are identified via the Treasury Management database.

Other payments / receipts are identified from the cash flow element of the TM database and other sources.

Excess cash will be invested according to security of investment, liquidity needs and prevailing market rates. Shortfalls will be covered by money in call accounts or short-term borrowing.

## **Investment and borrowing transactions**

A detailed register of all loans and investments is maintained in the TM database. This is updated immediately after loans have been agreed. Accuracy of this is verified by the daily checking process.

Written confirmation is received and checked against the dealer's records for the transaction. Any discrepancies are immediately reported to the dealer for resolution. This acts as a second verification for accuracy of the database.

A broker note showing details of the loan arranged confirms all transactions placed through brokers. Any discrepancies are immediately reported to the broker, for resolution.

## **Regularity and security**

Lending is only made to institutions that fulfil the relevant counterparty criteria.

The TM database prompts the dealer that money borrowed or lent is due to be repaid.

All loans raised and repayments made go directly to and from the bank account of approved counterparties.

Counterparty limits are set for every institution that the Council invests with.

Brokers have a list of SC counterparty criteria and named officials authorised to agree deals.

Counterparties with whom SC deals directly have a list of officials authorised to agree deals.

There is a separation of duties in the section between dealers and the checking and authorisation of all deals.

No member of the treasury management team is an authorised signatory for payments made from any SC bank account.

Payments are verified by one of a panel of checkers. Payments entered onto the Nat West proprietary system can only be authorised by nominated senior officers.

The Nat West Bankline system can only be accessed by password, and authorisation can only be achieved by using CHIP & PIN technology.

## **Checks**

One of a panel of checkers verifies that all daily cash movements are accurate, complete, and duly authorised.

Entries to the loans database are checked for accuracy and completeness. Reports are presented showing loans outstanding and current balances with counterparties, highlighting the loans made that day, and their effect on balances held with counterparties.

Where investments are made, current ratings of counterparties are attached to loan documentation, giving the checker and ultimately the authoriser, opportunity to verify the counterparty creditworthiness.

Entries onto the Nat West system are checked for accuracy and completeness, giving an opportunity for challenge of details.

Bank reports are monitored and retained, showing the progressive status of payments. Any variances are immediately investigated and resolved.

A reconciliation of payments and receipts is carried out daily from the bank statement to the TM database, and periodically to the financial ledger.

Interest, both paid and received is periodically reconciled to bank statements and the financial ledger.

## **Calculations**

The calculation of repayment of principal and interest notified by the lender or borrower is checked for accuracy against the amount calculated by the TM database.

## **Use of Internet Services**

The Internet is used for a variety of functions performed during the course of treasury management. The application and the security of SC instructions and data are paramount. To this effect, all proposed new systems are discussed and risk-assessed in conjunction with the Internal Audit team at SC, prior to their use.

### **1.8.3 Emergency and Contingency Planning arrangements**

#### **Disaster Recovery Arrangements**

All computer files are backed up on the dedicated Investments team server. All systems input is filed separately until a backup of data is taken each night. Having a dedicated server enables files to be accessed from remote sites.

In the event of massive systems failure, SC personnel can work offsite via VPN.

#### **1.8.4 Insurance cover details**

The Council has 'Fidelity' insurance cover. This covers the loss of cash by fraud or dishonesty of employees.

The Council also has a 'Professional Indemnity' insurance policy, which covers loss to third parties from the actions and advice of its Officers, which are negligent and without due care. This cover is limited to £10m for any one event with an excess of £100,000. The Council also has a 'Business Interruption' cover as part of its property insurance.

### **1.9 Market value of investments risk management**

Market risk is the risk that, through adverse market fluctuations in the value of the principal sums the Council borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.

#### **1.9.1 Details of approved procedures and limits for controlling exposure to investments whose capital value may fluctuate (Gilts, CDS, etc.)**

Gilts, Commercial Paper, CD's and Money Market Funds (MMFs) are among the products that SC may use, that pose market risk.

The Council may consider an investment in Pooled Funds with a Variable Net Asset Value (VNAV), as appropriate, in line with its treasury strategy and on advice from its treasury advisors. The value of the pooled funds will change in line with market prices and, in some instances, may also have a notice period prior to redemption. Such funds will therefore be used for longer investment periods. The limits per fund/asset class will be as determined in the Council's annual investment strategy.

**TMP 2 PERFORMANCE MEASUREMENT****2.1.1 Policy concerning methods for testing value for money**

Best value reviews will include reviews of the way services are provided by:

- Challenging
- Comparing performance
- Consulting with other users and interested parties
- Applying competition principles

In order to pursue continuous improvement in the way the Council's functions are exercised, having regard to a combination of value for money, efficiency and effectiveness.

**2.1.2 Policy concerning methods for performance measurement**

Performance measurement at the Council is intended to calculate the effectiveness of treasury activity in delivering the strategic objectives set through the Treasury Management Strategy and the Council's Prudential Indicators and to enhance accountability.

Prudential Indicators are specific to the Council and not intended as a comparator between authorities.

The performance review will be made in the light of general trends in interest rates during the year and how the decisions made corresponded with these trends and the Council's agreed strategy (i.e. the Council will avoid hindsight analysis).

Any comparison of the Council's treasury portfolio against recognised industry standards, market indices and other portfolios is intended to:

- Allow the Council the opportunity to assess the potential to add value through changes to the existing ways in which its portfolio is managed, and
- permit an informed judgement about the merits or otherwise of using new treasury management techniques or instruments.

In drawing any conclusions, the Council will bear in mind that the characteristics of its treasury operations may differ from those of other councils, particularly with regard to the position on risk.



### **2.1.3 Periodic reviews during the financial year**

The Section 151 Officer holds a treasury management review meeting with senior members of the investments team on a regular basis, to review actual activity against the Treasury Management Strategy and cash flow forecasts. This will include:

- Evaluation of borrowing activity during the period under review.
- Total debt including average rate and maturity profile.
- Total investments including average rate and maturity profile.
- Changes to the above from the previous review and against the TMS.
- Counterparty exposure.
- Exposures relative to Prudential Indicators.
- Future interest rates and strategy are discussed.

