



Members of the Audit Committee:  
(Councillors R P Lillis (Chairman), T Venner (Vice Chairman),  
A Archer, H J W Davies, R Thomas, N Thwaites, R Woods)

Our Ref Democratic Services  
Contact Andrew Randell

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Date 26 July 2015

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

Dear Councillor

I hereby give you notice to attend the following meeting:

**AUDIT COMMITTEE**

**Date: Monday 6 July 2015**  
**Time 2.30 pm**  
**Venue: Council Chamber, Council Offices, Williton**

Please note that this meeting may be recorded. At the start of the meeting the Chairman will confirm if all or part of the meeting is being recorded.

You should be aware that the Council is a Data Controller under the Data Protection Act. Data collected during the recording will be retained in accordance with the Council's policy.

Therefore unless you advise otherwise, by entering the Council Chamber and speaking during Public Participation you are consenting to being recorded and to the possible use of the sound recording for access via the website or for training purposes. If you have any queries regarding this please contact Committee Services on 01643 703704.

Yours sincerely

**BRUCE LANG**  
Proper Officer

## RISK SCORING MATRIX

Report writers score risks in reports uses the scoring matrix below

**Risk Scoring Matrix**

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

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

- Mitigating actions for high ('High' or above) scoring risks are to be reflected in Service Plans, managed by the Group Manager and implemented by Service Lead Officers;
- Lower scoring risks will either be accepted with no mitigating actions or included in work plans with appropriate mitigating actions that are managed by Service Lead Officer.

### **The Council's Vision:**

To enable people to live, work and prosper in West Somerset

# **AUDIT COMMITTEE - AGENDA**

**6 July 2015 at 2.30 pm**

**Council Chamber, Williton**

1. **Apologies for Absence**

2. **Minutes**

Minutes of the Meeting of the Committee held on 23 March 2015 – **SEE ATTACHED** – to be confirmed.

3. **Declarations of Interest**

To receive and record any declarations of interest in respect of any matters included the Agenda for consideration at this Meeting.

4. **Public Participation**

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

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

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

5. **Audit Committee Forward Plan**

To review the Audit Committee Forward Plan 2015 – **SEE ATTACHED.**

6. **Grant Thornton – External Audit Plan 2014/15**

To consider Report WSC 99/15 to be presented by Peter Barber, Appointed Auditor and Ashley Allen, Audit Manager from Grant Thornton – **SEE ATTACHED.**

The purpose of the report is to provide the Audit Committee with the details of the External Auditors plan for the audit work they undertake in respect of the 2014/15 financial year.

7. **Grant Thornton – External Audit Fees 2015/16.**

To consider Report WSC 100/15 to be presented by Peter Barber, Appointed Auditor and Ashley Allen, Audit Manager from Grant Thornton – **SEE ATTACHED.**

The purpose of the report is to provide the Audit Committee with report details the fees for the external audit service for 2015/16.

8. **External Audit (Grant Thornton) Update Report.**

To consider Report WSC 101/15 to be presented by Peter Barber, Appointed Auditor and Ashley Allen, Audit Manager from Grant Thornton – **SEE ATTACHED.**

The purpose of the report is to provide the Audit Committee with a progress update regarding the work of the external auditors, Grant Thornton in relation to the 2014/15 financial year, together with information relating to emerging national issues which may be relevant to the Council.

9. **SWAP Internal Audit – Review of Effectiveness.**

To consider Report WSC 103/15 to be presented by Alastair Woodland, Audit Manager, SWAP – **SEE ATTACHED.**

The purpose of the report is to inform the Audit Committee of the recent review of the effectiveness of the delivery of Internal Audit through SWAP (South West Audit Partnership) during 2014/15.

10. **Internal Audit – Annual Opinion Report for 2014/15.**

To consider Report WSC 102/15, to be presented by Alastair Woodland, Audit Manager, SWAP – **SEE ATTACHED.**

The purpose of the report is to provide the Audit Committee with the Internal Audit Annual Report and bring to their attention any significant findings identified through SWAP's work.

11. **Annual Governance Statement 2014/15**

To consider Report WSC 104/15 to be presented by Paul Harding, Corporate Strategy and Performance Manager – **SEE ATTACHED.**

The purpose of the report is to provide the Audit Committee with a review of the effectiveness of its systems of internal control and governance arrangements and to produce an Annual Governance Statement (AGS) on behalf of the Leader of the Council and the Chief Executive, providing an assessment of these arrangements.

12. **Annual Treasury Management Review 2014/15.**

To consider Report WSC 105/15 to be presented by Steve Plenty, Finance Manager – **SEE ATTACHED.**

The purpose of the report is to review the treasury management activity and the performance against the Prudential Indicators for the 2014/15 financial year as prescribed by the revised CIPFA Code of Practice and in accordance with the Council's Treasury Management Strategy and Annual Investment Policy.

13. **Debt Analysis Report – As at 31 March 2015.**

To consider Report No WSC 106/15 to be presented by Steve Perkins, Senior Debt and Recovery Officer – **SEE ATTACHED.**

The purpose of the report is to provide the Audit Committee with an update on the level of debts outstanding to the Authority as at 31<sup>st</sup> March 2015.

**COUNCILLORS ARE REMINDED TO CHECK THEIR POST TRAYS**

**The Council's Vision:**

To enable people to live, work and prosper in West Somerset

**The Council's Corporate Priorities:**

- Local Democracy:  
Securing local democracy and accountability in West Somerset, based in West Somerset, elected by the people of West Somerset and responsible to the people of West Somerset.
- New Nuclear Development at Hinkley Point  
Maximising opportunities for West Somerset communities and businesses to benefit from the development whilst protecting local communities and the environment.

**The Council's Core Values:**

- Integrity
- Respect
- Fairness
- Trust



**AUDIT COMMITTEE****Minutes of the Meeting held on 23 March 2015 at 2.30 pm in the  
Council Chamber, Williton****Present**

Councillor S Y Goss.....Chairman  
 Councillor E May.....Vice Chairman  
 Councillor MOA Dewdney  
 Councillor M Chilcott  
 Councillor D D Ross

**Officers in Attendance**

Director of Operations and Deputy CEO/S151 (S Adam)  
 Assistant Director Corporate Services (R Sealy)  
 Corporate Strategy and Performance Manager (P Harding)  
 Finance Manager (S Plenty)  
 Senior Debt and Recovery Officer (S Perkins)  
 Democratic Services Manager (R Bryant)  
 Democratic Services Officer (E Allfrey)

**Also in Attendance**

Peter Barber, Associate Director, Grant Thornton  
 Ashley Allen, Manager, Grant Thornton  
 Sarah Crouch, Executive, Grant Thornton  
 Alastair Woodland, Audit Manager, South West Audit Partnership (SWAP)

**A.42 Minutes**

(Minutes of the Meeting of the Audit Committee held on 2 December 2014, circulated with the Agenda)

**RESOLVED** that the Minutes of the Audit Committee held on 2 December 2014, be confirmed as a correct record.

**A.43 Declarations of Interest**

<b>Name</b>	<b>Minute No.</b>	<b>Member of</b>	<b>Personal or Prejudicial</b>	<b>Action Taken</b>
Cllr S Y Goss	All Items	Stogursey	Personal	Spoke and voted

**A.44 Public Participation**

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

**A.45 Audit Committee Action Plan**

There were no recorded actions from the last meeting on 2 December 2014.

**A.46 Audit Committee Forward Plan**

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

**RESOLVED** that the Audit Committee Forward Plan, be noted.

**A.47 Grant Thornton - Certification of Grant Claims**

(Report No. WSC 65/15, circulated with the Agenda) .

The purpose of this report was to provide the Audit Committee with details of the external auditor's findings and recommendations in relation to their review of the Housing Benefit Scheme Claim for 2013/2014.

The key messages from the audit were:-

- 1) The Housing Benefit Claim was submitted and certified on time;
- 2) The claim needed to be amended by £480 which was not a significant amount. The Management had already responded to this recommendation;
- 3) Both the working papers and the additional papers were of a good standard; and
- 4) The fees had been reduced this year.

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

- Paragraph 2.1 of the report should be amended to reflect a link with the Council's Corporate Priorities.
- Did this level of audit need to continue?  
*This work was mandatory from the Audit Commission and a statutory piece of work on behalf of the Department of Work and Pensions. The Committee could obtain significant assurances from this report. Also the fee had been reduced significantly.*



- How were the fees calculated?  
*The Audit Commission set the fees. The fee was based on the amount of work/time taken/errors found in 2011/2012 and a significant discount was then applied.*

**RESOLVED** that the findings of the report be noted.

**A.48 External Audit Grant Thornton) Update Report**

(Report No. WSC 66/15, circulated with the Agenda).

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

The key points were summarised as follows:-

- 1) The majority of the work had been completed;
- 2) The Audit Plan 2014/2015 would be presented at the next Audit Committee meeting in June 2015;
- 3) There was an additional fee of £900 relating to additional work undertaken to NDR3;
- 4) The remainder of the report drew attention to three recent Grant Thornton publications which were available online; and
- 5) The Department of Communities and Local Government (DCLG) had proposed to bring forward the audit deadline for 2017/2018 to the end of July.

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

- Local Authorities had found it ever more challenging to find savings and in the next twenty years the statutory services would be all Councils would be able to afford to deliver.
- It was surprising that 42% of respondents saw no difference in local healthcare governance particularly as there now was a local forum.
- Concern was raised that DCLG did not know what impact the cuts were having on Local Authorities. Service measures needed to be monitored centrally.
- Tough decisions would have to be made to reduce services. Discretionary services would have to be sacrificed and a distinction made between those services which were designated as 'statutory' or 'statutory plus'.

**RESOLVED** that the update report be noted.

**A.49 Internal Audit Plan 2014-2015 Progress Update**

(Report No. WSC 67/15, circulated with the Agenda)

The purpose of the report was to provide the Audit Committee with an update on Internal Audit Plan 2014-15 progress and bring to their attention any significant findings identified through SWAP's work.

The Audit Manager summarised the key points as:-

- 1) Since the December update no 'partial' or 'non assurance' audits had been awarded;
- 2) There were no significant Corporate issues;
- 3) SWAP had undergone major restructuring; and
- 4) 95% of the Audit Plan would be delivered.

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

- How could the costs of outside agencies working for the Council be controlled?
- Why could only 95% of the plan be delivered?  
*The plan had only been finalised in September/October 2014 but all of the major risks for the Council were covered.*
- The results showed how far WSC had come in the eight years since the Audit Commission had threatened a take over.

**RESOLVED** that the progress made in the delivery of the 2014/2015 Internal Audit Plan be noted.

**A.50 Internal Audit Plan 2015-2016 and Internal Audit Charter**

(Report No. WSC 68/15, circulated with the Agenda).

The purpose of the report was to inform the Audit Committee of the proposed work to be undertaken by SWAP during 2015-2016, to seek approval of the Internal Audit Charter which set out the nature, role responsibility, status and authority of internal auditing within WSC and to outline the scope of the internal audit work.

The Audit Manager summarised the key points as:-

- 1) Some minor changes had been made to the Charter to reflect changes in roles and responsibilities and to address some of the requirements of the Public Sector Internal Audit Standards;
- 2) The plan for 2015/2016 had been approved by the Joint Management Team; and

- 3) As with previous years the plan would have to remain flexible.

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

- Asset Management had not been covered last year and was not going to be picked up again this year?  
*Key financial risks were going to be covered. The plan was fluid and it was a good start;*
- Was 15 days too large an allocation for Waterways/Beach Safety?  
*The audit of Waterways/Beach Safety would also include Public Risk. Unused days would be allocated elsewhere if necessary.*

**RESOLVED** that:-

- (i) The 2015-16 Internal Audit Plan be noted and approved; and
- (ii) The Internal Audit Charter be noted and approved.

#### **A.51 Risk Management Update**

(Report No. WSC 63/15, circulated with the Agenda).

The purpose of the report was to provide the Audit Committee with an update on the corporate risks which were being managed by the Joint Management Team (JMT).

The Corporate Strategy and Performance Manager summarised the key points as:-

- 1) Since the last update on 2 December 2014 no new risks had been added to the register and none removed.
- 2) The description of the risk for risk No.1 had been changed as the JMASS savings had largely been delivered and the description of risk No 16 had been widened to include staff engagement.
- 3) The Corporate Risk Register was a joint one between WSC and TDBC and was formally reviewed by JMT on a quarterly basis.
- 4) The Councils were members of the Association of Local Authority Risk Managers (ALARM) where they shared corporate risk registers and discussed emerging risks.

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

- The Council was in a financially worse off position than a

couple of years ago even though huge cuts had been made. A structure was in place that could not be afforded?

*No Local Authority was without Medium Term Financial Plan risk. JMASS would endeavour to make it more sustainable.*

- A further request for payroll and pension costs over the next five years was made.

**RESOLVED** that the current position in relation to Corporate Risk be noted.

#### **A.52 Hinkley Point Project Update**

(Report No.WSC 64/15, circulated with the Agenda).

The purpose of this report was to provide a summary of the latest financial monitoring in respect of Hinkley Point C Section 106 Agreement contributions received, how they had been allocated and spent.

The Finance Manager summarised the key points as:-

- 1) WSC had received £11,898,000 from EDF to date and had spent £1,894,000.
- 2) Two further payments from EDF were due in May 2015 and May 2016.

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

- Hinkley C needed Auditing and Regular Financial updates as it was a big risk.
- When the money had gone what impact would this have on the Council?

**RESOLVED** that the Hinkley Point Project update be noted.

#### **A.53 Debt Analysis Report - As at 31 December 2014**

(Report No.WSC 57/15, circulated with the Agenda)

The purpose of the report was to provide the Audit Committee with an update on the level of debts outstanding to the Authority as at 31 December 2014.

The Senior Debt and Recovery Officer summarised the key points as:-

- 1) The newer debts were comparable with the previous year and the older

- debts were down when compared to the previous year.
- 2) Write off values remained very low.
  - 3) Overpayments had gone up mainly due to the Department of Work and Pensions (DWP) receiving data called Real Time Info (RTI).
  - 4) The Council Tax debt collection rate was a healthy 84%.
  - 5) Business Rate collection had fallen because the twelve monthly regulation had come into effect on 1 April 2014.

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

- Outstanding appeals on Business Rates were a huge risk to the Council and this needed to be reported. What sums were likely to be involved?
- Maintaining the collection rate was crucial. Would it be fairer to allow businesses to spread their Business Rate costs over 12 months?
- The DWP accolade was well deserved.

**RESOLVED** that the Debt Analysis Report be noted.

The meeting closed at 3.50 pm.

## West Somerset Council - Audit Committee – Forward Plan 2015

Meeting	DRAFT AGENDA ITEMS	LEAD OFFICER
2 Dec 2014	Grant Thornton - Annual Audit Letter  Grant Thornton – External Audit Update  Internal Audit Plan – Progress Report  Risk Management Update  6-Month Review of Treasury Management Activity  Debt Analysis Report – As At 30 September 2014  Forward Plan	Peter Barber (GT) Ashley Allen (GT)  Peter Barber (GT) Ashley Allen (GT)  Alastair Woodland  Paul Harding  James Howells  Steve Plenty  Richard Sealy
23 March 2015	Grant Thornton – Certification of Grant Claims  Grant Thornton – Audit Update  Internal Audit – Progress Report 2014/15  Internal Audit Plan 2015/16  Corporate Risk Management Update  Hinkley Project Update  Debt Analysis Report – as at 31 December 2014  Forward Plan	Peter Barber (GT) Ashley Allen (GT)  Peter Barber (GT) Ashley Allen (GT)  Alastair Woodland  Alastair Woodland  Paul Harding  Steve Plenty  Steve Perkins  Richard Sealy
29 June 2015	Grant Thornton – External Audit Plan 2014/15  Grant Thornton - External Audit Fee Letter  Grant Thornton – External Audit Update  SWAP Internal Audit – Annual Report  SWAP Internal Audit – Review of Effectiveness	Peter Barber (GT) Ashley Allen (GT)  Peter Barber (GT) Ashley Allen (GT)  Peter Barber (GT) Ashley Allen (GT)  Alastair Woodland  Shirlene Adam

	<p>Annual Governance Statement 2014/15</p> <p>6-Month Review of Treasury Management Activity</p> <p>Debt Analysis Report – As At 31 March 2015</p> <p>Forward Plan</p>	<p>Paul Harding</p> <p>James Howells</p> <p>Steve Perkins</p> <p>Richard Sealy</p>
28 Sept 2015	<p>Grant Thornton – External Audit Findings</p> <p>Grant Thornton External Audit – Certification Plan</p> <p>Approval of the Statement of Accounts</p> <p>SWAP Internal Audit – Progress Update 2014/15</p> <p>Corporate Governance Action Plan Update</p> <p>Corporate Risk Management Update</p> <p>Debt Analysis Report – As At 30 June 2015</p> <p>Corporate Counter-Fraud Update</p> <p>Forward Plan</p>	<p>Peter Barber (GT) Ashley Allen (GT)</p> <p>Peter Barber (GT) Ashley Allen (GT)</p> <p>Paul Fitzgerald</p> <p>Alastair Woodland</p> <p>Paul Harding</p> <p>Paul Harding</p> <p>Steve Perkins</p> <p>Paul Fitzgerald</p> <p>Richard Sealy</p>
1 Dec 2015	<p>Grant Thornton External Audit – Annual Audit Letter 2014/15</p> <p>Grant Thornton External Audit Update</p> <p>SWAP Internal Audit – Progress Report 2014/15</p> <p>6-Month Review of Treasury Management Activity</p> <p>Debt Analysis Report – As At 30 September 2015</p> <p>Forward Plan</p>	<p>Peter Barber (GT) Ashley Allen (GT)</p> <p>Peter Barber (GT) Ashley Allen (GT)</p> <p>Alastair Woodland</p> <p>James Howells</p> <p>Steve Perkins</p> <p>Richard Sealy</p>
<b>28 Mar 2016</b>	<b>To Be Confirmed</b>	

*Report Number:* WSC 99/15

*Presented by:* Peter Barber, Assistant Director, Grant Thornton & Ashley Allen, Audit Manager, Grant Thornton

*Author of the Report:* Richard Sealy, Assistant Director – Corporate Services

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*Report to a Meeting of:* Audit Committee

*To be Held on:* 6 July 2015

## EXTERNAL AUDIT PLAN 2014/15

### 1. PURPOSE OF REPORT

- 1.1 The report details our external auditors, Grant Thornton's, plan for the audit work they undertake in respect of the 2014/15 financial year.