### **2.1.4 Mid-year review**

A Mid-year Review is submitted to Full Council, which reviews all activities involving the treasury management operation for the first six months of the year. This report contains the following:

- Total debt and investments at the beginning of the year and at mid-year.
- Borrowing activity for the 6-month period compared to strategy.
- Investment activity for the 6-month period compared to strategy.
- Explanations for variance between original strategies and activities.
- Debt rescheduling undertaken in the period.
- Actual borrowing and investment rates available through the period.
- Comparison of return on investments to the investment benchmark.
- Compliance with Prudential Indicators.
- Other

### **2.1.5 Annual Review after the end of the financial year**

An Annual Treasury Outturn Report is submitted to Full Council each year after the close of the financial year, which reviews all activities involving the treasury management operation. This report contains the following: -

- Total debt and investments at the beginning and close of the financial year and average interest rates.
- Borrowing activity for the year compared to strategy.
- Investment activity for the year compared to strategy.
- Explanations for variance between original strategies and activities.
- Debt rescheduling done in the year.
- Actual borrowing and investment rates available through the year.
- Comparison of return on investments to the investment benchmark.
- Compliance with Prudential Indicators.
- Other

## **2.1.6 Comparative reviews**

When data becomes available, comparative reviews are undertaken to see how the performance of the authority on debt and investments compares to other authorities with similar size portfolios (but allowing for the fact that Prudential Indicators are locally set). Data used can be sourced from:

- CIPFA Treasury Management statistics published each year for the last complete financial year.
- Treasury Advisors

When comparing outcomes, it is most important to find out why any variance from other Local Authorities is occurring, and to understand the relative risks of the portfolios. In drawing any conclusions, the Council will consider that the risk characteristics of other treasury management operations may differ from those of the Council's. Factors to consider are:

- Use of different counterparties, by type and name.
- Differing views on, and suitability of duration, at a portfolio and counterparty level.
- Levels of cash to be invested.
- Different advice of Treasury Advisors.
- Availability and suitability of various instruments.

## **2.2 Benchmarks and calculation methodology with regard to risk and return**

### **2.2.1 Debt management**

The overriding objective for approved borrowing is that it will be carried out in line with the CIPFA TM Code, i.e. that performance measurement should consider risk as well as return (borrowing rate). Priority will be given to risk management, and then the pursuit of minimising rate. There are many circumstances that may force borrowing at rates higher than the lowest achievable rate but may be directly attributable to good risk management or differing risk tolerances. These may include:

- Taking loans of a stated maturity regardless of rate to ensure the desired maturity profile and thereby reduce refinancing risk.
- Taking Lender's Options Borrower's Option (LOBO) loans with greater regard to the structure rather than the cheapest rate where optionality exposes the Authority to refinancing, liquidity, and interest rate risk.
- Taking LOBO loans that dovetail with existing LOBO optionality.
- It may not be policy to borrow in advance of need even though it may be generally accepted that rates will go higher in the near future.
- It may be prudent to wait until capital expenditure has been incurred before loans are taken, even though rates may increase in the interim.

There are simple performance benchmarking measures available, i.e. debt rate achieved in relation to average PWLB rates for the year, for any given maturity and type of loan. However, it is suggested that each loan be looked at individually to develop an appreciation of the factors influencing performance, with a view to improving the future processes of treasury decision-making.

CIPFA produces detailed reports of our performance compared with other authorities. Whilst these headline figures can be a useful guide in assessing performance, they should not be seen in isolation. It is important to also assess performance against the stated objectives and specific needs of SC during the year, and to take a wider view in relation to timeframes and overall risk management. There are many factors that affect treasury performance that are not apparent from the CIPFA reports.

It will be highlighted that each authority will have different needs during any given year. For example, a large capital requirement in a year when borrowing rates are high can have an enormous adverse effect on the overall portfolio performance for years to come. Conversely, a high rate loan that drops out of a small portfolio can make performance look extremely impressive in a year when no activity was undertaken.

The CIPFA reports look at one year in isolation. LOBOs can be taken and reported with a reduced rate initially, but with a big increase after an initial period that is not apparent in the reporting period.

The above caveats aside, these reports can offer insight into specific areas of debt and can be used to challenge and inform prevailing strategy and tactics.

## **2.2.2 Investment**

The overriding aim of SC is in line with DLUHC guidance, i.e. to invest prudently. The guidance defines a prudent investment policy as having two objectives: achieving first of all security (protecting the capital sum from loss) and then liquidity (keeping the money readily available for expenditure when needed). It goes on... "Provided that proper levels of security and liquidity are achieved, it may then (but only then) be reasonable to seek the highest yield consistent with those priorities".

Similar to the debt portfolio, these headline figures can be a useful guide in assessing performance but should not be seen in isolation. It is important to take a wider view in relation to timeframes and overall risk management.

There may be different priorities to satisfy revenue or capital requirements. If revenue interest is the priority in a low interest rate environment, the need for extra yield may influence investment decisions.

Overall policy and risk appetite will differ, as will the techniques and tools used to achieve objectives, and as part of risk management.

## **2.3 Policy concerning best value in Treasury Management**

### **2.3.1 Banking services**

The Council's current banking arrangements are for a four-year contract starting in April 2021. Pricing is to be reviewed regularly to ensure that tariffs, and volume of transactions used for tariffs continue to be value for money and appropriate respectively.

### **2.3.2 Money-broking services**

In addition to direct dealing with counterparts, use is made of money broking services in order to make deposits or to borrow and will establish charges for all services prior to using them.

An approved list of brokers will be established which takes account of both prices (if borrowing is required) and quality of services.

### **2.3.3 Consultants'/advisers' services**

Arlingclose Ltd, have been treasury advisors to SC since 2009. They provide ongoing independent analysis and advice on market and investment conditions, and the suitability of counterparties among other services. The full schedule of services they provide can be found at 11.1.3.

SC recognises, as per CIPFA guidance, that, "the overall responsibility for treasury management must always remain with the Council". SC has always performed its own analysis of market and investment conditions, and the suitability of counterparties. It continues to do so through embedded practices, thereby maintaining the skills of the in-house team. This ensures that services provided by advisors can be challenged, and that undue reliance is not placed on them.

### **2.3.4 Policy on External Managers (Other than relating to Pension Fund)**

The delegation of investment management, if appointed, to external managers will entail the following:

- Formal contractual documentation.
- Agreement on terms for early termination of the contract.
- Setting of investment instruments, constraints/parameters/conditions.
- Setting of investment counterparty limits.
- Setting a performance measurement benchmark and a performance target.
- Frequency of performance reporting.
- Frequency of meetings with investment managers.

The activities of any appointed external manager will be regularly reviewed by the Section 151 Officer and reported appropriately.

**TMP 3 DECISION-MAKING AND ANALYSIS****3.1 Funding, borrowing, lending, and new instruments / techniques****3.1.1 Records to be kept**

The Treasury section has a dedicated database system (Logotech), in which all investment and loan transactions are recorded. The following records will be retained:

- Daily cash balance forecasts.
- Rates available on the day, from two brokers (to support investment decision).
- Copy of dealing sheet highlighting rates quoted from direct counterparties, and that sufficient headroom is available for proposed investment.
- Confirmation of counterparty ratings.
- Deal ticket for all money market transactions.
- List of outstanding investments and counterparty limits.
- Brokers' confirmations for investment and temporary borrowing transactions.
- Confirmations from borrowing / lending institutions.
- Other documentation as required to support the decision, i.e. PWLB rates if LOBO taken.

**3.1.2 Processes to be pursued**

- Ongoing review of economic factors, and analysis of their impact re opportunities and threats to the debt and investment portfolios.
- Cash flow forecasting and analysis.
- Debt and investment maturity analysis.
- Review of opportunities for debt restructuring.
- Review of borrowing requirement to finance capital expenditure
- Performance information (e.g. monitoring of actual against budget for debt charges and interest earned).

**3.1.3 Issues to be addressed****3.1.3.1 In respect of every treasury management decision made the Council will:**

- Above all be clear about the nature and extent of the risks to which the Council may become exposed.
- Be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained.
- Be content that the documentation is adequate both to deliver the Council's objectives and protect the Council's interests, and to deliver good housekeeping.
- Ensure that third parties are judged satisfactory in the context of the Council's creditworthiness policies, and that limits have not been exceeded.
- Be content that the terms of any transactions have been fully checked against the market, and have been found to be competitive.

### **3.1.3.2 In respect of borrowing and other funding decisions, the Council will:**

- Evaluate economic and market factors to form a view on future interest rates so as to determine the manner and timing of decisions to borrow.
- Consider the sources of borrowing, alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.
- Consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships to minimise costs and risks.
- Consider the ongoing revenue liabilities created, and the implications for the Council's future plans and budgets.
- Seek to reduce the overall level of financing costs / smooth maturity profiles through debt restructuring.

### **3.1.3.3 In respect of investment decisions, the Council will:**

- Consider the optimum period, in the light of cash flow availability and prevailing market conditions.
- Consider the alternative investment products and techniques available, especially the implications of using any which may expose the Council to changes in the value of its capital.
- Determine appropriate credit policy limits and criteria to minimise the Council's exposure to credit and other investment risks.

### **3.1.3.4 Use of the Liability Benchmark**

The Liability Benchmark is a long-term measure of the underlying need to borrow for all purposes and is based on the current capital programme and other forecast cash flow movements.

It is a tool to compare the current loans portfolio against the current and planned need to borrow, in terms of both the level and term of borrowing. It indicates whether long-term borrowing (or long-term investments, if the Council is a net investor) are more appropriate.

To determine future years' debt requirement or, conversely, monies available for longer-term investment, the Council will estimate and measure the LB for 50+ years. It is presented as a chart of four balances:

- the Council's current and projected Loans CFR and MRP,
- existing loan debt (does not include forecast debt),
- net loans requirement, taking into account balance sheet resources, and
- liability benchmark, which also takes into account the Council's required liquidity allowance.

Any years where actual loans are less than the benchmark indicate a future borrowing requirement; any years where actual loans outstanding exceed the benchmark represent an overborrowed position, which will result in excess cash requiring investment.

**TMP 4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES****4.1 Approved activities of the Treasury Management operation**

- Borrowing
- Lending
- Debt repayment and rescheduling
- Consideration, approval and use of new financial instruments and treasury management techniques
- Managing the underlying risk associated with the Council's capital financing and surplus funds activities
- Managing cash flow
- Banking activities
- Leasing

**4.2 Approved instruments for investments**

As investment instruments are constantly being developed and evolved by financial institutions, staff will keep abreast of developments and report to the regular TM meeting, those that it feels may be considered for use by SC. The Section 151 Officer has the delegated authority to approve the use of any such investments, subject to what has been approved by members in the TMS, and prudential limits.

Those currently used, or that are proposed to be used in the next year, will be detailed in the TMS approved by Full Council each year.

**4.3 Approved techniques**

- Forward dealing
- The use of Snowballs, Range Trades, Escalators, Callable deposits, or any other structured investment approved by the Section 151 Officer

#### **4.4 Approved methods and sources of raising capital finance**

Finance will only be raised in accordance with the Local Government Act 2003 and within this limit the Council has a number of approved methods and sources of raising capital finance. These are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loans Board)\*
- long term money market loans including forward starting loans
- temporary money market loans (up to 364 days)
- bank overdraft
- loans from bodies such as the European Investment Bank (EIB)
- stock issues
- deferred purchase
- Government and EU capital grants
- lottery monies
- other capital grants and contributions
- private finance Initiative
- operating and finance leases
- hire purchase
- sale and leaseback

\* HM Treasury has issued new guidance regarding PWLB lending which will apply to any loan arranged from 26 November 2020.

<https://www.dmo.gov.uk/media/17136/pwlb-guidance-for-applicants.pdf>

The Council may also use internal resources:

- Capital Receipts
- Revenue Balances
- Reserves

Borrowing will only be done in Sterling. All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The Section 151 Officer has authority to take the most appropriate form of borrowing from the approved sources.

#### **4.5 Investment limits**

The TMS sets out the limits and the guidelines for use of each type of investment instrument.

#### **4.6 Borrowing limits**

See the TMS and Prudential Indicators for any agreed annual limits.