### 2. CONTRIBUTION TO CORPORATE PRIORITIES

- 2.1 There is no direct contribution to the corporate priorities.

### 3. RECOMMENDATIONS

- 3.1 Members are requested to note the Audit Plan for 2014/15.

### 4. RISK ASSESSMENT (IF APPLICABLE)

#### Risk Matrix

Description	Likelihood	Impact	Overall
No risks have been identified in connection with this report.	N/A	N/A	N/A

The scoring of the risks identified in the above table has been based on the scoring matrix. Each risk has been assessed and scored both before the mitigation measures have been actioned and after they have.

### 5. BACKGROUND INFORMATION

- 5.1 Each year our external auditors, Grant Thornton, provide a plan, which details their approach to the audit work required in respect of the preceding financial year (2014/15). Specifically this audit work focuses on the provision of an audit opinion in relation to the accounts, value for money (VFM) and associated key risks.
- 5.2 The plan for 2014/15 is set out in Appendix A.



## **6. FINANCIAL/RESOURCE IMPLICATIONS**

- 6.1 The report sets out the external auditors view on key risk areas for the Council and their approach to auditing them. The fees for undertaking this work are covered in the separate fees report.

## **7. COMMENTS ON BEHALF OF SECTION 151 OFFICER**

- 7.1 I have reviewed the Audit Plan for 2014/15 and am happy with the approach and the work proposed.

## **8. EQUALITY & DIVERSITY IMPLICATIONS**

**Members need to demonstrate that they have consciously thought about the three aims of the Public Sector Equality Duty as part of the decision making process.**

The three aims the authority **must** have due regard for:

- Eliminate discrimination, harassment, victimisation
- Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it

- 8.1 There are no equalities and diversity implications in relation to the audit fees.

## **9. CRIME AND DISORDER IMPLICATIONS**

- 9.1 There are no implications in respect of this report.

## **10. CONSULTATION IMPLICATIONS**

- 10.1 There are no implications in respect of this report.

## **11. ASSET MANAGEMENT IMPLICATIONS**

- 11.1 There are no implications in respect of this report.

## **12. ENVIRONMENTAL IMPACT IMPLICATIONS**

- 12.1 There are no implications in respect of this report.

## **13. HEALTH & WELLBEING**

Demonstrate that the authority has given due regard for:

- People, families and communities take responsibility for their own health and wellbeing;
- Families and communities are thriving and resilient; and
- Somerset people are able to live independently.

- 13.1 There are no implications in respect of this report.

## **14. LEGAL IMPLICATIONS**

- 14.1 There are no implications in respect of this report.





# The Audit Plan for West Somerset District Council

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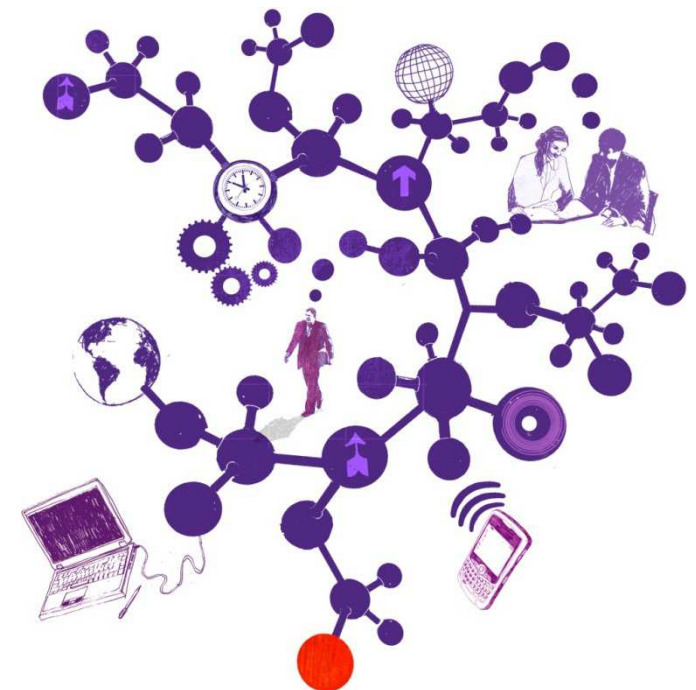
**Year ended 31 March 2015**

19 May 2015

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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 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 Council 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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## **Section**

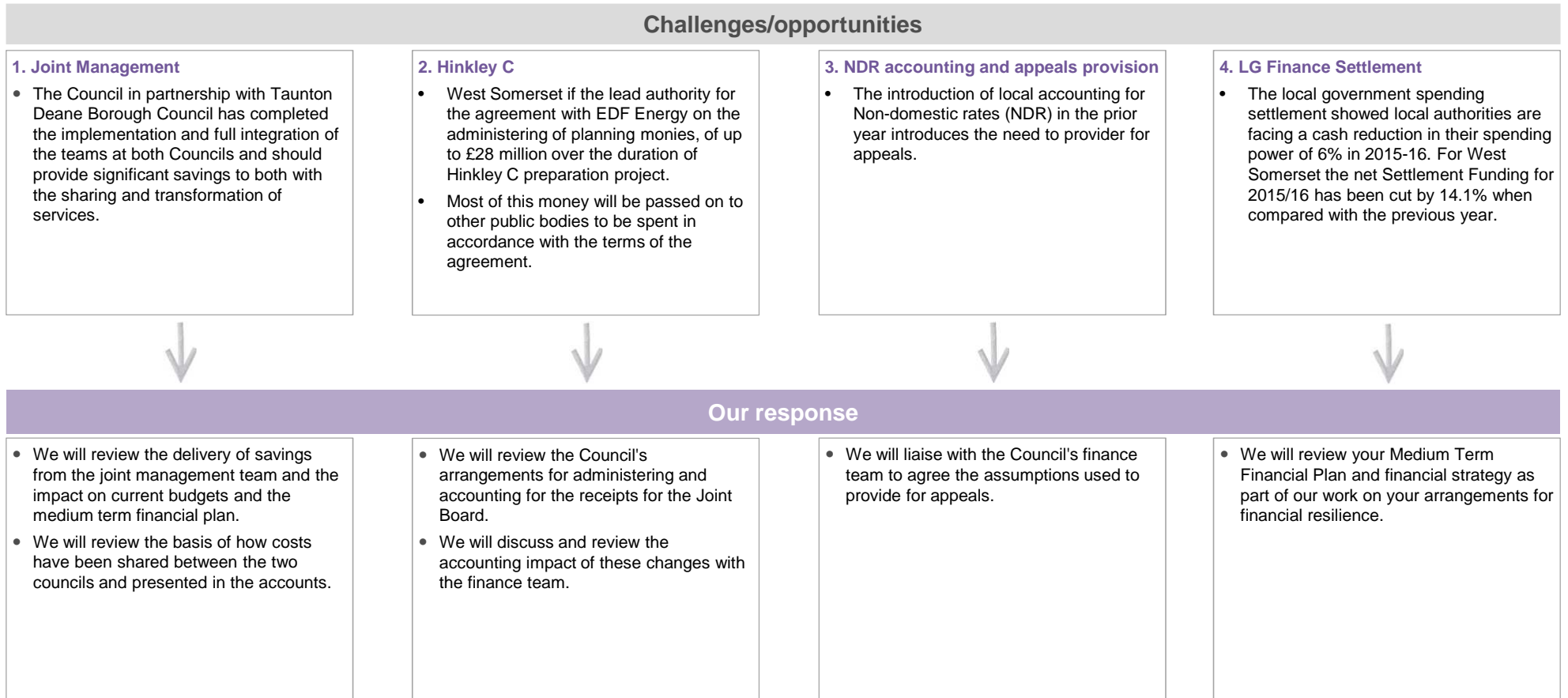
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# Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.



# Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.

## Developments and other requirements

### 1. Financial reporting

- Changes to the CIPFA Code of Practice
- Adoption of new group accounting standards (IFRS 10,11 and 12)

### 2. Legislation

- Local Government Finance settlement

### 3. Corporate governance

- Annual Governance Statement (AGS)
- Explanatory foreword

### 4. Financial Pressures

- Managing service provision with less resource
- Progress against savings plans

### 5. Other requirements

- The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion
- The Council completes grant claims and returns on which audit certification is required

## Our response

We will ensure that

- the Council complies with the requirements of the CIPFA Code of Practice through discussions with management and our substantive testing
- the group boundary is recognised in accordance with the Code and joint arrangements are accounted for correctly

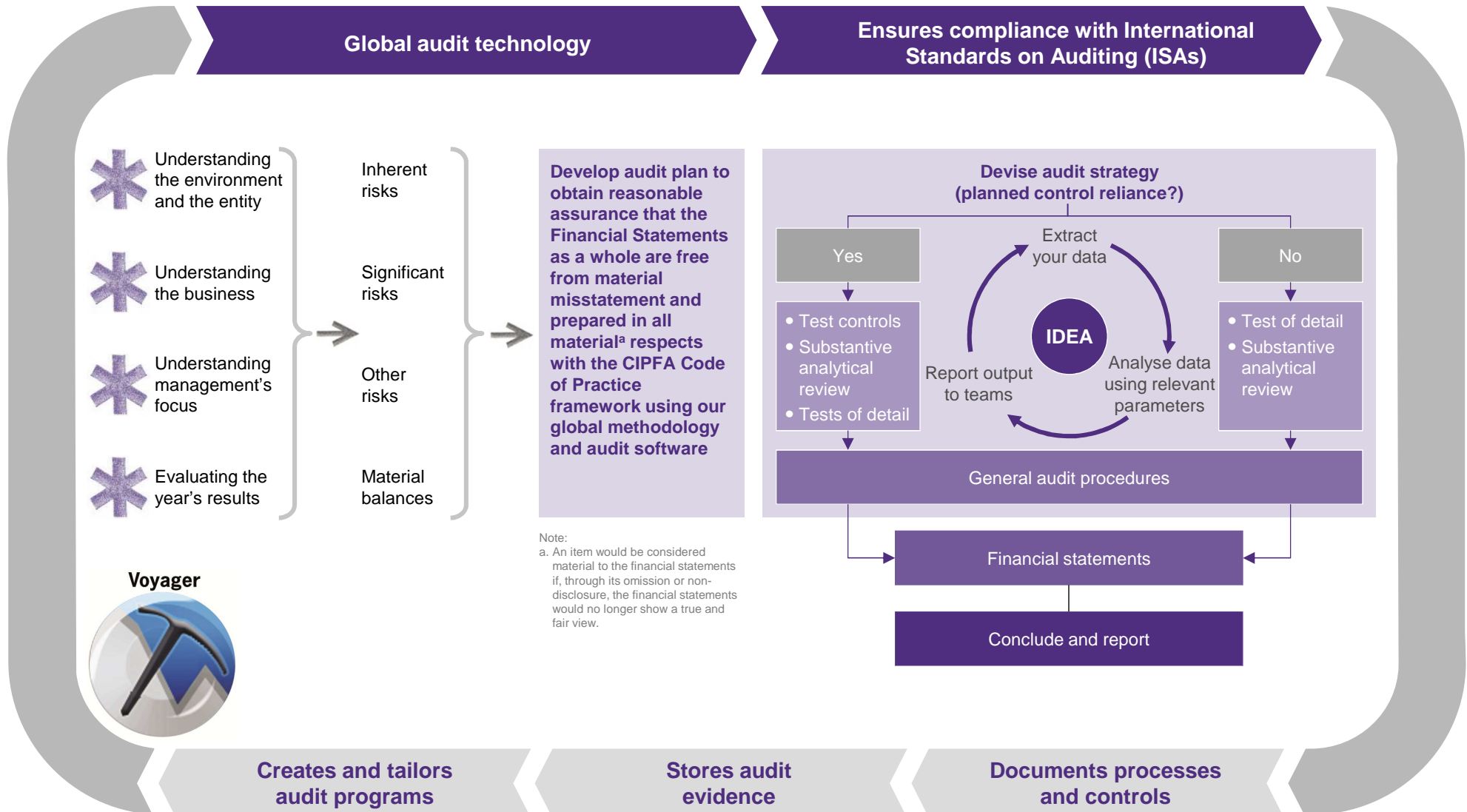
- We will discuss the impact of the legislative changes with the Council through our regular meetings with senior management and those charged with governance, providing a view where appropriate

- We will review the arrangements the Council has in place for the production of the AGS
- We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge

- We will review the Council's performance against the 2014/15 budget, including consideration of performance against the savings plan
- We will undertake a review of Financial Resilience as part of our VfM conclusion

- We will carry out work on the WGA pack in accordance with requirements
- We will certify the housing benefit subsidy claim in accordance with the requirements specified by Public Sector Audit Appointments Ltd. This company has taken over the Audit Commission's responsibilities for housing benefit grant certification from 1 April 2015.

# Our audit approach





# Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at West Somerset District Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including West Somerset District Council, mean that all forms of fraud are seen as unacceptable.</li> </ul>
Management over-ride of controls	<p>Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.</p>	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• Review of prior year accounting estimates, judgments and decisions made by management</li> <li>• Testing of journal entries for the first part of the year</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Testing of journal entries for remainder of the year</li> <li>• Review of unusual significant transactions</li> </ul>

# Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit Approach
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>Review of system documentation and walkthrough tests of design and operation of controls</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>Search for unrecorded liabilities by testing after period payments</li> <li>Obtain an understanding of the accruals process and determine whether our understanding identifies areas where additional procedures are required</li> <li>Obtain written representations from management for significant assumptions used in estimates</li> </ul>
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>Review of system documentation and walkthrough tests of design and operation of controls</li> <li>Substantive testing of a sample of payroll payments</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>Analytical procedures over the payroll figures throughout the year to ensure that it is reasonable and complete</li> <li>Reconciliation of the payroll system figures to the general ledger figures</li> </ul>

---

# Value for money

## Value for money

The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

Our VfM conclusion is based on the following criteria specified by the Audit Commission:

VfM criteria	Focus of the criteria
The organisation has proper arrangements in place for securing financial resilience	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity

We have undertaken a risk assessment to identify areas of risk to our VfM conclusion. We will undertake work in the following areas to address the risks identified:

- review the Council's medium term financial planning regarding plan to balance future budgets
- review the progress in delivering the savings outlined in the business case for the joint working arrangements with West Somerset District Council

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter.

## Results of interim audit work

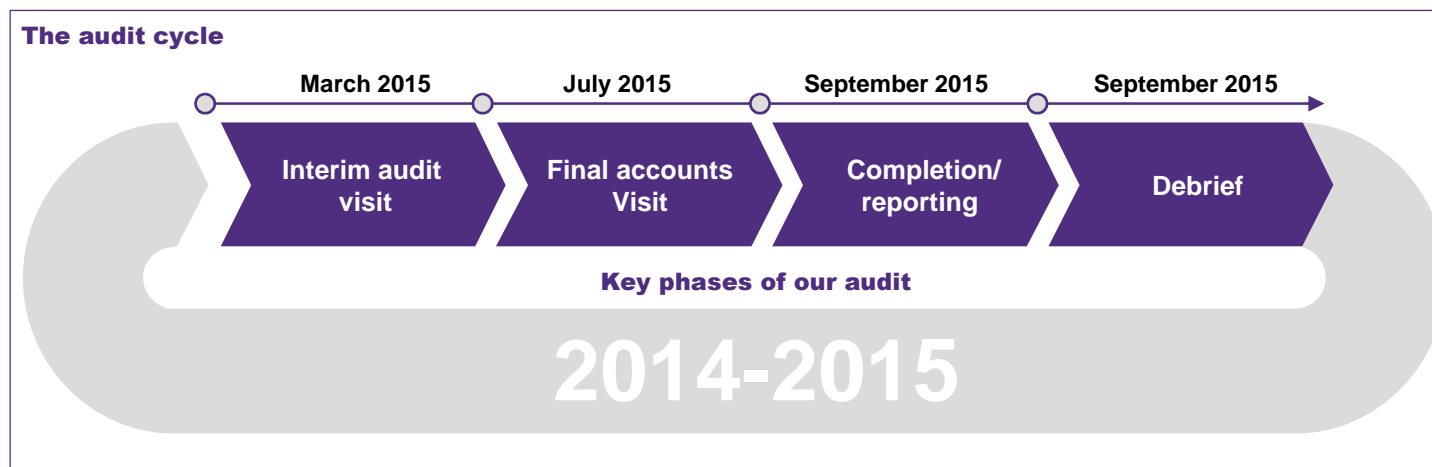
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	<b>Work performed and findings</b>	<b>Conclusion</b>
<b>Internal audit</b>	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention</p> <p>We also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment at the Council.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
<b>Walkthrough testing</b>	<p>We have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>
<b>Entity level controls</b>	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> <li>• Communication and enforcement of integrity and ethical values</li> <li>• Commitment to competence</li> <li>• Participation by those charged with governance</li> <li>• Management's philosophy and operating style</li> <li>• Organisational structure</li> <li>• Assignment of authority and responsibility</li> <li>• Human resource policies and practices</li> </ul>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.</p>

## Results of interim audit work cont'd

	Work performed	Conclusion
<b>Journal entry controls</b>	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p> <p>To date we have undertaken detailed testing on journal transactions recorded for the first nine months of the financial year, by extracting 'unusual' entries for further review.</p>	<p>No issues have been identified that we wish to highlight for your attention.</p> <p>We will undertake further detailed testing on journals created in the remainder of the financial year during the accounts audit.</p>
<b>Early substantive testing</b>	<p>We have undertaken some early testing on the Council's operating expenditure, payroll and property, plant and equipment for the first part of the year.</p>	<p>To date, no significant issues have been identified in the operating expenditure, payroll and property, plant and equipment tests completed to date. During the audit we will consider the remainder.</p>
<b>Follow up from prior year recommendations</b>	<p>We have considered the recommendations made following the 2013/4 audit of the financial statements as reported in our Audit Findings Report and discussed progress with the finance team.</p>	<p>The recommendation from 2013/14 relating to ICT still applies for 2014/15 as no changes have been made. The recommendation therefore has been carried forward to 14/15 and can be found in the action plan in the appendix to this report.</p> <p>The recommendation around ineffective segregation of duties still applies for 2014/15 and our audit procedures will have regard to this. No further action is required on the part of the Council as the reorganisation as part of the joint working with Taunton Deane Borough Council has addressed this issue for future years.</p>
<b>Value for money</b>	<p>We have undertaken an initial review of your financial resilience risks and identified areas where some risks exist.</p>	<p>This will be further updated as the year progresses and we will report where risks still exist in our Audit Findings Report at the conclusion of the audit.</p>

# Key dates



Date	Activity
February to March 2015	Planning
March 2015	Interim site visit
June 2015	Presentation of audit plan to Audit Committee
July to August 2015	Year end fieldwork
August 2015	Audit findings clearance meeting with Director of Finance
September 2015	Report audit findings to those charged with governance Corporate Governance Committee
September 2015	Sign financial statements opinion

# Fees and independence

## Fees

	£
Council audit	56,700
Grant certification	11,950
<b>Total fees (excluding VAT)</b>	<b>68,650</b>

### Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations

### Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited, as the successor to the Audit Commission in this area.
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services.'