#### 4.7 Issues to be addressed when considering treasury activities

In exercising treasury activities, officers will:

- have regard to the nature and extent of any associated risks to which the Council may become exposed and put in place effective mechanisms for risk management and mitigation;
- be certain about the legality of the decision reached and that the necessary authority to proceed has been obtained;
- be satisfied that the documentation is appropriate to deliver the Council's objectives, protect the Council's interests, and to maintain an effective audit trail;
- ensure that the perceived credit risk associated with the approved counterparties parties is judged satisfactory and is within agreed limits;
- be satisfied that the terms of any transactions have been fully checked against the market, and have been found to be competitive; and
- follow best practice in implementing the treasury transaction.

In exercising borrowing and funding decisions, officers will:

- evaluate economic and market factors that may influence the manner and timing of any decision to fund;
- evaluate the amount, structure, and duration of new borrowing and the timing thereof in relation to the Council's planned borrowing needs (e.g. by use of a liability benchmark);
- consider alternative forms of funding, including use of revenue resources, leasing and private partnerships;
- consider the use of internal resources and/or the most appropriate periods to fund and repayment profiles to use;
- consider ongoing revenue liabilities created; and
- where applicable, monitor regularly the benefits of internal borrowing against the potential for incurring additional costs by deferring borrowing into future years.

The Council's objective when investing money is to strike **an appropriate balance between risk and return**, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

In exercising Investment decisions, officers will:

- Determine that the investment is within the Council's strategy and pre-determined instruments and criteria;
- consider the optimum period, in the light of core balances and reserves, cash flow availability and prevailing market conditions;
- the credit risk associated with unsecured investments with banks and building societies;
- consider whether monies can be used in lieu of external borrowing; and
- consider the alternative investment products and techniques available if appropriate.

## **4.8 Use of Derivatives**

The revised CIPFA TM code requires that the Council must explicitly state whether it plans to use derivative instruments to manage risks.

Currently, Local Authorities' legal power to use derivative instruments remains unclear. The General Power of Competence enshrined in the Localism Bill is not sufficiently explicit. Consequently, the authority does not intend to use derivatives.

Should this position change, the Council may seek to develop a detailed and robust risk management framework governing the use of derivatives, but this change in strategy will require Full Council approval.

In developing a risk management framework governing the use of derivatives, SCC Officers would need to:

- ensure full understanding of the product(s);
- demonstrate the derivative transaction has reduced overall exposure to treasury risks; and
- consider whether officers have the skills and experience to identify, evaluate and control the risks involved.

**TMP 5 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS**

**5.1 Limits to responsibilities / discretion at Council / Executive levels**

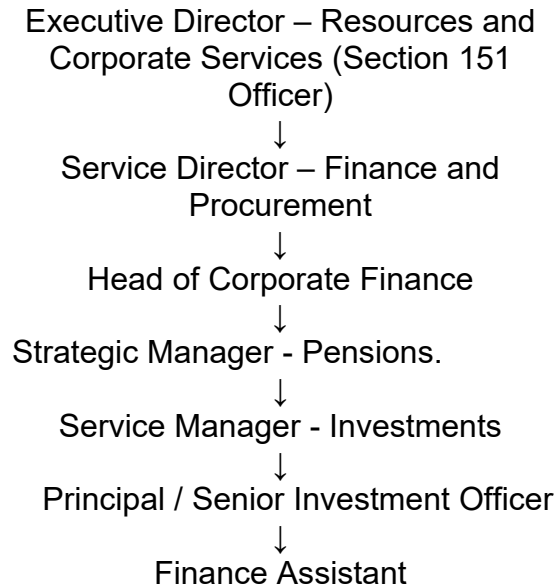
- Full Council will approve the Prudential Indicators and revise them as and when necessary.
- Full Council will receive and review reports on treasury management policies, strategies, and activities.
- The Section 151 Officer will be responsible for amendments to the Council’s adopted clauses, treasury management policy statement and treasury management practices.
- The Section 151 Officer will approve the segregation of responsibilities.
- The Section 151 Officer or Deputy Section 151 officer will receive and review internal and external audit reports and put recommendations to the Audit Committee.
- Approving the selection of external service providers and agreeing terms of appointment will be decided by the Section 151 Officer.

**5.1.1 Principles and practices concerning segregation of duties**

Separate officers must undertake the following duties:

Dealing	Negotiation and approval of deal – Dealer Receipt and checking of brokers confirmation note against loans diary – Finance Assistant Reconciliation of cash control account – Corporate Accounting Team (CATS) Bank reconciliation – CATS (2)
Checking	Verification of accuracy of information and legitimacy of payments - Panel of approved senior finance officers
Payment of Deal Accounting Entry	Entry onto system - Dealer Approval and payment – Approved authorisers Production of transfer note – Dealer Processing of accounting entry – Cashiers / CATS

## 5.1.2 Treasury Management organisation chart



## 5.2 Statement of duties / responsibilities of each treasury post

### 5.2.1 The Director of Finance (Section 151 Officer)

The Executive Director – Resources and Corporate Services (Section 151 Officer) will:

- Submit budgets and budget variations in accordance with Financial Regulations and guidance.
- In setting the prudential indicators, the Section 151 Officer will be responsible for ensuring that all matters are taken into account and reported to the Executive so as to ensure the Council's financial plans are affordable, prudent and sustainable in the long term.
- Establish a measurement and reporting process that highlights significant variations from expectations.
- Make reports to the Executive under S114 of the Local Government Finance Act 1988 if the Section 151 Officer considers the Council is likely to get into a financially unviable situation.
- Recommend treasury management policy, strategy, and practices for approval, reviewing the same on a regular basis, and monitoring compliance.
- Submit treasury management reports as required to the Full Council.
- Review the performance of the treasury management function and promote best value reviews.
- Ensure the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- Ensure the adequacy of internal audit and liaise with external audit.
- Recommend on appointment of external service providers in accordance with Council standing orders.

The Section 151 Officer has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments.

The Section 151 Officer may delegate his power to borrow and invest to members of his staff. The Treasury Management Team must conduct all dealing transactions, or staff authorised by the Section 151 Officer to act as temporary cover for leave/sickness.

The Section 151 Officer will ensure that Treasury Management Policy is adhered to, and if not will bring the matter to the attention of elected members as soon as possible.

Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the Section 151 Officer to be satisfied, by reference to the Monitoring Officer and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations.