## Fees for other services

Service	Fees £
None	Nil

### Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

### Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

# Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

## Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



---

# Appendix

# Action plan

## Priority

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	<p>We recommend that management:</p> <ul style="list-style-type: none"><li>- review their ICT security policies and ensure they continue to meet the requirements of PSN connection;</li><li>- implement a process to ensure that all staff (including temporary, Agency staff, Contractors etc) are provided with up to date policies</li><li>- ensure that all users acknowledge that they have read, understood and agree to abide by the policies</li><li>- should consider implementing a process to review user access rights on a periodic basis to ensure that only authorised users have access to the Council systems and the levels of access granted is appropriate for their roles and responsibilities</li><li>- management should identify critical security logs within all systems and monitor user activity to ensure data integrity.</li></ul>	Medium	<p>The WSC ICT service and functions are PSN compliant. The ICT security policy requires updating and we are looking to harmonise with the TDBC policy. Training will be provided to all staff on the new policy and we will record that they have read, understood and agreed to abide by the policy. User access rights are being periodically reviewed and we will document the process for undertaking these reviews. We will also look to implement an appropriate level of monitoring of system security logs.</p>	<p>October 2015 ICT and Information Manager</p>



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*Report Number:* WSC 100/15

*Presented by:* Peter Barber, Assistant Director, Grant Thornton & Ashley Allen, Audit Manager, Grant Thornton

*Author of the Report:* Richard Sealy, Assistant Director – Corporate Services

*Contact Details:*

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*Email:* r.sealy@tauntondeane.gov.uk

*Report to a Meeting of:* Audit Committee

*To be Held on:* 6 July 2015

## EXTERNAL AUDIT FEES 2015/16

### 1. PURPOSE OF REPORT

1.1 The report details the fees for the external audit service for 2015/16.

### 2. CONTRIBUTION TO CORPORATE PRIORITIES

2.1 There is no direct contribution to the corporate priorities.

### 3. RECOMMENDATIONS

3.1 Members are requested to note the external audit fees letter received from our external auditors, Grant Thornton, dated 17 April 2015.

### 4. RISK ASSESSMENT (IF APPLICABLE)

#### Risk Matrix

Description	Likelihood	Impact	Overall
No risks have been identified in connection with this report.	N/A	N/A	N/A

The scoring of the risks identified in the above table has been based on the scoring matrix. Each risk has been assessed and scored both before the mitigation measures have been actioned and after they have.

### 5. BACKGROUND INFORMATION

5.1 The external audit function for West Somerset Council transferred from the Audit Commission to Grant Thornton during 2012. This change was part of the national programme of “outsourcing” the external audit work and has resulted in significant savings for local authorities.

5.2 The attached letter provides details of the agreed fees for 2015/16.

5.3 The letter also sets out details of the process and timetable for completing the external audit work for 2014/15 financial year together with details of the team who will lead the work.

## **6. FINANCIAL/RESOURCE IMPLICATIONS**

6.1 The indicative audit fee for 2015/16 is £49,521. This amount is split between the fee for the main audit of £42,525 and the grant certification work of £6,996. Overall this represents a reduction of £18,229 from the previous year. The letter outlines the reasons for the reduction.

6.2 Any additional audit work, outside of the planned audit and grant fee work, will be billed separately and in addition to the fee quoted.

## **7. COMMENTS ON BEHALF OF SECTION 151 OFFICER**

7.1 I have reviewed the fee letter and am satisfied with the fee quoted.

## **8. EQUALITY & DIVERSITY IMPLICATIONS**

**Members need to demonstrate that they have consciously thought about the three aims of the Public Sector Equality Duty as part of the decision making process.**

The three aims the authority **must** have due regard for:

- Eliminate discrimination, harassment, victimisation
- Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it

8.1 There are no equalities and diversity implications in relation to the audit fees.

## **9. CRIME AND DISORDER IMPLICATIONS**

9.1 There are no implications in respect of this report.

## **10. CONSULTATION IMPLICATIONS**

10.1 There are no implications in respect of this report.

## **11. ASSET MANAGEMENT IMPLICATIONS**

11.1 There are no implications in respect of this report.

## **12. ENVIRONMENTAL IMPACT IMPLICATIONS**

12.1 There are no implications in respect of this report.

## **13. HEALTH & WELLBEING**

Demonstrate that the authority has given due regard for:

- People, families and communities take responsibility for their own health and wellbeing;
- Families and communities are thriving and resilient; and

- Somerset people are able to live independently.

13.1 There are no implications in respect of this report.

**14. LEGAL IMPLICATIONS**

14.1 There are no implications in respect of this report.



# Grant Thornton

Penny James  
Chief Executive  
West Somerset District Council  
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[www.grant-thornton.co.uk](http://www.grant-thornton.co.uk)

17 April 2015

Dear Penny

## **Planned audit fee for 2015/16 – West Somerset District Council**

Before it closed on 31 March 2015, the Audit Commission was asked to set the scale fees for audits for 2015/16. The Commission published its work programme and scales of fees for 2015/16 at the end of March 2015. In this letter we set out details of the audit fee for the Council along with the scope and timing of our work and details of our team.

### **Scale fee**

The Audit Commission defines the scale audit fee as “the fee required by auditors to carry out the work necessary to meet their statutory responsibilities in accordance with the Code of Audit Practice. It represents the best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment that ensures the auditor is provided with complete and materially accurate financial statements with supporting working papers within agreed timeframes.”

The Council's scale fee for 2015/16 has been set by the Audit Commission at £42,525, which compares to the audit fee of £56,700 for 2014/15. The reduction in fees has been enabled by the procurement exercises run by the Commission across both the Local Government and Health sectors.

After the Commission's closure, the 2015/16 work programme and fees will be accessible from the archived Audit Commission website from the National Archives [http://webarchive.nationalarchives.gov.uk/\\*/http://www.audit-commission.gov.uk/](http://webarchive.nationalarchives.gov.uk/*/http://www.audit-commission.gov.uk/) and on the Public Sector Audit Appointments PSAA website [psaa.co.uk](http://psaa.co.uk).

The audit planning process for 2015/16, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

### **Scope of the audit fee**

The scale fee covers:

- our audit of your financial statements
- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money conclusion)
- our work on your whole of government accounts return.

#### **Chartered Accountants**

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### **Value for Money conclusion**

Under the Audit Commission Act, we must be satisfied that the Council has adequate arrangements in place to secure economy, efficiency and effectiveness in its use of resources, focusing on the arrangements for:

- securing financial resilience
- prioritising resources within tighter budgets.

We undertake a risk assessment to identify any significant risks which we will need to address before reaching our value for money conclusion. We will assess the Council's financial resilience as part of our work on the VfM conclusion and provide feedback in our Audit Findings Report.

### **Certification of grant claims and returns**

The Council's indicative grant certification fee has been set by the Audit Commission at £6,996.

### **Billing schedule**

Fees will be billed as follows:

<b>Main Audit fee</b>	<b>£</b>
September 2015	10,632
December 2015	10,631
March 2016	10,631
June 2016	10,631
	42,525
<b>Grant Certification</b>	
December 2016	6,996
<b>Total</b>	<b>49,521</b>

### **Outline audit timetable**

We will undertake our audit planning and interim audit procedures between December 2015 and March 2016. Upon completion of this phase of our work we will issue a detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit and work on the VfM conclusion will be completed in September 2016 and work on the whole of government accounts return in September 2016.



<b>Phase of work</b>	<b>Timing</b>	<b>Outputs</b>	<b>Comments</b>
Audit planning and interim audit	December 2015- March 2016	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of the Council's accounts and VfM.
Final accounts audit	June to September 2016	Audit Findings (Report to those charged with governance)	This report sets out the findings of our accounts audit and VfM work for the consideration of those charged with governance.
VfM conclusion	January to Sept 2016	Audit Findings (Report to those charged with governance)	As above
Whole of government accounts	September 2016	Opinion on the WGA return	This work will be completed alongside the accounts audit.
Annual audit letter	October 2016	Annual audit letter to the Council	The letter will summarise the findings of all aspects of our work.
Grant certification	June to December 2016	Grant certification report	A report summarising the findings of our grant certification work.

### **Our team**

The key members of the audit team for 2015/16 are:

	<b>Name</b>	<b>Phone Number</b>	<b>E-mail</b>
Engagement Lead	Peter Barber	0117 305 7897 07880 456122	peter.a.barber@uk.gt.com
Engagement Manager	Ashley Allen	0117 305 7629 07775 705341	ashley.j.allen@uk.gt.com
In Charge Auditor	Sarah Crouch	0117 305 7881	sarah.crouch@uk.gt.com

### **Additional work**

The scale fee excludes any work requested by the Council that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed and a detailed project specification and fee agreed with the Council.

**Quality assurance**

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact John Golding our Public Sector Assurance regional lead partner [john.golding@uk.gt.com](mailto:john.golding@uk.gt.com).

Yours sincerely



Peter Barber  
Associate Director  
For Grant Thornton UK LLP

cc Shirlene Adam, Director of Operations

*Report Number:* WSC 101/15

*Presented by:* Peter Barber, Assistant Director, Grant Thornton & Ashley Allen, Audit Manager, Grant Thornton

*Author of the Report:* Richard Sealy, Assistant Director – Corporate Services

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*Email:* r.sealy@tauntondeane.gov.uk

*Report to a Meeting of:* Audit Committee

*To be Held on:* 6 July 2015

## EXTERNAL AUDIT (GRANT THORNTON) UPDATE REPORT

### 1. PURPOSE OF REPORT

- 1.1 The attached report provides the Audit Committee with a progress update regarding the work of the external auditors, Grant Thornton, in relation to the 2014/15 financial year together with information relating to emerging national issues which may be relevant to the Council.

### 2. CONTRIBUTION TO CORPORATE PRIORITIES

- 2.1 There is no direct contribution to the Corporate Priorities.

### 3. RECOMMENDATIONS

- 3.1 Members are requested to note the update report.

### 4. RISK ASSESSMENT (IF APPLICABLE)

#### Risk Matrix

Description	Likelihood	Impact	Overall
The details of any specific risks identified will be contained in the attached report.			

The scoring of the risks identified in the above table has been based on the scoring matrix. Each risk has been assessed and scored both before the mitigation measures have been actioned and after they have.

### 5. BACKGROUND INFORMATION

- 5.1 The Council's external audit function is undertaken by Grant Thornton. The external auditors, as part of their work, provide regular progress updates to Members via the Audit

Committee together with updates in relation to emerging national issues, which may be of relevance to the Council. These are detailed in the attached report.

5.2 Peter Barber and Ashley Allen from Grant Thornton will present the report.

## **6. FINANCIAL/RESOURCE IMPLICATIONS**

6.1 This is an update report only and there are no specific financial implications from this report.

## **7. COMMENTS ON BEHALF OF SECTION 151 OFFICER**

7.1 The external auditors perform a key role in relation to ensuring the accuracy of the Council's accounts, our compliance with legislation and in helping us to meet our value for money obligations. It is important therefore that Members receive regular progress updates from the external auditors.

## **8. EQUALITY & DIVERSITY IMPLICATIONS**

**Members need to demonstrate that they have consciously thought about the three aims of the Public Sector Equality Duty as part of the decision making process.**

The three aims the authority **must** have due regard for:

- Eliminate discrimination, harassment, victimisation
- Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it

8.1 There are no implications in respect of this report.

## **9. CRIME AND DISORDER IMPLICATIONS**

9.1 There are no implications in respect of this report.

## **10. CONSULTATION IMPLICATIONS**

10.1 There are no implications in respect of this report.

## **11. ASSET MANAGEMENT IMPLICATIONS**

11.1 There are no implications in respect of this report.

## **12. ENVIRONMENTAL IMPACT IMPLICATIONS**

12.1 There are no implications in respect of this report.

## **13. HEALTH & WELLBEING**

Demonstrate that the authority has given due regard for:

- People, families and communities take responsibility for their own health and wellbeing;
- Families and communities are thriving and resilient; and
- Somerset people are able to live independently.

13.1 There are no implications in respect of this report.

**14. LEGAL IMPLICATIONS**

14.1 The majority of the functions undertaken by external audit are required by statute.



# Audit Committee Update for West Somerset District Council

**Year ended 31 March 2015**

June 2015

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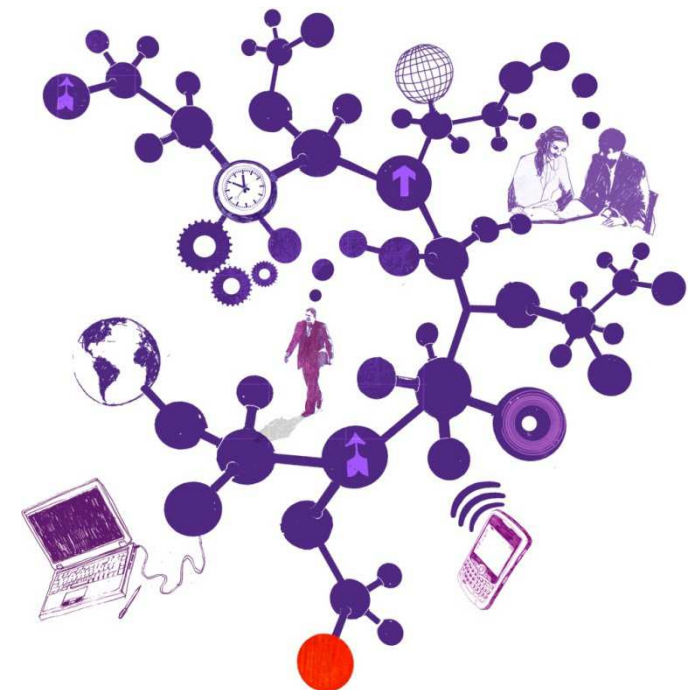
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to 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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# Introduction

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.

Members of the Audit Committee can find further useful material on our website [www.grant-thornton.co.uk](http://www.grant-thornton.co.uk), where we have a section dedicated to our work in the public sector (<http://www.grant-thornton.co.uk/en/Services/Public-Sector/>). Here you can download copies of our publications including:

- Easing the burden: the impact of welfare reform on local government and the social housing sector
- Spreading their wings: building a successful local authority trading company

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 Audit Manager.

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## Progress at June 2015

Work	Planned date	Complete?	Comments
<p><b>2014/15 Accounts Audit Plan</b> We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on Council's 2014/15 financial statements.</p>	April 2015	Yes	The audit plan is being presented as a separate item on Audit Committee agenda on 29 June 2015.
<p><b>Interim accounts audit</b> Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> <li>• updating our review of the Council's control environment</li> <li>• updating our understanding of financial systems</li> <li>• review of Internal Audit reports on core financial systems</li> <li>• early work on emerging accounting issues</li> <li>• early substantive testing</li> <li>• initial risk assessment to support the Value for Money conclusion</li> </ul>	January to April 2015	Yes	Our interim audit work has been completed and we summarised the findings in the audit plan referred to above.
<p><b>2014/15 final accounts audit</b> Including:</p> <ul style="list-style-type: none"> <li>• audit of the 2014/15 financial statements</li> <li>• proposed opinion on the Council 's accounts</li> <li>• proposed Value for Money conclusion</li> </ul>	July to September 2015	Not yet due	

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## Progress at June 2015

Work	Planned date	Complete?	Comments
<b>Value for Money (VfM) conclusion</b> We are required to assess whether the Council has proper arrangements in place for: <ul style="list-style-type: none"><li>• securing financial resilience</li><li>• challenging how it secures economy, efficiency and effectiveness</li></ul>	July to September 2015	Not yet due	
<b>2014/15 certification work</b> This work is expected to cover housing benefits scheme claim.	June to November 2015	Not yet due	

# Welfare Reform Review: Easing the burden

## Grant Thornton

Our second welfare reform report, 'Easing the burden', followed on from 'Reaping the benefits?' to provide insight into the impact of welfare reform on English local authority and social housing organisations over the past two years.

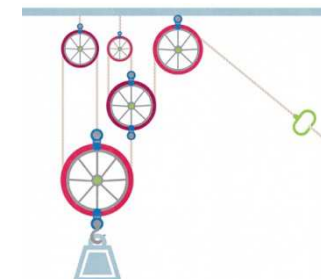
It focused on the governance and management arrangements being put in place in England across the two sectors to deliver reform, the early signs of how successful the reforms have been and the upcoming issues and risks on the reform agenda in the wider context of social impact.

### Key messages:

- The cumulative effect of various welfare reforms is putting a significant financial strain on those people needing welfare support
- The majority of local authorities and housing associations surveyed had seen a rise in average council tax and rent arrears since 2012/13, which they attributed at least in part to welfare reform
- There had been limited movement to smaller properties as a result of the spare room subsidy (also known as the bedroom tax) and benefit cap reforms, with generally less than 10% of those affected having moved according to our survey. The shortage of smaller properties for people to move into played a key role in this
- Local authorities are becoming reliant on Discretionary Housing Payments (DHP) to plug the gap for those unable to pay. Ninety-five per cent of local authorities surveyed think that recipients of DHP allocations are either wholly or partly dependent on DHP to avoid homelessness in the longer-term. Any reduction in DHP funding from central government is therefore likely to result in further increases to rent arrears and homelessness in the next two years, unless mitigated by other means
- The withdrawal of ring-fenced hardship funding (formerly the Social Fund) will result in a reduction of provision, as the majority of local authorities told us that they are not in a position to fund this from their own revenue
- Reductions in DHP and hardship funding, in addition to general funding reductions will inhibit the ability of local authorities and housing associations to pursue early intervention policies that avoid people falling into long-term benefit dependency. This will have cost implications for the medium- to long-term.
- The cost of administering housing benefit has risen as a result of welfare reform and now 47% of local authorities and 51% of housing associations surveyed said housing benefit is becoming significantly more costly to administer. This is partly due to the increased complexity of cases

An electronic version of the report can be found here

<http://www.grant-thornton.co.uk/en/Publications/2015/Easing-the-Burden/>



# Spreading their wings: Building a successful local authority trading company

## Grant Thornton

'Spreading your wings' is the first in a series on alternative delivery models in local government. This report focuses on how to set up a local authority trading company and, importantly, how to make it successful.