It is also the responsibility of the Section 151 Officer to ensure that the Council complies with the requirements of The Bank of England's 2021 Money Markets Code for principals and broking firms in the wholesale markets.

The Section 151 Officer may delegate some or all of the above duties that do not fall under the responsibility of the Section 151 Officer, to the Deputy Section 151 Officer.

#### **5.2.2 The Investments Team will be responsible for:**

- Execution of transactions and conduct of other day-to-day activities in accordance with the Treasury Management Practices.
- Adherence to agreed policies and limits.
- Managing the overall treasury management function.
- Ensuring appropriate segregation of duties.
- Monitoring performance on a day-to-day basis.
- Submitting management information reports to the Section 151 Officer.
- Maintaining relationships with third parties and external service providers and reviewing their performance.

#### **5.2.3 The Monitoring Officer – The Service Director for Governance, Democratic and Legal Services**

The responsibilities of this post will be:

- Ensuring compliance by the Section 151 Officer with the treasury management policy statement and treasury management practices, and that they comply with the law.
- Being satisfied that any proposal to vary treasury policy or practice complies with law or any code of practice.
- Giving advice to the Section 151 Officer when advice is sought.

#### **5.2.4 Internal Audit**

The responsibilities of Internal Audit will be: -

- Reviewing compliance with approved policy and treasury management practices.
- Reviewing division of duties and operational practice.
- Assessing value for money from treasury activities.
- Undertaking probity audit of treasury function.

In all cases, audits will be conducted using a risk-based approach, identifying, assessing, and recommending mitigation actions relating to treasury management risks.

#### **5.3 Absence cover arrangements**

In the absence of the Principal Investment Officer, the responsibility for day-to-day operations of the Treasury Management function rests with the Service Manager - Investments or the Senior Investment Officer.

#### **5.4 Dealing limits**

To ensure flexibility and maximum continuity, there are no dealing limits for individual posts.

#### **5.5 List of approved brokers**

A list of approved brokers is maintained within the Treasury Management Team and a record of all transactions recorded against them. See TMP 11.1.2.

#### **5.6 Policy on brokers' services**

It is the Council's policy to allocate business between brokers on an equitable basis whenever possible. However, for similar levels of counterparty risk and liquidity, the broker with the most advantageous rate will be used.

#### **5.7 Policy on taping of conversations**

It is the Council's policy not to tape conversations with counterparties or brokers.

## **5.8 Direct dealing practices**

The Treasury Management team deal directly with counterparties in addition to the use of money brokers. A copy of the counterparty Standard Settlement Instructions (SSIs) is required before funds are placed.

## **5.9 Settlement transmission procedures**

All settlements are dealt through the Clearing Houses Automated Payments System (CHAPS) via the SC bankers' proprietary system. After checking for accuracy and authenticity of counterparty bank details by the checker, one of a pool of authorised signatories sends the payment raised by the Dealer.

## **5.10 Documentation requirements**

For each deal undertaken a record is entered into the TM database, giving details of dealer, amount, period, counterparty, interest rate, dealing date, payment date(s), and broker. A print of each deal is attached to the pack of papers along with a revised balances outstanding report and a revised counterparty limits report. Prints of the proposed counterparty rating(s) are also attached. These documents are verified before payments are sent.

Any breach of counterparty limit is referred to the Section 151 Officer or other senior officer, who has the discretion to authorise the breach, dependent on circumstances.

## **5.11 Arrangements concerning the management of counterparty funds**

SC has a contract to provide treasury management services to the Police and Crime Commissioner for Avon and Somerset. It manages these funds on a segregated basis under contractual arrangements.

SC manages funds on behalf of Exmoor National Park Authority, and the South West Regional Board. This money is managed on an aggregated funds basis under terms agreed in a Service Level Agreement.

SC may from time to time manage funds for other public or not-for-profit organisations, in which case, an appropriate SLA would be put in place.

**TMP 6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS****6.1 Annual Treasury Management Strategy**

The TMS sets out the specific expected treasury activities for the forthcoming financial year. This strategy will be submitted to Full Council for approval before the commencement of each financial year. It will also be made available to the Audit Committee.

The formulation of the annual TMS involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter-term variable interest rates. For instance, the Council may decide to postpone borrowing if fixed interest rates are expected to fall or borrow early if fixed interest rates are expected to rise.

The TMS is concerned with the following elements:

- External Context
  - Economic background
  - Credit outlook
  - Interest rate forecast
  
- Internal Context
  - Current Treasury portfolio position
  - Borrowing requirement
  - Borrowing strategy
  - Debt rescheduling
  - Investment strategy
  - Prudential Indicators
  - Any extraordinary treasury issue

The TMS will take into account expected moves in interest rates against alternatives (using all available information such as published interest rate forecasts where applicable) and consider sensitivities in different scenarios.

**6.2 Prudential Indicators**

The Council approves before the beginning of each financial year a number of treasury limits which are set through Prudential Indicators.

The Section 151 Officer is responsible for incorporating these limits into the annual TMS, and for ensuring compliance with the limits. Should it prove necessary to amend these limits, the Section 151 Officer shall submit the changes for approval to the Council.



### **6.3 Mid-year review of activity**

A mid-year report will be presented to Full Council at the earliest practicable meeting after the end of the first half of the financial year. This report will include the following:

- Movement in the debt and investment portfolios during the first six months.
- Significant transactions executed.
- Measurements of performance.
- Monitoring of compliance with approved policy, prudential limits, practices and statutory / regulatory requirements, and reporting of any deviations.
- Risk management.

### **6.4 Annual report on Treasury Management activity**

An annual report will be presented to Full Council at the earliest practicable meeting after the end of the financial year. This report will include the following: -

- A comprehensive picture for the financial year of all treasury policies, strategies, activities and results.
- Movement in the debt and investment portfolios during the year.
- Significant transactions executed.
- Measurements of performance.
- Monitoring of compliance with approved policy, prudential limits, practices and statutory / regulatory requirements, and reporting of any deviations.
- Risk management.

### **6.5 Management information reports**

Management information reports will be prepared at monthly intervals by the Treasury Management Team and will be presented to the Section 151 Officer at regular meetings. The reports are used to inform discussion on current, future, and potential risks, past performance and future tactics and operations. They focus on the risks to the achievement of TM objectives, and the tools, techniques, and tactics to mitigate risks.