The trend in using alternative models to protect and develop services has continued over the last year. As councils continue to confront financial pressure, many have considered how to reduce costs, generate income and improve efficiency by introducing commercial structures.

The introduction of LATCs has been a key part of this innovation and we predict that the number will grow in the next five years. While restricted initially to areas such as entertainment or airports – for example Birmingham's NEC and Manchester Airport – LATCs have grown into new areas such as highways, housing and education. More recently, LATCs dedicated to the delivery of social care services have emerged.

We recognise that the delivery of a successful company is not easy. In light of this, this report provides practical guidance on the steps that need to be followed in:

- deciding to set up a local authority trading company
- setting up a local authority trading company
- building a successful local authority trading company.

Grant Thornton has worked with many LATCs and continues to support growth in this area. We have based this report on market research, interviews with councils and LATCs, and our own experience of working with LATCs and councils. It is a practical guide drawing on our own experiences but also on the successful companies we have worked with.

An electronic version of the report can be found here

<http://www.grant-thornton.co.uk/en/Publications/2015/Spreading-their-wings-Building-a-successful-local-authority-trading-company/>



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# Inspection into the governance of Rotherham Council

## Local government issues

On 4 February 2015 the Secretary of State for Communities and Local Government, Eric Pickles announced the publication of Louise Casey's report. Her inspection of the exercise of functions on governance, children and young people and taxi and private hire licensing states:

"Rotherham Metropolitan Borough Council is not fit for purpose. It is failing in its legal obligation to secure continuous improvement in the way in which it exercises its functions. In particular, it is failing in its duties to protect vulnerable children and young people from harm."

It summarises the following serious failings:

- a council in denial about serious and on-going safeguarding failures
- an archaic culture of sexism, bullying and discomfort around race
- failure to address past weaknesses, in particular in Children's Social Care
- weak and ineffective arrangements for taxi licensing which leave the public at risk
- ineffective leadership and management, including political leadership
- no shared vision, a partial management team and ineffective liaisons with partners
- culture of covering up uncomfortable truths, silencing whistle-blowers and
- paying off staff rather than dealing with difficult issues

The report has had widespread press coverage and the Secretary of State confirmed on 26 February 2015 that he had decided to nominate five commissioners to take over all of the council's executive functions and to begin a rapid improvement programme. He also confirmed that he would act to move Rotherham to 'all out' council elections from 2016.

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## DCLG – Build to rent scheme

### Local government issues

Housing Minister Brandon Lewis announced on 10 January 2015 a £55 million deal to provide nearly 800 homes for private sector rent in Manchester and Salford as part of the government's wider £1 billion Build to Rent scheme, which has the objective of building 10,000 new homes for private rent. The Chief Executive of the Homes and Communities Agency (HCA) Andy Rose said:

*"this is a major investment in the private rented sector in Manchester. It demonstrates how the HCA, working closely with partners, is combining financial and local expertise to increase the private rented choice in areas where there is a high demand for homes".*

As part of its strategy of creating a bigger and better private rented sector the government has also

- published a How to rent guide, so tenants and landlords know their rights and what to expect when renting privately
- published a model tenancy agreement, so tenants who want to ask for longer tenancy agreements have the opportunity to do so;
- introduced a new requirement for letting agents to belong to one of three redress schemes, so the minority of tenants and landlords who get a raw deal have somewhere to go with their complaint

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# Provision for Business Rates Appeals

## Accounting and audit issues

### Unlodged appeals

The Chancellor's Autumn Statement included a change to the rules relating to business rates appeals. As a result we do not expect to see any provisions for unlodged appeals in local authorities' 2014/15 accounts, although we will expect this to be re-considered for 2015/16 accounts.

The change restricts the backdating of Valuation Office Agency (VOA) alterations to rateable values. Only VOA alterations made before 1 April 2016 and ratepayers' appeals made before 1 April 2015 can now be backdated to the period between 1 April 2010 and 1 April 2015. The aim is to put authorities in the position as if the revaluation had been done in 2015 as initially intended, before the deadline was extended to 2017.

There may be some fluctuations in provisions at 31 March 2015 as unlodged appeals provisions are released. However, there may also be increased numbers of appeals lodged prior to 31 March 2015. These appeals may be more speculative in nature and therefore authorities may need to consider whether prior year assumptions remain valid in estimating their provisions.

### Utilisation of provision

As part of the provisions disclosures in the accounts, local authorities need to disclose additional provisions made in the year, the amounts used (i.e. incurred and charged against the provision) during the year and unused amounts reversed during the year.

We understand that the software used for business rates may not provide values for the amounts charged against the provision during the year and that there is no simple software solution for this for 2014/15. Local authorities will need to consider available information and make an estimate of the amount for appeals settled in the year.





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Report Number:

WSC 103/15

AGENDA ITEM 9

Presented by:

Shirlene Adam

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Report to a Meeting of:

AUDIT COMMITTEE

To be Held on:

6<sup>th</sup> July 2015

Date Entered on Executive Forward Plan  
Or Agreement for Urgency Granted:

Not applicable

## REVIEW OF EFFECTIVENESS OF INTERNAL AUDIT

### 1. PURPOSE OF REPORT

- 1.1 To inform the Audit Committee of the recent review of the effectiveness of the delivery of Internal Audit through SWAP (South West Audit Partnership) during 2014/15.

### 2. CONTRIBUTION TO CORPORATE PRIORITIES

- 2.1 There is no direct contribution to the Corporate Priorities - this is a governance matter.

### 3. RECOMMENDATIONS

- 3.1 Members are requested to note the findings of the review of effectiveness of internal audit for 2014/15.

### 4. RISK ASSESSMENT (IF APPLICABLE)

#### Risk Matrix

Description	Likelihood	Impact	Overall
The Authority fails to maintain an adequate system of internal control; monitored and controlled by internal audit	3	4	12
The Authority has in place suitable internal audit arrangements.	1	4	4

The scoring of the risks identified in the above table has been based on the scoring matrix. Each risk has been assessed and scored both before the mitigation measures have been actioned and after they have.

## **5. BACKGROUND INFORMATION**

- 5.1 The South West Audit Partnership (SWAP) is a partnership that provides the Internal Audit service to all of the six Somerset authorities plus Dorset County Council, Weymouth and Portland Borough Council, West Dorset District Council, Forest of Dean District Council, East Devon District Council, and Wiltshire Council as well as a number of related bodies such as the Somerset Waste Partnership. There is also the potential for a new partner to join in the next few months.
- 5.2 SWAP has moved from being governed via a Joint committee format to a Company structure. The company has over the past year undertaken a significant staffing restructure in order to ensure that it remains appropriately structured to deliver services to its client authorities and as an independent company.
- 5.3 Internal audit forms a part of the corporate governance and internal control framework that provides accountability to stakeholders on all areas of the Council Plan. Their opinion on the adequacy and effectiveness of the Council's internal control framework forms a part of the evidence used in preparing the corporate Annual Governance Statement (AGS) for 2014/15, which will be published as part of the Council's Statement of Accounts in September 2015.
- 5.4 There are several statutory requirements regarding Internal Audit:
- The Accounts and Audit (England) Regulations 2011 require authorities to review the effectiveness of the system of Internal Audit. They also state "A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control."
  - Section 151 of the Local Government Act 1972 states that every local authority in England and Wales should "make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the proper administration of those affairs." CIPFA has defined "proper administration" in that it should include "compliance with the statutory requirements for accounting and internal audit"
  - The CIPFA Statement on the Role of the Chief Finance Officer in Local Government states that the Chief Finance Officer (CFO) must:
    - Ensure an effective internal audit function is resourced and maintained;
    - Ensure that the authority has put in place effective arrangements for internal audit of the control environment;
    - Support the authority's internal audit arrangements: and;
    - Ensure that the Audit Committee receives the necessary advice and information, so that both functions can operate effectively.
- 5.5 Therefore it is important for the findings of the review of the effectiveness of the system of Internal Audit are considered by a committee such as the Audit Committee

as a part of the consideration of the system of internal control. This review has to be carried out by someone independent of SWAP.

## **6. COMPLIANCE WITH PSIAS AND LOCAL GOVERNMENT APPLICATION NOTE**

6.1 The 2006 CIPFA Code of Practice for Internal Audit has been superseded by the Public Sector Internal Audit Standards (PSIAS) and a Local Government Application Note on the 1st April 2013 that sets out how an internal audit function should be fulfilled. The main focus is the internal audit service itself, but the Standards also refer to the wider elements of the “system of internal audit”, including the importance of the direct relationship between Internal Audit and the Audit Committee. The Standards cover:

- Purpose, authority, and responsibility;
- Independence and objectivity;
- Proficiency and due professional care;
- Quality Assurance and Improvement Programme;
- Managing the Internal Audit Activity;
- Nature of Work;
- Engagement Planning;
- Performing the Engagement;
- Communicating Results;
- Monitoring Progress.

6.2 The Audit Charter for 2014/15 was approved by the Audit Committee on 23<sup>rd</sup> March 2015. All aspects of the Standards will be covered by SWAP through the Audit Charter and reviewed and approved by the Audit Committee on an annual basis.

## **7. THE REVIEW OF SWAP**

7.1 West Somerset Councils’ review of Internal Audit has been carried out by the Director of Operations (the Council’s S151 Officer). The findings have been reported as part of the overall evaluation and supporting evidence for the Annual Governance Statement. The following criteria were used in the evaluation:

- Annual report and opinion of the Head of Internal Audit;
- Audit plan and monitoring reports;
- Reports on significant findings;
- Key performance measures and service standards;
- View of the Council’s External Auditor covering the extent of reliance placed on internal audit work on key financial systems.

7.2 It was found that overall the team performed well and that this view was supported by the comments of external auditors and client satisfaction. The table below shows some of the overall performance of the service during the year compared to the previous three years:

Performance Measure	2011/12	2012/13	2013/14	2014/15
Levels of satisfaction from feedback questionnaires	83%	83%	86%	83% (Issued 6 Returned 4)
Audits and reviews completed in year compared to the plan (all at least at final draft stage)	92%	97%	88% + 2 audits deferred by client	58% + 2 audits dropped (11 out of 19 audits completed)
Managed audits completed in year compared to plan	100%	100%	100%	80%
Total completed audits and reviews			15 (2 deferred)	11 (+ 7 draft & 1 in progress)
Cost of audit service to WSC	£68,300	£68,490	£56,780	£56,780
Number of actions for improvements agreed by managers.	118	87	48	34*
No of audit recommendations considered High Risk (Priority 5)	0	0	0	0
Value for Money – average cost of audit day compared to private sector (benchmarking)	SWAP = £280 Private Sector = £320	SWAP = £280 Private Sector = £320	SWAP = £280 Private Sector = £320	SWAP = £280 Private Sector = Not Benchmarked
SWAP A/Cs outturn on spend compared to budget – (brackets indicate net income)	Budget £(26,830) Actual £(99,256)	Budget £(4,540) Actual £(58,584)	Budget £(0) Actual £(97,840)	Budget £(73,890) Actual £(120,900)

\* Only in relation to assignments at final report stage.

- 7.3 The table shows that the satisfaction with the audits carried out at West Somerset Council is 83%, this is in line with the average of the last 3 years.
- 7.4 The cost to WSC of the internal audit service has remained static with that for the previous year.
- 7.5 There were no new high priority recommendations in 2014/15.

- 7.6 The number of completed reviews in year has fallen. As reported to this committee the reason provided was based on the SWAP restructure and resulting vacancies that were held open during that period.
- 7.7 The outturn position for SWAP is likely to show that, as in previous years, the partnership makes a surplus from operations. This gives some scope for reinvestment in the business and hiring additional resource if required and is managed via the Board of Directors for SWAP.
- 7.8 As SWAP is now a company limited by guarantee the Directors of the company will be required to act in the interests of the company. As Section 151 Officer, I still have access to the SWAP Management Team to influence service delivery and priorities from a customer's perspective. Additionally, the 'Members Board', which is comprised of Elected Member representatives from each partner authority, meets quarterly to review the performance of the company.

#### 4. SERVICE STANDARDS

- 4.1 In assessing SWAP's performance it is important to review the standards of service and that each authority is afforded the same standards and also senior officer time. The following table outlines the minimum standards to be introduced and delivered for West Somerset Council moving forward:

<b>Service Standard</b>	<b>Expected Standard</b>	<b>Delivery of Standard</b>
<b>Attendance by SWAP Chief Executive / Director of Quality at Audit Committee.</b>	At least 1 times per annum	0 time in 2014/15
<b>Attendance by Audit Assistant Director at Audit Committee.</b>	At least 4 times per annum	4 times in 2014/15
<b>Attendance by SWAP Chief Executive at Corporate Governance Officer Group</b>	4 times per annum	0 times (NB. Two meetings were held in 2014/15 and SWAP were represented at those meetings by the Audit Manager for WSC)
<b>Liaison meetings with S151 Officer and Audit Assistant Director.</b>	6 times per annum	Monthly meetings were held with the Audit Manager during 2014/15, which were attended by the AD-Corp Services and Corp Strategy & Performance Manager. The S151 Officer attended quarterly.
<b>Agreement of Audit Plan:</b>  Prepared for Management Board/S151	By mid January each year  By end January each year	Delivered

Prepared for Audit Committee		Prepared by end February and presented to March 2014 meeting
Audit Plan monitoring reports	4 times per annum including Annual Report	4 times (quarterly report) per annum
<b>Agreement of Audit Charter:</b>		
Prepared for Management Board/S151	By mid January each year	Delivered
Prepared for Audit Committee	By end January each year	Presented to Audit Committee in March 2014
<b>To assist with member/officer training in audit and governance</b>	As necessary	Two half day sessions were held for Members in the autumn of 2014 (3 & 10 October)

## 5. AUDIT REVIEW OF SWAP

- 5.1 The Devon Audit Partnership have undertaken an independent review of SWAP. This review specifically focussed on the accounting arrangements within SWAP and concluded that SWAP had appropriate arrangements in place.
- 5.2 Whilst this audit review was not focussed on the delivery of the service provided by SWAP it does provide assurance to the Council, as a shareholder, regarding the financial probity of SWAP.

## 6. 2014/15 ACTION PLAN

6.1 The following shows progress against the actions to be completed in 2014/15:

- To improve the information flows between the SWAP MKI System and the Council, to reduce the manual intervention currently required to maintain up to date records of audit recommendations.

CURRENT STATUS: The system interfaces have not been developed, but WSC are implementing alternative solutions to reduce the requirement for manual intervention by audit action owners.

- To further develop the audit universe work started during 13/14 with the S151 officer and team – creating a database of knowledge to be used to manage risk across the Council.

CURRENT STATUS: A consistent Audit Universe has been devised across all SWAP partners within MK Insight (Audit Tool) which is in line with the LGA list of local authority services. This is to aid greater sharing of audit findings and good

practice across the partners. The Audit Universe will continue to be assessed and developed for each annual planning cycle.

- To look for further efficiencies in delivering audit work across West Somerset and Taunton Deane to benefit both Councils.

**CURRENT STATUS:** Joint audits are being delivered where it is permissible and appropriate to do so.

- To improve on the current 13/14 delivery times re moving from draft to final audit reports.

**CURRENT STATUS:** There has been a slight improvement but further work is required in this area.

- To work with the Council on improving the reporting of key audit information to the Audit Committee.

**CURRENT STATUS:** the content of reports has been reviewed and improved. However, this is an area which will continue to be developed during 2015/16. We want to work with the Audit Committee to not only ensure they are getting the information needed to fulfil their responsibilities, but they are given the opportunity to discuss audit issues flagged with the relevant service manager.

## **7. ACTIONS TO BE COMPLETED IN 2015/16**

7.1 The following actions are to be progressed during 2015/16:-

- SWAP to work with WSC to ensure that the percentage of audits completed in year for 2015/16 increases to 95% of the audit plan delivered (with the remaining 5% delivered in the first 2 months of the following year).
- Improving engagement with WSC as a customer of SWAP so as to ensure WSC are aware at an early point of known changes to service delivery, changes to key personnel or other relevant matters affecting the delivery of audit services to the Council.
- SWAP to undertake a review of the current report template structure in order to identify improvements in clarity and content, in consultation with client officers.
- Current Key Performance Indicators (KPIs) will be reviewed and where necessary new ones will be introduced in consultation with client officers.

## **8 OPINION**

8.1 It is the opinion of the Director of Operations the system of internal audit is effective.



## **9. FINANCIAL ISSUES / COMMENTS**

9.1 There are no financial implications arising from this report.

## **10. SECTION 151 COMMENTS**

10.1 The review has been carried out by the s151 Officer – who is satisfied that the systems of internal audit is satisfactory

## **11. EQUALITIES & DIVERSITY IMPLICATIONS**

11.1 **Members need to demonstrate that they have consciously thought about the three aims of the Public Sector Equality Duty as part of the decision making process.**

The three aims the authority **must** have due regard for:

- Eliminate discrimination, harassment, victimisation
- Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it

## **12. CRIME AND DISORDER IMPLICATIONS**

12.1 There are no implications in respect of this report.

## **13. CONSULTATION IMPLICATIONS**

13.1 There are no implications in respect of this report.

## **14. ASSET MANAGEMENT IMPLICATIONS**

14.1 There are no implications in respect of this report.

## **15. ENVIRONMENTAL IMPACT IMPLICATIONS**

15.1 There are no implications in respect of this report.

**16. HEALTH & WELLBEING**

16.1 Demonstrate that the authority has given due regard for:

- People, families and communities take responsibility for their own health and wellbeing;
- Families and communities are thriving and resilient; and
- Somerset people are able to live independently.

There are no implications in respect of this report.

**17. LEGAL IMPLICATIONS**

17.1 There are no legal implications from this report.

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*Report to a Meeting of:* Audit Committee  
*To be Held on:* 6 July 2015  
*Date Entered on Executive Forward Plan Or Agreement for Urgency Granted:* 6 July 2015

## **INTERNAL AUDIT ANNUAL OPINION REPORT FOR 2014-15**

### **1. PURPOSE OF REPORT**

1.1 To inform the Audit Committee of the Annual Opinion Report 2014-15 from Internal Audit.

### **2. CONTRIBUTION TO CORPORATE PRIORITIES**

2.1 Delivery of the corporate objectives requires strong governance, risk management and internal controls. The attached report provides a summary on internal audit's view on the effectiveness of internal controls, risk management and governance based on the work completed during 2014-15.