Management reports will contain the following information:

- Movements in interest and money market rates and the yield curve.
- Movements in SC cash, cash balances, and types of deposit made.
- Performance of investments.
- Current debt portfolios, including analysis of market loans.
- Movements in PWLB and market rates and opportunities / threats arising.
- Current and changes (actual and potential) to ratings of current and potential counterparties.
- Analysis of risk metrics for investment portfolios.
- Compliance with Prudential limits and other stated policies, strategies, codes of practice, and practices.
- Any other treasury management business.

**TMP 7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS****7.1 Statutory / Regulatory requirements**

The accounts are drawn up in accordance with the Code of Practice on Local Authority Accounting in Great Britain that is recognised by statute as representing proper accounting practices. The Council has also adopted in full the principles set out in CIPFA's 'Treasury Management in the Public Services - Code of Practice' (the 'CIPFA Code'), together with those of its specific recommendations that are relevant to the Council's treasury management activities.

**7.2 Accounting Practices Standards**

Due regard is given to the CIPFA Code of Practice on Local Authority Accounting Practices.

**7.3 Sample budgets / accounts / Prudential Indicators**

The Section 151 Officer will prepare a three-year medium-term financial plan with Prudential Indicators for treasury management, which will incorporate the budget for the forthcoming year and provisional estimates for the following two years. This will bring together all the costs involved in running the function, together with associated income. The Section 151 Officer will exercise effective controls over this budget and monitoring of performance against Prudential Indicators and will report upon and recommend any changes required in accordance with TMP6.

**7.4 List of information requirements of external auditors**

- Reconciliation of loans outstanding in the financial ledger to Treasury Management records.
- Maturity analysis of loans outstanding.
- Certificates for new long-term loans taken out in the year.
- Reconciliation of loan interest, discounts received, and premiums paid to financial ledger by loan type.
- Calculation of loans fund interest and debt management expenses.
- Details of interest rates applied to internal investments.
- Calculation of interest on working balances.
- Interest accrual calculation.
- Principal and interest charges reports from the Treasury Management system.
- Analysis of any deferred charges.
- Calculation of loans fund creditors and debtors.
- Mid-year and Annual Treasury Outturn Reports.
- Treasury Management Strategy and Prudential Indicators.
- Information of charges to the Income & Expenditure account in respect of MRP analysed into its constituent parts.
- Details of any amounts held on behalf of external bodies and movements in those funds during the year.

**TMP 8 CASH AND CASH FLOW MANAGEMENT****8.1 Arrangements for preparing cash flow statements**

Cash flow projections are prepared regularly. The annual and monthly cash flow projections are prepared from the previous years' cash flow records, adjusted for known changes in levels of income and expenditure and also changes in payments and receipts dates. These details are supplemented on an ongoing basis by information received of new or revised amounts to be paid or received as and when they are known.

Cash flow is recorded on the TM database with as great an accuracy as is possible, to assist in analysis and better future predictions.

All efforts are made to contact various departments prior to the financial year in order to ascertain timings and amounts of grants and other income to be received, or payments to be made.

Cash flow forecasts are updated daily as information flows from payroll, creditors etc. pass through the TM team for payment.

**8.2 Bank statements procedures**

The Corporate Accounting Team receives a daily download of data from the bank. All amounts on the statement are checked to source data from Treasury Management documents as well as Payroll and Creditor information. The Corporate Accounting Team (CATS) allocates expenditure to codes daily, which helps to identify differences. Cashiers perform the same process for income. CATS also undertake formal bank reconciliation.

**8.3 Payment scheduling and agreed terms of trade with creditors**

SC policy is to pay creditors at the latest possible date within the terms of the creditor. The creditor system is able to apply different terms for each creditor. The Exchequer Team performs this function. The Exchequer team is also responsible for the arrangements for monitoring debtor and creditor levels.

There may be occasions where advantageous terms can be gained by paying in advance of contractual terms. The decision to enter into revised terms will remain with the senior officers responsible for the budget.

**8.4 Procedures for banking of funds**

All money received by an officer on behalf of the Council will without unreasonable delay be passed to the bankers to deposit in the Council's banking accounts.

**TMP 9 MONEY LAUNDERING****9.1 Overview**

This Council's policy is to prevent, wherever possible, the organisation and its employees being exposed to money laundering, to identify the potential areas where it may occur and to comply with all legal and regulatory requirements, especially with regard to the reporting of actual or suspected cases.

The Council has accepted responsibility to ensure those of its staff who are most likely to be exposed to money laundering can make themselves fully aware of the law and, where necessary, are suitably trained.

**9.2 Procedures for establishing identity / authenticity of lenders**

The Council does not accept loans from individuals.

All loans are obtained from the PWLB, other local authorities or from authorised institutions under the Financial Services and Markets Act 2000. This register can be accessed through the Financial Conduct Authority (FCA) website at [www.fca.org.uk](http://www.fca.org.uk)

When repaying loans, the procedures in 9.3 will be followed to check the bank details of the recipient.

**9.3 Methodology for identifying deposit takers**

In the course of its Treasury activities, the Council will only lend money to or invest with those counterparties that fulfil the counterparty criteria approved by Full Council, as part of the Annual Treasury Strategy. Where these are deposits, they will only be placed with a Financial Institution that is authorised by the Prudential Regulation Authority to accept deposits, is a Building Society incorporated in the UK, or is a passported EEA institution. A 'List of Banks' is published by the Prudential Regulation Authority (PRA) and can be accessed through the Bank of England website at <http://www.bankofengland.co.uk/pr/Pages/authorisations/banksbuildingsocietieslist.aspx>

The exceptions to this are other Local Authorities and the DMO.

Where a counterparty is contracted via a broker, the broker confirms bank details. Where SC has previously used the counterparty, details are checked against those currently held. Any changes are confirmed by the broker and by the counterparty on headed paper. When a broker introduces a new counterparty, SSIs on headed paper are requested.

When dealing with counterparties direct, a copy of SSIs is requested, as well as a list of contacts that are authorised to transact and / or provide information.

All payment transactions are carried out via CHAPS, for making deposits or repaying loans.