### **3. RECOMMENDATIONS**

3.1 Members are asked to note Internal Audits Annual Opinion Report.

### **4. RISK ASSESSMENT (IF APPLICABLE)**

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

### **5. BACKGROUND INFORMATION**

5.1 The Accounts and Audit Regulations (England) 2011 requires public authorities to publish an Annual Governance Statement (AGS). The Statement is an annual review of the Systems of Internal Control and gathers assurance from various sources to support it. One such source is Internal Audit. The Head of Internal Audit should provide a written annual report to those charged with governance to support the AGS. This report provides that opinion based on the work undertaken during 2014-15.

**6. FINANCIAL/RESOURCE IMPLICATIONS**

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

**7. COMMENTS ON BEHALF OF SECTION 151 OFFICER**

7.1 The Internal Audit opinion on the control environment has been noted for the Annual Governance Statement.

**8. EQUALITY & DIVERSITY IMPLICATIONS**

**Members need to demonstrate that they have consciously thought about the three aims of the Public Sector Equality Duty as part of the decision making process.**

The three aims the authority **must** have due regard for:

- Eliminate discrimination, harassment, victimisation
- Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it

8.1 There are no direct implications from this report.

**9. CRIME AND DISORDER IMPLICATIONS**

9.1 There are no direct implications from this report.

**10. CONSULTATION IMPLICATIONS**

10.1 There are no direct implications from this report.

**11. ASSET MANAGEMENT IMPLICATIONS**

11.1 There are no direct implications from this report.

**12. ENVIRONMENTAL IMPACT IMPLICATIONS**

12.1 There are no direct implications from this report.

**13. HEALTH & WELLBEING**

13.1 There are no direct implications from this report.

**14. LEGAL IMPLICATIONS**

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



## **West Somerset Council**

Internal Audit Plan – Annual Opinion Report 2014-15

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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 PSIAS.

## Annual Opinion:

**The Assistant Director is required to provide an annual opinion report to support the Annual Governance Statement.**

## **Purpose of Report**

The Accounts and Audit Regulations (England) 2011 requires public authorities to publish an Annual Governance Statement (AGS). The Statement is an annual review of the Systems of Internal Control and gathers assurance from various sources to support it. One such source is Internal Audit. The Head of Internal Audit should provide a written annual report to those charged with governance to support the AGS. This report should include the following:

- an opinion on the overall adequacy and effectiveness of the organisation's risk management systems and internal control environment
- disclose any qualifications to that opinion, together with the reasons for the qualification
- present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies
- draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement
- compare the work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and criteria
- comment on compliance with these standards and communicate the results of the internal audit quality assurance programme.

The purpose of this report is to satisfy this requirement and Members are asked to note its content.

## **Background**

The Internal Audit service for West Somerset Council is provided by the South West Audit Partnership Limited (SWAP). SWAP is a Local Authority controlled Company. SWAP has adopted and works to the Standards of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS), and also follows the CIPFA Code of Practice for Internal Audit. The Partnership is also guided by the Internal Audit Charter which is reviewed annually. Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness through the work based on the Annual Plan agreed by Senior Management and this Committee.



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 PSIAS.

## Annual Opinion:

**The Assistant Director is required to provide an annual opinion report to support the Annual Governance Statement.**

## Assistant Director's Opinion

Members through the various committees are ultimately responsible for maintaining an effective system of internal control. The purpose of internal control is to manage risk rather than eliminate it. Getting the balance of internal control right is essential for organisational success—to knowingly take risk rather than be unwittingly exposed to it. Under control could expose the organisation to unacceptable risk and destroy value as over control stifles value creation and entrepreneurship. Therefore the Internal Control Environment needs the right balance to help West Somerset to deliver its services with ever decreasing resources.

The control environment sets the tone of an organisation, providing discipline and structure. Control environment factors include the integrity, ethical values and managements' competencies, managements' philosophy and operating style, the way authority and responsibility are assigned and how the Council is organised. Key segments include identification and evaluation of risks, control activities (policy and procedures, approvals, authorisations, verifications, etc), monitoring activities and information and communication processes.

Internal Audit has not reviewed all risks and assurances relating to West Somerset and cannot provide absolute assurance on the internal control environment. Our opinion is derived from the completion of the risk based internal audit plan and as such it is one source of assurance on the adequacy of the internal control environment.

Of the reviews at final report stage that have an Assurance Opinion, and those at draft that include an indicative assessment, no reviews were given 'No Assurance'. The majority of reviews have returned a favourable opinion (Reasonable Assurance or Substantial Assurance). Also taking into account the profile of each audit, key areas are reasonably controlled, although there are areas within the organisation that controls can be improved.



## Annual Opinion:

The Assistant Director is required to provide an annual opinion report to support the Annual Governance Statement.

## Assistant Director's Opinion (Continued)

Therefore, considering the balance of the audit work and outcomes I am able to offer '**Reasonable Assurance**' in respect of the areas reviewed during the year as on balance most were found to be adequately controlled. Risks are generally managed, although there are some areas that require the introduction or improvement of internal control to help achieve WSC's services and corporate objectives.

Over the year SWAP has found Senior Management at West Somerset Council to be supportive of Internal Audit findings and responsive to the recommendations made. In addition there is a good relationship with Management whereby they feel they can approach SWAP openly into areas where they perceive potential problems and again welcome the opportunity to take on board recommendations for improvement.

In keeping with the public sector in general, there continues to be challenges for the Senior Management at the West Somerset Council. The shared service arrangement with Taunton Deane Borough Council has brought about financial savings, but with continued pressure on finances the challenges the Authority faces to find further savings are immense and will have an impact on risks the Authority faces and the Internal Control Environment.

## Summary of Work 2014-15

*The agreed Annual Audit Plan covers the following*  
**Key areas of Activity:**

- ◆ OPERATIONAL AUDITS
- ◆ INFORMATION SYSTEMS
- ◆ KEY CONTROLS
- ◆ GOVERNANCE, FRAUD & CORRUPTION
- ◆ SPECIAL REVIEWS
- ◆ FOLLOW-UP

## Internal Audit Work Programme

The schedule provided at [Appendix A](#) contains a list of all audits agreed for inclusion in the Annual Audit Plan 2014-15 and the final outturn for the financial year. In total, 19 audit reviews (including 5 at draft, 2 at review stage and 1 in progress) were completed or will be completed for 2014-15. During the year a further two smaller reviews were undertaken utilising 5 unallocated days and some of the Partnership/Shared Management days. However these were more than offset by the 2 audits that were dropped as previously reported to this committee due to the SWAP restructure. It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

Of the 19 reviews in the revised 2014-15 audit plan, they are broken down as follows:

- |                       |   |
|-----------------------|---|
| • Operational Audits  | 1 |
| • Information Systems | 2 |
| • Key Control         | 6 |
| • Governance & Fraud  | 7 |
| • Special Reviews     | 1 |
| • Follow-up           | 2 |

Each completed assignment (as contained in [Appendix A](#)) includes its respective “assurance opinion” rating together with the number and relative ranking of recommendations that have been raised with management. The assurance opinion ratings have been determined in accordance with the Internal Audit “Audit Framework Definitions” – as detailed in [Appendix B](#).

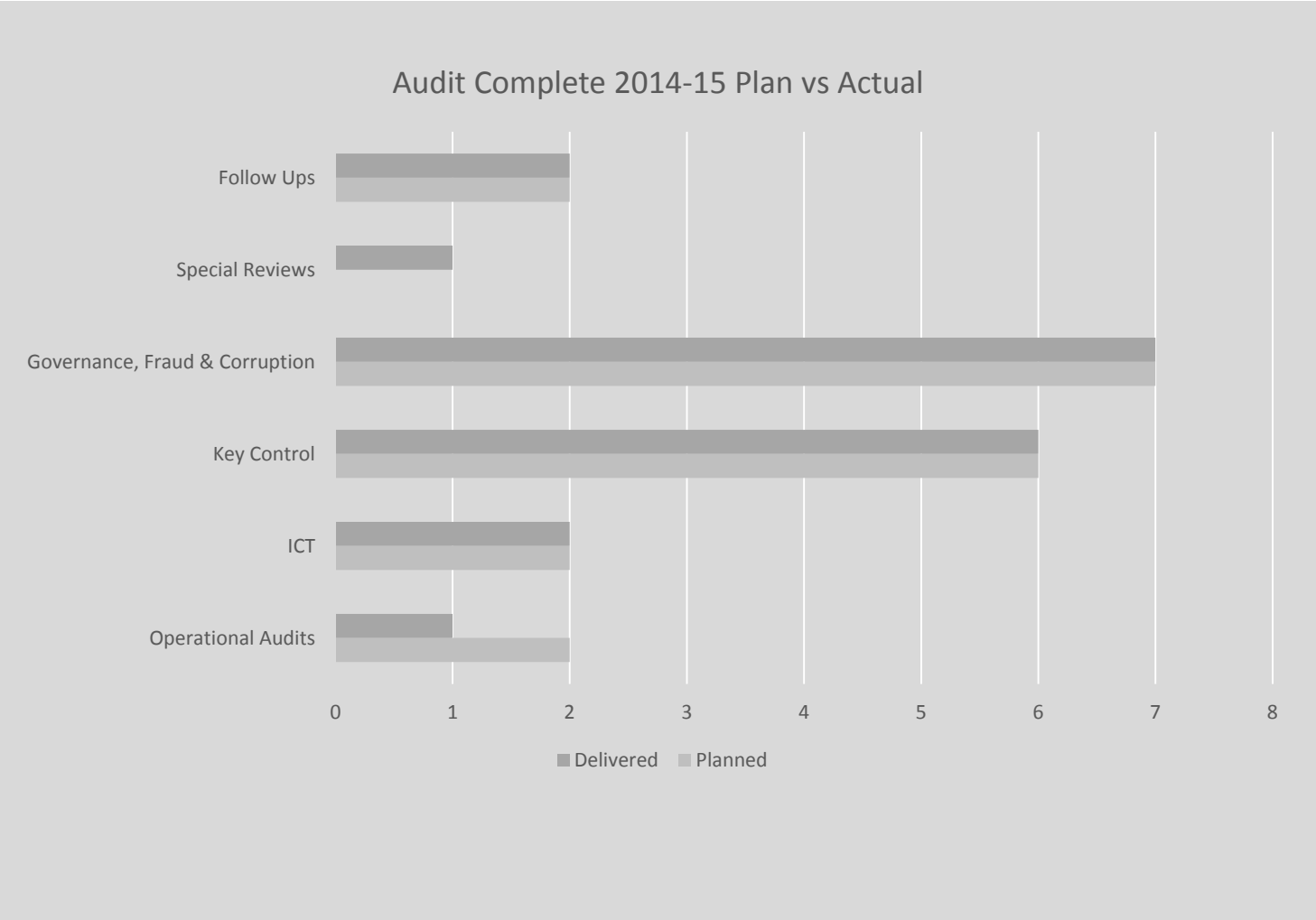
Members will have considered my progress report for West Somerset Council for work completed during the year and the issues I have brought to your attention. The Following table provides a comparison between planned projects by audit type and actual delivery to date;



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 PSIAS.

- Summary of Work 2014-15**
- ◆ OPERATIONAL AUDITS
  - ◆ INFORMATION SYSTEMS (ICT)
  - ◆ KEY CONTROLS
  - ◆ GOVERNANCE, FRAUD & CORRUPTION
  - ◆ SPECIAL REVIEWS
  - ◆ FOLLOW-UP

**Internal Audit Work Programme Continued**



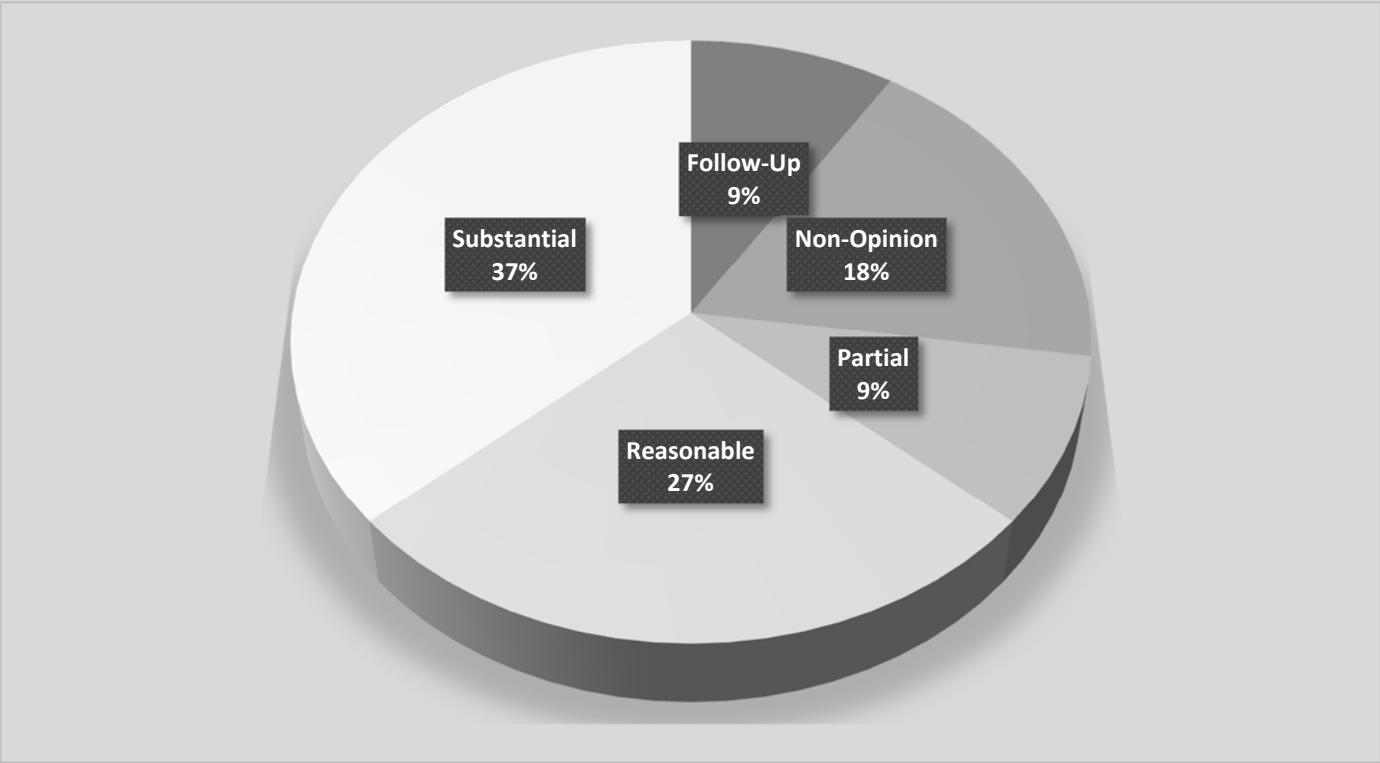
SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the PSIAS.

Summary of Work 2014/15

*Continued.....*

**Internal Audit Work Programme Continued**

Removing the non-opinion and follow up work shows that just over 87% of the reviews undertaken returned a favourable opinion. To provide this Committee with the assurance required, follow up audits are being conducted on the reviews that did not return an adequate assurance rating.



Please refer to Appendix A for the full list of audits.



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 PSIAS.

**Corporate Risks and Priority Actions**

**Identified Significant Corporate Risks should be brought to the attention of the Audit Committee.**

**Recommendations are assessed at a service level, i.e. how important they are to the area audited.**

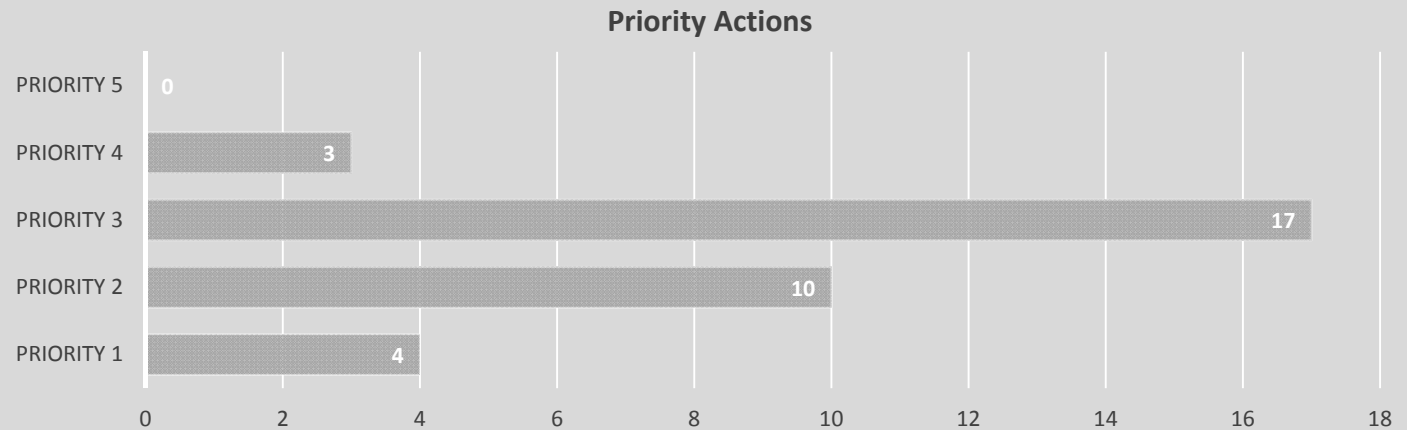
**Significant Corporate Risks**

Where a risk is assessed as inherently high or very high within an audit review and further assessed as high or very high after we have tested the controls in place it is to be considered as a corporate risk for inclusion on the risk register by Senior Management.

We are pleased to report that whilst our work in 2014-15 has identified some partial assurance opinions, the corresponding risk assessment did not evaluate these to be significant at a corporate level and therefore considered a corporate risk. Therefore no additional corporate risks have been identified during 2014-15.

**Priority Actions**

At the request of the Audit Committee, where a review has a status of 'Final' and has been assessed as 'Partial or No Assurance' I provide further details to inform Members of the key issues identified. I normally summarise those actions where the Auditor has assessed the priority to be a level 4 (Medium/High) or 5 (High). For those reviews where a final report has been issued there have been 34 agreed actions for improvement; none of these were rated at a level 5; three at a level 4; seventeen are level 3; with 10 level two and 4 level 1.