## 9.4 Proceeds of Crime Act 2002 (POCA)

The Proceeds of Crime Act (POCA) 2002 established the main offences relating to money laundering. In summary, these are:

- Concealing, disguising, converting, transferring or removing criminal property from England and Wales, from Scotland or from Northern Ireland.
- Being concerned in an arrangement that a person knows or suspects facilitates the acquisition, retention, use or control of criminal property.
- Acquiring, using or possessing criminal property.

These apply to all persons in the UK in a personal and professional capacity. Any person involved in any known or suspected money laundering activity in the UK risks a criminal conviction.

Other offences include:

- Failure to disclose money laundering offences.
- Tipping off a suspect, either directly or indirectly.
- Doing something that might prejudice an investigation – for example, falsifying a document.

The Terrorism Act 2000 made it an offence of money laundering to become concerned in an arrangement relating to the retention or control of property likely to be used for the purposes of terrorism or resulting from acts of terrorism.

All individuals and businesses in the UK have an obligation to report knowledge, reasonable grounds for belief or suspicion about the proceeds from, or finance likely to be used for, terrorism or its laundering, where it relates to information that comes to them in the course of their business or employment.

Please find below an explanation of the current responsibilities of local authorities: -

*The Proceeds of Crime Act 2002 imposes an obligation on any person or other body that undertakes a regulated activity as defined by the Act to report any incident that leads them to suspect that an individual or other body is making transactions with the proceeds of any criminal activity. This is an extension of the obligations previously imposed principally on financial services organisations and employees under money laundering legislation. The money laundering legislation, as reinforced by the FSA guidance, made it clear that an organisation had to nominate a money laundering reporting officer, MLRO, through whom suspicious transactions had to be reported and it was incumbent on the MLRO to decide if these transactions had to be reported to the National Criminal Investigation Service (NCIS), being the police body charged with dealing with these matters.*

*The question therefore arises as to whether organisations now caught under the provisions of the Proceeds of Crime Act (POCA) have to also nominate a MLRO. There is nothing that states that an MLRO has to be nominated and indeed, a number of organisations that are caught by POCA would not have a direct regulator to notify. However, it is equally clear that such organisations must have a process in place whereby employees can alert management of activities that may fall under POCA and that process must make it clear to whom an internal report has to be made. Therefore, whether called an MLRO or not, under their internal processes organisations need to appoint a senior officer (F.D., Treasurer, Head of Legal) to whom suspicions must be reported and who is responsible for deciding whether to pass the report to NCIS.*

NCIS  
PO BOX 8000  
LONDON SE11 5EN

[www.ncis.co.uk](http://www.ncis.co.uk)

The Section 151 Officer is conversant with the requirements of the Proceeds of Crime Act 2002 and will train the following staff in being diligent to be alert for suspicious transactions:

- Treasury management
- Cashiers section
- Other as appropriate

The Council has appointed the Service Manager - Investments to be the responsible officer to whom any suspicions that transactions involving the Council may include a party who is involved in criminal activity. Suspicious transactions will be investigated as far as the Council is in a position to do so or it is appropriate for the Council to do so, and if doubts remain, these transactions will then be reported to the National Criminal Investigation Service.

## **9.5 Other relevant Legislation**

Money Laundering Regulations 2007 - SCC has written Anti Money Laundering, and Anti-Fraud and Corruption Policies, which are available on the intranet. The Investments Team is aware of these policies.

Terrorism Act 2000 – Local Authorities are subject to full provisions

Bribery Act 2010 – Local Authorities should be mindful of its requirements

**TMP 10 STAFF TRAINING AND QUALIFICATIONS****10.1 Details of approved training courses**

SC does not currently subscribe to membership of the CIPFA Treasury Management Network but attends seminars on an ad hoc basis, to keep abreast of relevant industry and market developments, and to share best practice with practitioners from other Local Authorities and Public Services.

There is no list of approved training courses maintained, but sources of training and contents of courses and seminars are received frequently from a host of external suppliers. In line with the Council staff appraisal policies, courses deemed suitable will be suggested and approved accordingly. These may be provided by CIPFA, ratings agencies, or money brokers etc.

**10.2 Starting Qualifications**

There is a stated minimum level of qualification needed, as part of each job description for the various posts within the Investments team.

The Council recognises the importance that all treasury management staff should receive appropriate training relevant to the requirements of their duties at the appropriate time. The Council operates a staff appraisal system, which identifies the training requirements of individual members of staff engaged in treasury related activities.

Additionally, training may also be provided on the job and it will be the responsibility of the Section 151 Officer to ensure that all staff under his authority receives any necessary training.

**10.3 Statement of Professional Practice (SOPP)**

If the Section 151 Officer is a member of CIPFA they are required to be committed to professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained.

Other staff involved in treasury management activities who are members of CIPFA must also comply with the SOPP.

#### **10.4 Details of qualifications & experience of treasury staff**

As at January 2023

Service Manager – Investments:

- Has experience working within the financial and investment services industry in both the public and private sectors since 1995 and has been heading up the SC Investments team since March 2003.
- Is a Chartered Financial Analyst and an Associate of the Society of Investment Professionals.
- Holds a BSc (Hons) degree in Accounting and Financial Analysis.
- Holds the Investment Management Certificate.

Principal Investment Officer

- Has worked in the SC investments team since 1998, except for 2 years in the SC internal audit team.
- Holds a BA (Hons) degree in Business Administration
- Is AAT qualified
- Holds the Investments Administration Qualification from the Securities Institute.

Senior Investment Officer

- Has worked in the SC investments team since 2004, and for a further 7 years in various accounting functions of SC
- Is AAT qualified
- Holds the Investment Management Certificate.

#### **10.5 Records of training received by treasury staff**

Formal records of training received by treasury staff are kept by the individuals involved. All course material is kept for as long as it is deemed relevant.

#### **10.6 Records of training received by those charged with governance**

All new Councillors receive an overview of the treasury management function as part of their induction.

Training opportunities for members are highlighted each year in the TMS. Invitations to attend CIPFA events relevant to Treasury Management are offered.

Records of any training received are to be kept by those charged with governance.