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 PSIAS.

## Performance:

**SWAP strives to deliver audit excellence and works hard to demonstrate VFM, increased productivity and quality outputs for its Partner Councils**

## SWAP Performance

Two years ago now, SWAP became a publically owned Company Limited by guarantee. A review of SWAP by Local Partnerships and organisation jointly owned by HM Treasury and the Local Government Association was undertaken in December 2014. The purpose of the review was to assess the benefits realised by the Partnership and its on-going commercial delivery. In short the conclusion of the review, in relation to SWAP, was that “all of its key objectives have been achieved”.

The full report is attached as Appendix C however, the review team summarised the following as positive outcomes achieved since incorporation:

- More efficient decision-making
- Scope for more flexible and proactive management
- Economies of scale which facilitate the development of specialist skills enabling more resilience
- Effective leveraging of technology
- Training and professional development opportunities for staff
- Effective partnership working and ‘best practice’ knowledge transfer across member organisations
- Ability to provide a cost effective service tailored to individual members budgetary needs.

With regards to the last bullet point, while we have not been able to carry out any further benchmarking for the year, I am pleased to report that for the eighth consecutive year we have not increased the day rate.

The Public Sector Internal Audit Standards (PSIAS) require that there should be an external quality review to validate that Internal Audit Teams are conforming to the International Professional Standards at least every five years. SWAP carried out such an assessment in 2012 and at that time agreed that it would be best practice to complete such a review every three years and therefore we have commissioned our next review to take place in September 2015. As a result of the quality review, a Quality Assessment Improvement Plan (QAIP) is produced. This document is a live document, reviewed regularly by the SWAP Board to ensure continuous

SWAP strives to deliver audit excellence and works hard to demonstrate VFM, increased productivity and quality outputs for its Partner Councils

## SWAP Performance

improvement. Many of the original actions from the review have been completed, but I attach a copy of the latest QAIP ([Appendix E](#)) reported to the SWAP Board in April 2015, for your information.

And finally, just like any other Company and WSC itself, our accounts are subject to both Internal and External Audit Review. Again, purely for information, the report of the Internal Auditors is attached as an [Appendix D](#) to the Review of Internal Audit and I can provide assurance that all actions have been completed or in progress.

At the close of each audit review a Customer Satisfaction Questionnaire is sent out to the Service Manager or nominated officer. The aim of the questionnaires is to gauge satisfaction against timeliness, quality and professionalism. As part of the Balanced Scorecard presented to the SWAP Boards, a target of 85% is set where 80% would reflect the fact that the client agreed that the review was delivered to the expected standard. For West Somerset Council the average feedback score was 83%.

As reported in March 2015 to this Committee, due to the SWAP restructure we will only have capacity to deliver c.94% of the 2014-15 plan in terms of days. With regards to the 2014/15 Annual Plan for West Somerset Council, there were a total of 19 reviews delivered, which due to various in year movements is the same as the originally agreed 19 reviews (2 dropped & 2 additional review).

Most audits have been completed to report stage. Our priority will be to finalise the outstanding audits as soon as possible.

## Audit Plan Progress 2014-15

## APPENDIX A

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ↔ 5 = Major				
						Recommendation				
						1	2	3	4	5
Governance, Fraud & Corruption	Safeguarding	Qtr 1	Final	Reasonable	3	0	0	3	0	0
Governance, Fraud & Corruption	Data Transparency	Qtr 2	Final	Partial	5	0	2	2	1	0
Governance, Fraud & Corruption	Absence Management - theme	Qtr 2	Final	Reasonable	10	4	6	0	0	0
ICT	Protective Marking	Qtr 2	Final	Non-Opinion	6	0	0	5	1	0
Key control	Main Accounting	Qtr 2	Final	Substantial	1	0	0	1	0	0
Follow up	Social Media	Qtr 3	Final	Follow-Up	2	0	0	2	0	0
Key control	Housing Benefits	Qtr 3	Final	Substantial	1	0	1	0	0	0
Key control	Debtors	Qtr 3	Final	Reasonable	2	0	0	2	0	0
Key control	Council Tax and NDR	Qtr 3	Final	Substantial	0	0	0	0	0	0
Special Review	Cash & Banking Income collection - WC only <b>(New)</b>	Qtr 3	Final	Non-Opinion	3	0	0	2	1	0
Key control	Payroll	Qtr 3	Final	Substantial	1	0	1	0	0	0
Governance, Fraud & Corruption	Housing Applications <b>(New)</b>	Qtr 3	Draft	-	-	-	-	-	-	-
ICT	Financial Controls/Access	Qtr 3	Draft	-	-	-	-	-	-	-



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 PSIAS.



## Audit Plan Progress 2014-15

## APPENDIX A

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ↔ 5 = Major				
						Recommendation				
						1	2	3	4	5
Governance, Fraud & Corruption	Fraud Theme - Bribery	Qtr 3	Draft	-	-	-	-	-	-	-
Key control	Creditors	Qtr 3	Draft	-	-	-	-	-	-	-
Governance, Fraud & Corruption	Private Water supply - theme	Qtr 4	Drafting/ Review	-	-	-	-	-	-	-
Follow up	Public safety follow up	Qtr 4	Draft	-	-	-	-	-	-	-
Operational	Choice Based Lettings – Somerset Wide Review	Qtr 4	Drafting/ Review	-	-	-	-	-	-	-
Governance, Fraud & Corruption	Asset Management	Qtr 4	In Progress	-	-	-	-	-	-	-
Operational	Safer Somerset Partnership <b>(Due to SWAP Restructure)</b>	Qtr 4	Dropped	-	-	-	-	-	-	-
Governance, Fraud & Corruption	Partnership risk / shared management <b>(Due to SWAP Restructure)</b>	All	Dropped	-	-	-	-	-	-	-



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 PSIAS.

## Control Assurance Definitions

## Appendix B

<b>Substantial</b>	▲▲▲▲ I am able to offer substantial assurance as the areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.
<b>Reasonable</b>	▲▲▲▲ I am able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
<b>Partial</b>	▲▲▲▲ I am able to offer Partial assurance in relation to the areas reviewed and the controls found to be in place. Some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
<b>None</b>	▲▲▲▲ I am not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

## Categorisation Of Recommendations

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

Priority 5: Findings that are fundamental to the integrity of the unit’s business processes and require the immediate attention of management.

Priority 4: Important findings that need to be resolved by management.

Priority 3: The accuracy of records is at risk and requires attention.

Priority 2: Minor control issues have been identified which nevertheless need to be addressed.

Priority 1: Administrative errors identified that should be corrected. Simple, no-cost measures would serve to enhance an existing control.

## Definitions of Risk

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

# Trading Assurance Health-check 4

## Benefits Realisation and On-going Commercial Delivery

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South West Audit Partnership

**Version number:** Final

**Date of issue to PO:** 4<sup>th</sup> December 2014

**Project Owner:** Gerry Cox

**Review dates:** 1st December to 4<sup>th</sup> December 2014

**Review Team Leader:**

David Crowe

**Review Team Members:**

Rob Hann

Mark Poppy

Jim Scopes

This report reflects the views of the independent review team, based on information evaluated over a three to four day period, and is delivered to the Senior Responsible Officer immediately at the conclusion of the review.

## Summary of report recommendations

The review team makes the following recommendations which are prioritised using the definitions below.

Ref	Recommendation	Critical /Essential / Recommended
1.	<b>That SWAP undertake a relationship mapping exercise in order to identify new and emerging business development opportunities and to facilitate the development of a shared business development vision</b>	Essential (do by end Q1 2015/16)
2.	<b>That SWAP clarifies its strategic drivers in order to inform its future business plan</b>	Essential (do by end of 2014/15)
3.	<b>That SWAP should encourage (and where necessary provide training) to staff to see business development as a key part of their role</b>	Recommended
4.	<b>That SWAP management team instigate one-to-one meetings with member Section 151 officers and consider re-establishing a form of user forum or some form of engagement by virtual means</b>	Essential (do by end of 2014/15)
5.	<b>That SWAP considers the production of an annual report to raise awareness of SWAP's services and achievements amongst members and potential customers</b>	Recommended
6.	<b>That SWAP undertake a full appraisal and prioritisation of options for business development, including determining the most effective potential business structures to support the preferred approach</b>	Essential (do by end Q1 2015/16)
7.	<b>That SWAP develop a marketing strategy which is aligned with its strategic drivers and vision for business development</b>	Essential (do by end Q2 2015/16)

**Critical (Do Now)** – To increase the likelihood of a successful outcome it is of the greatest importance that the programme/project should take action immediately

**Essential (Do By)** – To increase the likelihood of a successful outcome the programme/project should take action in the near future.

**Recommended** – The programme/project should benefit from the uptake of this recommendation.

## Background

The South West Audit Partnership Ltd (SWAP) is a company limited by guarantee which provides internal audit services to local authorities, police and fire authorities, schools and other quasi-government entities in the south and west of England. It was created in 2005 and currently employs around 60 internal auditors who are located in specialist teams, internal audit, IT audit, contract audit, fraud and investigative audits as well as risk management advice and support.

The current Membership is made up of thirteen local authorities in the south west of England. SWAP is a local authority owned company and as such is focused primarily on public sector enterprises but will also consider providing services in other sectors, particularly the charitable sector and SME's.

## Purposes and conduct of the Review

### **Purposes of the Review**

The primary purpose of the Review is to review SWAP's business plan and to determine whether the anticipated benefits of the Partnership are actually being delivered

Appendix A gives the full purposes statement for the review.

### **Conduct of the Review**

This Local Partnerships Review was carried out from 1st December to 4th December 2014 at the Yeovil Innovation Centre. The team members are listed on the front cover.

The people interviewed are listed in Appendix B.

The Review Team would like to thank Gerry Cox and his team for their support and openness, which contributed to the Review Team's understanding of the organisation and the outcome of this review.

## Findings and recommendations

### 1. THE JOURNEY TO DATE

SWAP has existed in one form or another for nearly ten years. For eight years the partnership was governed under a joint committee arrangement. However, as the partnership grew the governance arrangements were becoming increasingly unwieldy (e.g. one member one vote and attendance difficulties led to problems with decision making). The key objectives behind incorporation were to address those governance issues and to deliver greater flexibility around terms and conditions of employment. Other drivers included a desire to deliver greater value to partners, to provide opportunities for business development and to remove reliance on one authority as host.

Since SWAP became a company in 2013 it has consolidated its member base to thirteen including a new unitary (Herefordshire - outside of traditional geographical boundaries). Over that period, all of its key objectives have been achieved with the move away from joint committee status to corporate status proving successful.

Moreover, the Review Team noted a number of positive outcomes which have been achieved since incorporation including:

- More efficient decision-making
- Scope for more flexible and proactive management including greater flexibility in programming work and in providing a wider range of services to owner/members
- Economies of scale which facilitate the development of specialist skills and enable the provision of a more resilient service to customers
- Effective leveraging of technology
- Training and professional development opportunities for staff
- Effective partnership working and 'best practice' knowledge transfer across member organisations
- Ability to provide a cost effective service tailored to individual members budgetary needs.

All of this has been delivered without disruption to the service provided to customers who remain satisfied with the quality of the service. Indeed, many of the stakeholders engaged stressed how the cost and quality of SWAP services compares favourably to other providers.

### 2. LOOKING FORWARD

The Review Team understand that SWAP is at a critical point in its development. It needs to make efficiency savings because Member council budgets are being cut. The Member authorities are looking for SWAP to deliver more for less. This creates a need to identify new sources of income and new customers in order to maintain viability. There is a need for diversification, both by identifying new potential members and/or customers and by widening the offer to existing members/customers.

As a prerequisite to diversification, the Review Team believe that a shared vision for the development of the business is needed. Whilst there are a number of ideas and approaches in development this has not yet coalesced into a coherent business strategy. This is understandable given the early stage of the new company. However, there is clear recognition that, given current trends, a potential funding gap will arise in the medium term which could impact on the sustainability of the business.

One way to instigate the development of a shared business development vision is to explore opportunities by engaging front line staff and members/customers in a mapping exercise to identify where existing relationships could be expanded and where new relationships could be forged in order to bring new business to SWAP. This exercise could be undertaken through a series of facilitated workshops engaging staff and stakeholders to identify such opportunities across the region. As part of this exercise the approximate geographical boundaries of SWAP's potential market could also be determined.

**Recommendation 1: That SWAP undertake a relationship mapping exercise in order to identify new and emerging business development opportunities and to facilitate the development of a shared business development vision**

The relationship mapping exercise needs to be complemented by an exercise to determine the key strategic drivers for the organisation in order to inform the corporate strategy and business planning in the medium to long term. Once determined this should be clearly articulated to all staff and members. Examples of such strategic drivers include:

- Appetite for risk (e.g. willingness to invest in upskilling existing staff and / or recruiting new staff in order to provide new services to new markets)
- Understanding the key priorities of members (e.g. minimising cost to member/owners) and expected outcomes (e.g. what would be an appropriate balance between public and private sector work?)
- Determining the optimum size and scale of SWAP
- Determining the markets SWAP intends to serve

**Recommendation 2: That SWAP clarifies its strategic drivers in order to inform its future business plan**

### **3. IMMEDIATE ISSUE - PLANNED RE-STRUCTURE**

In order to ensure the short term viability of SWAP, senior management are taking decisive action in the form of a planned restructure of the company.

The Review Team found that, amongst staff, there are high expectations about the level of change which this restructure may deliver. Understandably, there is some nervousness about the impact of the re-structure on individual roles as well as on terms and conditions. In the short term this climate of uncertainty has had some negative impact on staff morale. This has highlighted the need for clear and unambiguous communications to staff, following the commencement of formal staff engagement in mid December. Moreover, there is an expectation from staff that the process of the restructure will be carried out in an open and transparent manner, with all staff having a clear understanding of how any competitive processes will be managed. This is clearly recognised by senior management.

### **4. STAFF AND STAKEHOLDER ENGAGEMENT/COMMUNICATIONS**

The Review Team observed that some front-line staff do not necessarily feel sufficiently informed, empowered, incentivised or skilled to identify and attract new work. As a consequence, SWAP is potentially losing opportunities to undertake informal, low-level business development in the course of its staff carrying out day-to-day work. We believe that there is greater scope to harvest the existing customer knowledge of front-line staff and to access their local contacts and knowledge of new and emerging business development opportunities.



**Recommendation 3: that SWAP should encourage (and where necessary provide training) to staff to see business development as a key part of their role**

Furthermore, some key customers and stakeholders (e.g. Section 151 Officers) indicated that since incorporation, engagement outside of governance, has declined. Opportunities for customers to discuss emerging business requirements and for the management team to discuss their plans and direction of travel are being missed.

**Recommendation 4: that SWAP management team instigate one-to-one meetings with member Section 151 officers and consider re-establishing a form of user forum or some form of engagement by virtual means**

The Review Team also found that there is scope to more widely disseminate information about SWAP's achievements and performance.

**Recommendation 5: that SWAP considers the production of an annual report to raise awareness of SWAP's services and achievements amongst members and potential customers**

## **5. THE CURRENT TECKAL MODEL**

The Review Team found that interviewees appeared broadly comfortable and familiar with the Teckal approach to business development. The fact the company delivers internal audit services to its owners provides both a degree of independence and external scrutiny, whilst maintaining a position within the broader local government environment. This provides a firm foundation upon which the business is based and from which to expand operations. The limitations of the Teckal model were also generally understood in as much as trading with non-members is currently limited to around 10% of turnover which, with legislative changes due next year, may increase this to 20%. The Review Team understand that trading with non-members has not currently reached these limits. This provides some scope for business development within Teckal boundaries.

The Review Team also encountered strong support for maintaining the current member based business model.

The fundamental issues the Review Team examined as a part of this review are how to explore new business opportunities in the short, medium and longer term and how structures could be developed to meet new opportunities as they arise both from members and non-members. We suggest the approach described in section 6.

## **6. APPRAISING OPTIONS TO DEVELOP THE BUSINESS**

When the Review Team were briefed, the main option under consideration was the potential establishment of a separate trading company to explore trading with non-Teckal members in competition with other private sector audit service providers. The Review Team believe a full options appraisal should be undertaken to consider other alternative business structures and to ensure opportunities are maximised within the existing Teckal model.

Some options we have identified include the following (not intended to be exhaustive):

1. Adding SWAP members
2. Deepening the offer to existing members and their subsidiaries (e.g. leisure trusts, ALMOs, other trading companies)
3. Second Teckal company

4. Collaboration or merger with other audit bodies (e.g. Devon Audit Partnership, the proposed Bath and NE Somerset and North Somerset partnership)
5. New non-member customers (e.g. charities, LEAs, Academies, spin outs etc)
6. Setting up a separate trading company

There are likely to be other options and the above are not mutually exclusive.

The Review Team provide an overview below of the initial options identified:

### **6.1 Adding SWAP Members**

SWAP has recently admitted Herefordshire Unitary Council (HC) to the membership. The fact that HC are outside of the traditional South West audit region was a matter for some consideration but overall it was felt that their inclusion would bring valuable new business and much needed additional funding to the company.

The Review Team believe that SWAP need to determine what it considers to be the optimum size and number of members that could comfortably be accommodated within the Teckal arrangements to maintain effective management, control and governance. Whilst there is no strict legal limit to the number of owner/members of a Teckal company, practically it may be difficult to manage an organisation with significantly more and diverse members. For these reasons, we believe that there is likely to be fairly limited scope to expand the number of new members and SWAP needs to think carefully about with whom it may engage and what additional benefits/funding might be added.

New potential members already constitute a relatively limited pool. Adding new key members may also mitigate the risk of losing core business from competition coming from other potential audit bodies (e.g. Devon Audit Partnership or the proposed Bath and NE Somerset and North Somerset partnership).

### **6.2 Deepening the offer to existing members and their subsidiaries (e.g. leisure trusts, Arm's Length Management Organisations - ALMOs, other trading companies)**

Local authorities are delivering services in new ways including through establishing subsidiaries and other partnerships. These new bodies, once set up, need to be monitored and audited to ensure the outcomes expected on start-up and throughout operation are actually delivered. Parent local authorities might include an obligation to provide regular internal audit reports back to the parent bodies by the subsidiaries, perhaps paid for out of the subsidiary companies' allocated resources. In addition, there could be an opportunity, subject to conflicts of interest, to act as internal auditor for such subsidiaries. This could provide SWAP with an additional tranche of work within existing member Teckal boundaries, whilst, at the same time ensuring propriety and appropriate governance of new business structures is maintained to the benefit of all.