**TMP 11 USE OF EXTERNAL SERVICE PROVIDERS****11.1 Details of contracts with service providers, including bankers, brokers, consultants, and advisers****11.1.1 Banking services**

- Name of supplier of service is currently Nat West Bank
- The branch address is: 26-27 Fore Street, Taunton, TA1 1JQ
- Contract commenced 1 April 2021 and runs for four years to 31st March 2025. Cost of service is variable depending on schedule of tariffs and volumes
- Payments due quarterly

A full tender conducted as directed by SC Contract Standing Orders will be undertaken at the end of the current contract.

**11.1.2 Money-broking services**

In addition to direct dealing, the Council will use money brokers for temporary borrowing and investment and long-term borrowing. It will seek to give an even spread of business amongst the approved brokers where rates offered are the same, but the best rate achieved will be the primary factor.

The Principal Investment Officer, on an ongoing basis, evaluates the service levels of brokers and if rates are equal, the broker that has been offering the best service will be given the transaction. Contact with an approved list of brokers (below) is maintained. Appropriate recommendations to change the approved brokers list will be made to the Section 151 Officer at regular TM meetings.

Current broker contacts:

- Tullett Prebon
- Tradition UK Ltd
- Sterling International Brokers (Part of BGC Brokers)
- Intercapital (Europe) Ltd
- RP Martin
- Imperial Treasury Services
- King & Shaxson

### **11.1.3 Consultants' / advisors' services**

#### **Treasury Advisor Services**

Arlingclose were selected as Treasury Advisors to SC In February 2009. They were advisors to three of the four legacy District Councils and have been retained for the new Somerset Council.

The schedule of services that Arlingclose provide is clearly set out in the contract between SC and Arlingclose.

### **11.1.4 External Fund Managers**

None used at present for Treasury Management purposes.

### **11.1.5 Credit rating agencies**

The Council does not subscribe to a credit rating service but has free access to ratings information through registration with all three major ratings agencies, Fitch, Moody's, and Standard & Poor's.

### **11.1.6 Other External Services used**

Logotech – Dedicated Treasury Database – Used since 1998

Cachematrix – Money Market Fund (MMF) portal. Used for instructing MMFs and analysis of holdings within funds

**TMP 12 CORPORATE GOVERNANCE****12.1 List of documents to be made available for public inspection**

The Council is committed to the principle of openness and transparency in its treasury management function and in all of its functions.

It has adopted the CIPFA Code of Practice on Treasury management and implemented key recommendations on developing Treasury Management Practices, formulating a Treasury Management Policy Statement and implementing the other principles of the Code.

The following documents are available for public inspection: -

- Treasury Management Strategy
- Annual Treasury Outturn Report
- Mid-year Outturn Report
- Annual Statement of Accounts
- Annual budget
- 3-Year Capital Plan
- Minutes of Full Council meetings

**12.2 List of external funds managed on behalf of others and the basis for attribution of interest and costs**

SC has a contract to provide treasury management services to the Police and Crime Commissioner for Avon and Somerset. It manages these funds on a segregated basis under contractual arrangements.

SC manages funds on behalf of Exmoor National Park Authority, South West Councils, the Society of County Treasurers, and the Police and Crime Commissioners Treasurers' Society. These monies are managed on an aggregated funds basis in the name of SC, under terms agreed in a Service Level Agreement with those bodies.

SC is the administering body for the Local Enterprise Partnership (LEP). Funds from Government are received into the SC account and paid out to LEP partners when expenditure claims are verified by SC staff. Whilst LEP monies are under SC stewardship, they are amalgamated with SC funds and lent as part of SC balances. Interest is paid to the LEP partners on balances held at the rate achieved by SC minus a management fee.

**TMP 13 ENVIRONMENTAL, SOCIAL AND GOVERNANCE RISK  
MANAGEMENT**

Environmental, social and governance (ESG) issues are increasingly significant for investors and investment managers. This is better developed in equity and bond markets than for short-term cash deposits, and there is a diversity of market approaches to ESG classification and analysis. This means that a consistent and developed approach to ESG for public service organisations is currently difficult. S C will therefore consider credit and counterparty policies in light of ESG information and develop their own ESG investment policies and treasury management practices consistent with the organisation's own relevant policies, such as environmental and climate change policies. As ESG in treasury investments is developed Somerset Council will look to incorporate it into future strategies. This may include scoring or other ESG criteria when it becomes more developed.

## SCHEDULE N

### LIST OF APPROVD COUNTERPARTIES

Bank or Building Society	Date Approved	Bank or Building Society	Date Approved
Bank of Scotland Plc	01/01/2007	Bank of Nova Scotia	20-04-2016
Barclays Bank Plc	01/01/2007	National Australia Bank	20-04-2016
HSBC Bank Plc	01/01/2007	Canadian Imperial Bank of Commerce (CIBC)	10-11-2016
Lloyds Bank Plc	01/01/2007	DZ Bank	20-04-2019
National Westminster Bank	01/01/2007	National Bank of Canada	14-04-2022
Nationwide Building Society	01/01/2007		
Royal Bank of Scotland Plc	01/01/2007	<b>Sterling LVCNAV Money Market Funds</b>	
Santander UK	01/01/2007	Invesco Aim	29-06-2009
Australia & New Zealand Bank	17-07-2012	Federated Prime	31-07-2009
Standard Chartered	13-09-2012	Insight	09-11-2009
Svenska Handelsbanken AB	13-09-2012	Aberdeen Standard	18-11-2009
Nordea Bank AB	13-09-2012	Deutsche	01-07-2011
Close Brothers Limited	02-05-2013	LGIM	23-02-2012
Rabobank	22-08-2013	SSGA	11-10-2018
Development Bank of Singapore	29-07-2104	Aviva	11-09-2020
United Overseas Bank	29-07-2104		
Goldman Sachs Investment Bank	29-07-2104		
Oversea-Chinese Banking Corp	20-04-2015	<b>Other</b>	
OP Corporate Bank	15-06-2015	DMO	05-02-2009
Commonwealth Bank of Australia	06-08-2015	Other Local Authorities	01-01-2007
Toronto Dominion	04-11-2015	CCLA Property Fund	26-04-2017
Landesbank Hessen-Thuringen Girozentrale (Helaba)	04-11-2015	RLAM Bond Fund	27-10-2020
Bank of Montreal	29-01-2016	M&G Bond Fund	23-02-2021

Certified by the Section 151 Officer

Date

and the Deputy Section 151 Officer

Date

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