There could also be consultancy opportunities where there is some overlap between audit and assurance / advisory work within member authorities. There may be opportunities to prequalify on framework and call-off arrangements. A decision to consider consultancy opportunities would need to be carefully managed so as not to compromise the core service offering and may require new skill sets to be developed or brought into SWAP.

### **6.3 Second Teckal Company**

Given feedback from several customers about the advantages of the Teckal business model, consideration could be given to establishing an additional Teckal company aimed at a specific sector, (assuming demand is sufficient). This would prevent 'member overload' in the existing Teckal company and provide a firm basis for the new sector/business to be delivered via a bespoke Teckal entity, owned by the new customer/members and potentially managed and serviced by SWAP personnel. There might be scope for this from several emerging sectors including the Police and Crime

Commissioners, schools, academies and educational facilities, fire and rescue services etc. This is the business model which has been adopted elsewhere, including by Norse Group.

#### **6.4 Collaboration or Merger with other audit bodies**

There may be opportunities to merge or collaborate with other existing audit partnerships within (or outside) the SW area (e.g. Devon Audit Partnership). The Review Team are aware that there are proposals to develop the Bath and NE Somerset and North Somerset partnership, initially into a joint committee with a view to establishing a Teckal company in due course. There may be limited time to consider the collaboration option and offer an alternative to establishing a potential competitor.

Collaboration could be by agreement rather than by way of new company or by way of adding new members to SWAP.

#### **6.5 New non-member customers**

A number of non-member potential customers have been identified and there are many more organisations who could potentially be serviced by SWAP and/or a new trading entity set up for that purpose. These new customers include academy schools, Local Enterprise Partnerships, charities and social enterprises and other similar bodies. There is an opportunity for SWAP to deliver up to 10% of its business to such customers currently and this will increase to 20% once the new EU procurement rules come into force next year. The Review Team understand SWAP is not currently trading at the limit of these boundaries and there is scope to expand this work. We understand the level of non-partner income for year ending 31st March 2014 was 4.7% and for the first 6 months of this financial year this has risen to 5.6% but remains well short of the existing 10% threshold. With the expected doubling of this threshold to 20% next year there appears plenty of scope to explore trading opportunities within the existing Teckal SWAP company. If new members join, the Teckal trading limit also grows in line with the growth in turnover.

Where trends become apparent, such as a new line of business from academies or charitable entities, consideration could be given to providing discounts on the basis of work awarded by several such bodies acting together. SWAP might be the conduit for facilitating such collaboration or else it might use its existing contacts to communicate with academies.

If a trend over time (say 1-3 years) can be determined of the Teckal trading limits being exceeded, (in the absence of other drivers such as tax considerations) that would be the time to establish a separate bespoke trading entity based on demand. The Review Team believe that careful consideration should be given to establishing a trading arm until it is absolutely necessary for the reasons given below.

#### **6.6 Setting up a separate trading company**

Setting up a separate trading company to service non-Teckal members (public, private or third sector) remains an option. There may be fiscal/tax reasons for doing so irrespective of customer or demand issues driving that approach which is beyond the scope of this review. However setting up a new body brings attendant costs, expenses, management and governance overheads which could be difficult for a relatively new start up business to manage, whilst seeking to embed the core Teckal business and restructure. It would be a different business to SWAP. It would need to compete in the open market for business against other competitors. Consideration would need to be given to which of the existing SWAP members (if any) would own the company. We have assumed any new trading entity would not be a 'subsidiary' of SWAP as this might endanger SWAP's Teckal status.

**Recommendation 6: That SWAP undertake a full appraisal and prioritisation of options for business development, including determining the most effective potential business structures to support the preferred approach**

## 7. MARKETING SWAP

The Review Team consider there is significant scope to adopt a more pro-active approach to marketing SWAP's services. For the most part this can be through informal engagement, word of mouth, customer feedback and other relevant channels. Marketing needs to be targeted, focused and customised to individual client needs. The approach to business development needs to be underpinned by a clearly articulated marketing strategy which is informed by the relationship mapping exercise and understood/adopted by all staff and SWAP members. We understand that a specialist marketing expert might be engaged to help develop a marketing strategy.

The marketing strategy should define (amongst other things):

- SWAP's full range of products / services
- Where these products and services have already been delivered to the existing member / customer base
- The benefits (both financial and non-financial) that members / customers have derived from the delivery of existing SWAP services (see bullet points on page 5)
- New markets (public, private and third sector) which have been identified for business development and any new products or services which will be developed to serve those new markets
- The pricing strategy for new the provision of new / products and services
- How the skills set of the restructured organisation will need to evolve to service new customers
- A 'bid qualification' process which articulates the criteria to be used in determining which areas of work to target (e.g. maturity of existing relationship with the potential client, likely bid costs, geographical location of the potential client, likelihood of successfully securing work from the target customer, alignment with existing SWAP skill-sets)

**Recommendation 7: that SWAP develop a marketing strategy which is aligned with its strategic drivers and vision for business development**

## APPENDIX A

### **Purpose of the review**

- Assessment of the business case and whether the anticipated benefits are actually being delivered (benefits will vary with time, so may be different for the first review and subsequent mid-term reviews)
- Confirmation of ongoing governance, leadership and management arrangements
- Consideration of ongoing commercial viability of the organisation, including the impact of cessation of the provision of any corporate services from the parent authority
- Ensuring that appropriate metrics / KPIs are routinely collected and used to inform decision making
- Assessing whether the business is resilient – that is whether it has the flexibility to adjust to future changes in the operating environment. This should include consideration of the wider strategic plans of the now independent organisation, particularly its future plans for ensuring its own viability should its contract with the host Local Authority cease and in that context, its plans to avoid dependence upon one significant contract and/or income stream
- Ensuring that arrangements are in place to monitor and continuously improve performance
- Ensuring that processes are in place to adequately govern and manage the business
- Assessing the scope for further innovation and the approach to managing new projects to deliver further business benefits
- Ensuring that there is appropriate staff engagement and development
- Confirmation that stakeholders are appropriately represented and involved
- Consideration of the effectiveness of the LATCo's maximisation of the opportunities afforded both by its independence from the host Local Authority and the legal form of its constitution and therefore the environment in which it now operates.
- Examination of the LATCo's financial planning arrangements such as its Reserves Policy, longer term budgets and financial planning and cash flow projections.
- Examination of continuing market analysis and responses thereto.
- Ensuring that taxation benefits have been maximised.
- Examination of the application or otherwise of the conditions in all LATCo contracts and the requirement for changes to reflect commercial benefits, penalties for non-performance, etc.
- Examination of the impacts and the acceptance of those impacts by all parties, of changes to funding streams and amounts.
- Ensuring that the LATCo is adhering to the legal requirements attached to its specific legal form.
- Consideration of the changed relationship between the LATCo and the host Local Authority and the staff, executives and non-executives of those two organisations and the impact of those changes in the contexts of both the original business objectives and the individual changed circumstances in both organisations.
- Depending upon the timing and brief of the review, the impact of all aspects of the review on both the LATCo and the host Local Authority.

## APPENDIX B

### Interviewees

NAME	ROLE
Jason Vaughan	Company Director, Chair of Board, Client Officer and Section 151 for Weymouth and West Dorset
Chris Gunn	Company Secretary: Finance, HR, Risk Management, Board Papers
Nick Hammacott	Senior Auditor based in Somerset County / Fraud Response Team
Charlotte Wilson	Auditor
Jo George	Audit Manager
Suella Coman	Audit Manager
Andrew Ellins	Audit Manager
Jo McCormick	Senior Auditor
CLlr Janet Page	Chairman of Audit Committee at West Dorset District Council / Member on the SWAP Members Board.
Steve Read	Managing Director - Somerset Waste Partnership
Shirlene Adam	Client and Section 151 Officer for Taunton Dean and West Somerset Councils
Donna Parham	Client Officer and Section 151 for South Somerset District Council / User Group co-ordinator
CLlr Richard Tonge	Cabinet Member for Finance, Performance, Risk, Procurement and Welfare Reform
Peter Robinson	Company Director / Client Officer and Section 151 for Hereford Unitary
Alison Holmes	Senior Auditor
Dave Warren	Auditor
CLlr Tim Carroll	Members Board Member for SSDC
CLlr Simon Coles	Audit Committee Member for Taunton Deane Borough Council
Richard Walker	MKi
Jeff Wring	Head of Audit for Bath and North East Somerset
Sue Pangborne	Chief Executive for Forest of Dean District Council
Jacqui Gooding	Audit Manager / Coordinator Fraud Response
Peter Ware	Partner Browne Jacobson Solicitors
Michael Hudson	Company Director, Client Officer and Section 151 Officer for Wiltshire Unitary
Dave Hill	Director of Planning
Ian Baker	Director of Quality
Gerry Cox	Chief Executive



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Chief Executive  
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Date: 13 April 2015

When calling or telephoning please ask for: Robert Hutchins

Dear Gerry,

### **Internal Audit report for the South West Audit Partnership 2014/15**

I can confirm that we have now completed our internal audit of the accounting arrangements for the South West Audit Partnership (SWAP) for the financial year ended 2014/15. I am pleased to report that our audit did not find any areas of concern and I am confident that the processes in place are adequate to support SWAP's annual report and financial statements.

The purpose of our audit was to review the systems of financial and other controls over the Partnership activities and to provide an opinion as to whether the operating procedures are working effectively and satisfactorily. Our work was undertaken in accordance with the Public Sector Internal Audit Standards along with other best practice and professional standards.

As part of the audit work we undertook an assessment of compliance with relevant procedures and controls and our findings are based on the areas examined and appropriate sample checking.

#### **Key Findings**

Our audit concluded that accounting statements prepared during the year were prepared on the correct accounting basis, were supported by an adequate audit trail from underlying records, and debtors and creditors were properly recorded.

All financial transactions relating to SWAP are recorded using the SAGE Financial Information Management System (FIMS) operated within the Partnership.

Orders are raised via FIMS and authorised by a member of SWAP's senior management team. Goods are receipted via the system and matched to the service/goods provided. Invoices are received and certified by the SWAP Admin staff and authorised by one of the SWAP senior management team.

A number of SWAP staff have procurement cards and statements are checked and reviewed by the admin staff and authorised by one of the senior management team. A review of a sample of

procurement card payments confirmed that good systems of control were in place and purchases coded correctly.

Invoices are raised via the FIMS system and all income receipted and recorded on the system.

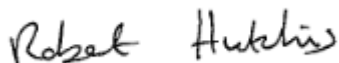
Payroll transactions are managed through South Somerset District Council and feed into FIMS on a monthly basis. A robust payroll checklist is maintained to administer and monitor the payroll on a monthly basis.

Regular bank reconciliations are performed and monthly budget monitoring reports are produced to ensure transactions are accurately recorded and any variances investigated and resolved.

From a review of the FIMS system reports, sample checking of invoices and payments, and the professional services provided by Francis Clark, Chartered Accountants, my view is that the internal control framework is satisfactory and that the accounts will fairly represent the transactions of SWAP for the 2014/15 financial year.

The Partnership has maintained a strategic risk register for a number of years, and the register is reviewed and updated on an annual basis and is a standing item taken to the quarterly board meetings. This identifies key strategic risks, current mitigating control measures and responsibility for managing those risks.

Yours sincerely

A handwritten signature in cursive script that reads "Robert Hutchins".

Robert Hutchins

**Head of Devon Audit Partnership**



# Quality Assessment Improvement Plan

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## Introduction

This report provides the Board with information on the progress made against the Quality Assessment Improvement Plan (QAIP). The QAIP is reviewed periodically by the Management Team and by the Board at its meetings. The plan is kept under review and reports are presented to the Board on a regular basis. This provides assurance that the issues identified as part of the last review and any new improvements are being effectively managed through to completion.

## Resolution

1. That the Board notes the latest update and the proposed actions in place to address the issues identified within the QAIP.

## Background

The action plan was last reviewed by the Board of Directors on the 5<sup>th</sup> January 2015. The action plan remains in the same format as previously presented, with completed actions having been highlighted for removal and new items / or updates to existing items added in red text.

Further progress has been made in completing actions in the following areas:-

- Internal Audit of SWAP has been completed by the Devon Audit Partnership
- Actions arising from the Local Partnerships report have been appended to the QAIP as have further actions identified from a Management Team Away Day post restructure.

The Board's attention should be drawn to the 'management response' column which summarises the actions to be completed to address the recommendation.

A full copy of the outstanding actions is included as an appendix to this report.

C. Gunn – Company Secretary – 17<sup>th</sup> April 2015

## SWAP Quality Assessment Improvement Plan (QAIP)

## Final Action Plan

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date
Periodic Reviews of SWAP to be regularly completed.	<b>I recommend that the SWAP Management Team agree a time period for regular reviews, currently recommend every five years minimum, with an interim review part way through the agreed period.</b>	3	This Action Plan will be kept under constant review. We envisage completing a full review every three years.	Chief Executive	On-Going March 2015
The Client Questionnaire Returns have highlighted a number of matters that need consideration by the Management Team and a plan devised as to how SWAP will respond to improve some of the issues raised.	<b>I also recommend that the Chief Executive ensures that Directors follow up all scores assessed below 3 (Good) with individual Client Officers.</b>	4 3	Agreed.  Reduced priority as much picked up in LP report  Client Survey results have been shared however, this action has been deferred due to restructuring and other priorities and we hope to revisit it in the new year.	SWAP Management Team	<del>October 2012</del> <del>October 2014</del> <del>March 2015</del> September 2015
	<b>In line conjunction with following up on scores assessed below 3 (Good), I recommend that the Chief Executive ensures that Directors follow up on all comments made with individual Client Officers.</b>	4 3	Agreed.  Reduced priority as much picked up in LP report  As Above	SWAP Management Team	<del>October 2012</del> <del>October 2014</del> <del>March 2015</del> September 2015

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date
<p>External assessments must be carried out at least once every five years by a qualified independent reviewer or team from outside the organisation. The chief audit executive must discuss with the board:</p> <p>The need for more frequent external assessments; and</p> <p>The qualifications and independence of the external reviewer or review team, including any potential conflict of interest.”</p>	<p><b>I would therefore recommend the following:</b></p> <p><b>The Chief Executive should use the results of this review to determine whether there is a need for more frequent external assessment.</b></p>	3	<p>The results of this Assessment have been favourable identifying no failings with regards to the Standards.</p> <p>However, as referred to above we will endeavour to carry out a full Quality Review Assessment every three years.</p> <p><b>A meeting is taking place on 29<sup>th</sup> April with the four other major audit partnerships – a repeat of the 2012 exercise is on the agenda and will be scheduled in later this year.</b></p>	Chief Executive	<p><del>March 2015</del></p> <p><b>September 2015</b></p>
<b>ACTIONS IN RESPONSE TO STAFF FEEDBACK:</b>					
<p>Partner Websites do not all have clear links to the SWAP website. (Source FFL Reviews)</p>	<p><b>Audit Managers have agreed to liaise with Client Officers to ensure there is a clear link from Partner Websites to SWAPs.</b></p>	3	<p>Agreed, progress to be confirmed with Audit Managers</p> <p>The SWAP Website is undergoing some developments – when this is completed and re-launched we will pick up on this action.</p>	SWAP Management Team/ Audit Managers	<p><del>July 2014</del></p> <p><del>22-Oct 2014</del></p> <p><del>January 2015</del></p> <p><b>June 2015</b></p>

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date
Outcome from External Audit of Accounts identified control weaknesses	<p><b>SWAP MT implement procedures to address the External Auditor's concerns on some issues identified during the External Audit of the Accounts regarding :-</b></p> <p><b>The capitalisation of fixed assets</b>  <b>Review of Bank Reconciliations</b>  <b>Authorisation of Purchase Orders</b>  <b>Identification of Non-Partner Income</b></p>	3	<p>The Company Secretary has reviewed and implemented revised processes.</p> <p>These will be independently audited by DAP to provide the Board assurance.</p> <p>DAP are gaining approval from their Board to complete this work.</p>	The Company Secretary	<p>Completed</p> <p><del>November 2014</del></p> <p>Completed</p>
Local Partnerships have identified a number of potential areas for improvement	<p><b>SWAP MT will present the report to the Board on the 15<sup>th</sup> January 2015 meeting and prepare an action plan and respond accordingly.</b></p>	3	<p>Present to Board 15<sup>th</sup> January and then devise a response plan and incorporate key findings in Business Plan.</p> <p>Actions and responses have been added below.</p>	Management Team	<p>April 2015</p> <p>Completed</p>
SWAP has not fully explored the potential for expanding its current customer base. (Source LP Report)	<p><b>That SWAP undertake a relationship mapping exercise in order to identify new and emerging business development opportunities and to facilitate the development of a shared business development vision.</b></p>	4	<p>We agree with the finding and see the importance of following this through. However, post restructure the target date (suggested end of quarter one) will not be realistic and therefore we have targeted to complete by the end of the second quarter.</p>	Management Team	<p>End of September 2015</p>

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date
Strategic drivers for SWAP although agreed in principle, are not clearly articulated to ensure focussed direction moving forward. (Source LP Report)	<b>That SWAP clarifies its strategic drivers in order to inform its future business plan.</b>	4	Agreed – this now forms a part of SWAP Business Plan	Gerry Cox	Completed
Some front-line staff do not necessarily feel sufficiently informed, empowered, incentivised or skilled to identify and attract new wo (Source LP Report)	<b>That SWAP should encourage (and where necessary provide training) to staff to see business development as a key part of their role.</b>	3	Agreed – we will encourage this with staff starting with our April Staff Away Day. We have also developed a proforma for staff to capture any interest and report to our new AD for External Clients to follow through. Further matters covering training etc will be addressed moving forward.	Management Team	In Progress and On-Going
Opportunities for customers to discuss emerging business requirements and for the management team to discuss their plans and direction of travel are being missed. (Source LP Report)	<b>That SWAP management team instigate one-to-one meetings with member Section 151 officers and consider re-establishing a form of user forum or some form of engagement by virtual means.</b>	3	Agreed – A Director will attend the Somerset meeting of s151 Officers and individual meetings will be scheduled in throughout the year.	Management Team	In Progress and On-Going

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date
There is scope to more widely disseminate information about SWAP's achievements and performance. (Source LP Report)	<b>That SWAP considers the production of an annual report to raise awareness of SWAP's services and achievements amongst members and potential customers.</b>	4	We will produce an annual report for SWAP and use this as a means to inform our Partners and others of achievements throughout the year.  This will also be used as a marketing tool when attending conferences etc.	Management Team	Mid-May
Setting up a separate trading company to service non-Teckal members (public, private or third sector) remains an option. (Source LP Report)	<b>That SWAP undertake a full appraisal and prioritisation of options for business development, including determining the most effective potential business structures to support the preferred approach.</b>	3	This will be picked up later in the year after our marketing plan has been developed.	Management Team	End September 2015
There is significant scope to adopt a more pro-active approach to marketing SWAP's services. (Source LP Report)	<b>That SWAP develop a marketing strategy which is aligned with its strategic drivers and vision for business development</b>	4	Starting with a marketing strategy and appropriate budget we will develop our approach to marketing SWAP. Initial approaches will be made to marketing 'experts' to seek advice on our approach.	Gerry Cox	End of May 2015 for initial research

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date
We have a suite of KPI's which are reported on the balanced scorecard. These haven't been reviewed for some time. (Source MT Away Days)	<b>Current KPI's should be reviewed to ensure they demonstrate achievement of our objectives and are complete.</b>	3	We will review our current KPI's to challenge them for relevance and where necessary introduce new ones.	Management Team	October 2015
A number of clients are starting to question the length and structure of our audit reports. (Source MT Away Days)	<b>We will review the report structure and seek the views of our clients before considering a refresh.</b>	4	We will invite further feedback from our client officers – letting them know the issues already raised by some.  We will also set up a working group to review the content and structure of audit reports for final agreement.	Management Team	September 2015

*Report Number:* WSC 104/15 AGENDA ITEM 11  
*Presented by:* Paul Harding  
*Author of the Report:* PAUL HARDING, CORPORATE STRATEGY AND PERFORMANCE  
*Contact Details:* MANAGER

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*Report to a Meeting of:* Audit Committee  
*To be Held on:* 6 July 2015  
*Date Entered on Executive Forward Plan Or Agreement for Urgency Granted:* [\[Click here and type Date\]](#)

## **DRAFT ANNUAL GOVERNANCE STATEMENT 2014/15**

### **1. PURPOSE OF REPORT**

- 1.1 The Council is required to conduct, at least once a year, a review of the effectiveness of its systems of internal control and governance arrangements and to produce an Annual Governance Statement (AGS) on behalf of the Leader of the Council and the Chief Executive, providing an assessment of these arrangements.
- 1.2 The review of effectiveness was carried out by the Council's Corporate Governance Officers Group who have concluded the governance arrangements remain adequate and fit for purpose. The review of our governance framework also identified some areas where further improvements could be made and these will receive attention during 2015/16.
- 1.3 The purpose of this report is to submit the draft Annual Governance Statement for review and to recommend its approval by the Leader of the Council and the Chief Executive.

### **2. CONTRIBUTION TO CORPORATE PRIORITIES**

- 2.1 None – this is a governance matter.

### **3. RECOMMENDATIONS**

- 5.1 Members of the Audit Committee are Members are asked to review the draft Annual Governance Statement attached to this report and to recommend its adoption by the Leader of the Council and the Chief Executive.



#### 4. **RISK ASSESSMENT (IF APPLICABLE)**

##### **Risk Matrix**

Description	Likelihood	Impact	Overall
None in respect of this report			

#### 5. **BACKGROUND**

- 5.1 West Somerset Council has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and the management of risk.
- 5.2 West Somerset Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) Framework “*Delivering Good Governance in Local Government*”.
- 5.3 The Annual Governance Statement explains how West Somerset Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2011 in relation to the requirement to prepare an annual governance statement which must accompany the Statement of Accounts.
- 5.4 A draft of the Annual Governance Statement was considered by the Standards Advisory Committee on 16th June 2015 who agreed to endorse the contents of the draft with particular reference to those elements relating to the behavioural and code of conduct issues with the one suggested additional comment at the end of section 3 to the effect that during 2014/15 no formal complaints alleging breaches of the code of conduct had been received in respect of WSC Councillors. This has been added to the draft AGS.
- 5.5 The Corporate Governance Officers Group has led the 2014/15 review of the governance framework. The group includes the Monitoring Officer (Assistant Chief Executive), the s151 Officer (Director–Operations), the internal Audit Manager, the Assistant Director Corporate Services and the Corporate Strategy & Performance Manager.

## **6 ANNUAL GOVERNANCE STATEMENT**

- 6.1 The draft Annual Governance Statement is appended to this report.
- 6.2 The conclusions from this review is that overall, the council's governance framework is reasonable and fit for purpose. This is further endorsed by the Group Auditor's annual opinion report 2014/15, which offers 'reasonable assurance' in respect of the areas reviewed during the year.
- 6.3 The AGS describes how the council complies with each of the six core principles of the Code of Corporate Governance, and additionally identifies governance issues identified and the steps to be taken during to address these matters

## **7. FINANCIAL/RESOURCE IMPLICATIONS**

- 7.1 None in respect of this report.

## **8. COMMENTS ON BEHALF OF SECTION 151 OFFICER**

- 8.1 Contained in the body of the report.

## **9. EQUALITY & DIVERSITY IMPLICATIONS**

**Members need to demonstrate that they have consciously thought about the three aims of the Public Sector Equality Duty as part of the decision making process.**

The three aims the authority **must** have due regard for:

- Eliminate discrimination, harassment, victimisation
- Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it

## **10. CRIME AND DISORDER IMPLICATIONS**

- 10.1 None directly within this report.

## **11. CONSULTATION IMPLICATIONS**

- 11.1 The Annual Governance Statement has been reviewed by the Corporate Governance Officers Group which includes the S151 officer.

## **12. ASSET MANAGEMENT IMPLICATIONS**

- 12.1 None in respect of this report.

**13. ENVIRONMENTAL IMPACT IMPLICATIONS**

13.1 None in respect of this report.

**14. LEGAL IMPLICATIONS**

14.1 Regulation 4 of The Accounts and Audit (England) Regulations 2011 requires that the Council must conduct a review at least once a year of the effectiveness of its systems of internal control and committee must approve an annual governance statement, prepared in accordance with proper practices in relation to internal control.



# Draft - Annual Governance Statement

**2014/15** v1.1

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## Introduction

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This document relates to the 2014/15 financial year which started on 1<sup>st</sup> April 2014 and ended 31<sup>st</sup> March 2015.

This was a period of significant challenge and change for the Council. Following on from the appointment of a joint Chief Executive and senior management team between West Somerset Council and Taunton Deane Borough Council, during the latter part of 2013/14, the Councils continued to join together the remainder of their officer structure during 2014/15, resulting in the majority of the joint staffing structure being in place by 1<sup>st</sup> February 2015.

This change resulted in a number of officers leaving the Council and some others taking on new roles and responsibilities but all staff forming part of 'One Team' of officers to serve two sovereign councils and their communities.

This significant structural change was a first for Somerset and one of few similar such arrangements within the West of England and has led to total annual savings of £1.802m being delivered to the Councils and the local taxpayer.

Despite the scale and pace of this change no new corporate risks, associated with this undertaking, have been identified by the Council's auditors (South West Audit Partnership).

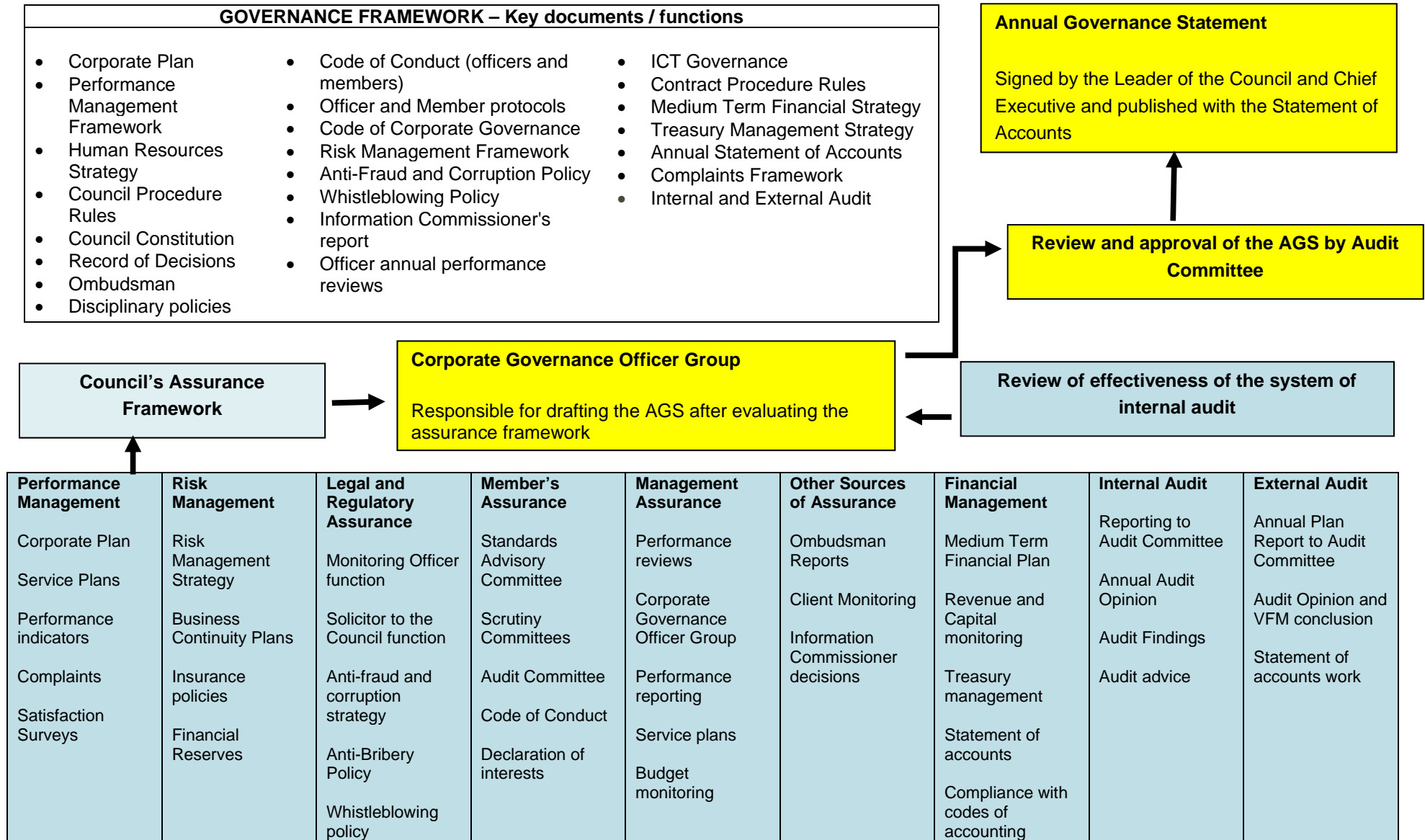
This Annual Governance Statement provides an account of the processes, systems and records in place during 2014/15 which demonstrate assurance for the effectiveness of the framework of governance of the District Council to discharge its responsibilities.

The various sources of assurance and the process leading to the creation of the Annual Governance Statement are illustrated on page 3 of this document.

Governance is about how local government bodies, such as the Council, ensure that they are doing the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable manner.

There are SIX core principles of governance adopted by the Council's Audit Committee which are used as reference points for the assurance about the effectiveness of the Council's governance arrangements. For each principle a table is provided within this document setting out what arrangements are in place and what assurance each provides.

# AGS Process and Sources of Assurance Overview



## Scope of Responsibility

West Somerset District Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, that public money is safeguarded, properly accounted for and used economically, efficiently and effectively.

The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, West Somerset District Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, including arrangements for the management of risk.

West Somerset District Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) Framework “Delivering Good Governance in Local Government”. A copy of the code can be obtained from The Monitoring Officer, West Somerset District Council, West Somerset House, Killick Way, Williton, TA4 4QA on request.

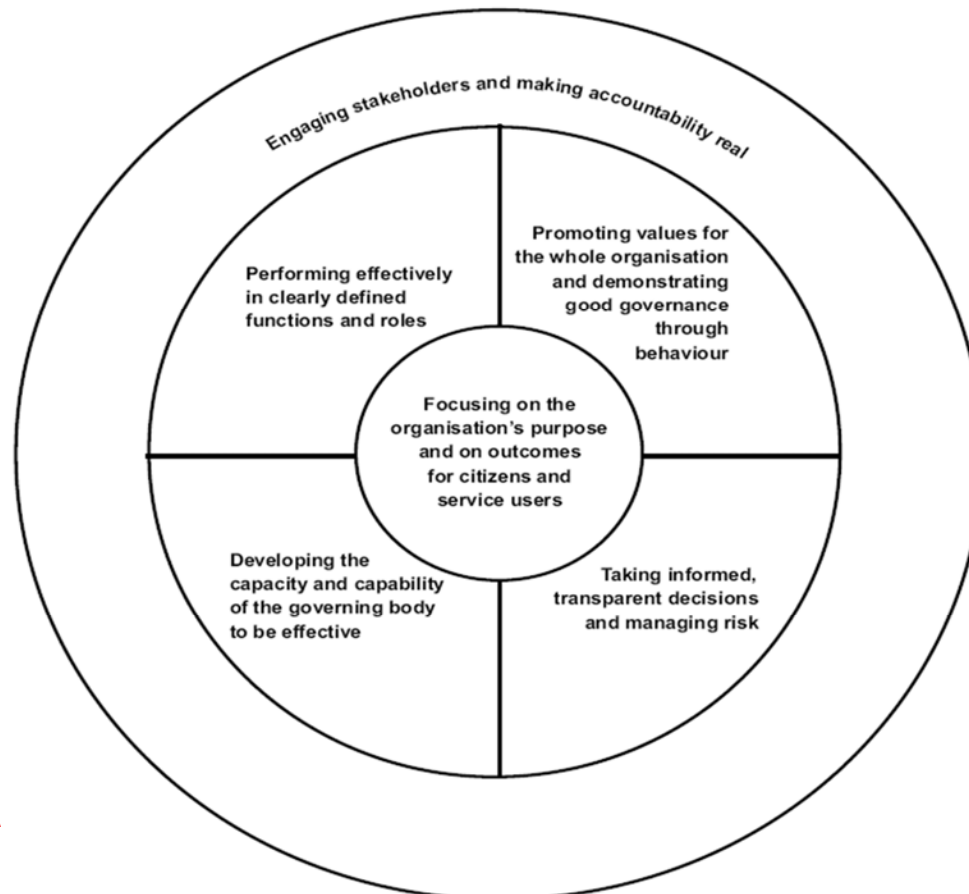
This statement explains how West Somerset District Council has complied with the code and also meets the requirements of regulation 4(3) of the Accounts and Audit Regulations 2011 which requires all relevant bodies to prepare an annual governance statement.



# The Governance Framework

West Somerset District Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. These principles of good governance are:

1. Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area;
2. Members and Officers working together to achieve a common purpose with clearly defined functions and roles;
3. Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behavior;
4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risks;
5. Developing the capacity and capability of Members and Officers to be effective;
6. Engaging with local people and other stakeholders to ensure robust public accountability.



## The Purpose of the Governance Framework

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The governance framework comprises the systems, processes, culture and values, by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood and impact should those risks be realised and to manage them efficiently, effectively and economically.

The governance framework has been in place at West Somerset District Council for the year ended 31 March 2015 and up to the date of approval of the statement of accounts.

1. Focusing on the purpose of the Council and on outcomes for the community and creating and implementing a vision for the local area.

How we have set out our vision and the outcomes we wish to achieve	Assurances Received
<ul style="list-style-type: none"> <li>Members, working with officers, have developed a four year <u>Corporate Plan</u> (2012-2016) which describes the Council's priorities, key activities and intended outcomes for citizens and service users, our vision and our core values. This feeds into Service Plans, Team plans and personal plans.</li> <li><u>Joint Management and Shared Service Business Plan</u> created jointly between West Somerset Council and Taunton Deane Borough Council setting out how one team of officers would be created to support the two sovereign Councils and deliver significant savings to each.</li> </ul>	<ul style="list-style-type: none"> <li>Performance Management Framework – the Council uses different performance measures (quality, outputs, value for money, customer satisfaction) to give an overview of Council performance and stimulate improvement. Information is published quarterly on our website in the form of reports and minutes against the corporate priorities and targets and reported to the Council's leadership team, Scrutiny Committee and Cabinet for review and challenge;</li> <li>Updates on progress against the Joint Management and Shared Service Business Plan provided to Scrutiny in April and September 2014 and the closedown report for phase 1 presented to Scrutiny in March 2015.</li> <li>Externally reported data: Government Single Data List;</li> <li>Internal Audit reports;</li> <li>External Audit reports;</li> <li>Employee annual review process linked to the Council's objectives.</li> </ul>

## 2. Members and officers working together to achieve a common purpose with clearly defined functions and roles.

### Source of assurance

The Council's Constitution is at the heart of the Council's business. It allocates power and responsibility within the local authority, and between it and others.

The constitution is kept under review. All proposed changes are considered by the Corporate Policy Advisory Group and Full Council.

All officers have defined role descriptions which set out their personal roles and responsibilities.

There is a member/officer protocol that sets out the standards of behaviour expected to ensure an appropriate working relationship between members and officers (page 343 of the Council's Constitution).

Members work with officers to develop and approve the Corporate Plan, setting out the Council's priorities. Officers use the Corporate Plan to align service delivery with the Council's priorities and regularly report progress to the Cabinet.

Portfolio holders and the shadow portfolio holders meet key officers on a regular basis to discuss relevant issues within their portfolio.

The Leader and Chief Executive meet regularly in order to maintain a shared understanding of respective roles and the Council's objectives.

A 'One Team' newsletter is produced monthly and is issued to all officers and Members highlighting successes, emerging issues, corporate messages in order that both Members and officers share a common understanding of key issues affecting the organisation.

Members and officers work jointly on advisory and steering groups in respect of key corporate projects (e.g. Transformation).

A Member induction programme is in place for new Members.

Officer induction programme is in place for new employees to ensure they have knowledge of the organisation, its values and priorities.

The Chief Executive's annual appraisal is undertaken as per the agreed process

Service plans are clearly linked to the corporate plan and the Medium Term Financial Plan (MTFP), both of which are developed between Members and officers. They provide detail about the key actions to be undertaken to deliver on the corporate priorities. They also identify the performance measures and targets to ensure services achieve their objectives and to the required standard.

### 3. Promoting the values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behavior.

Source of assurance	Where found
External Audit of Accounts	
Members and staff Codes of Conduct	<u>Constitution</u>
Scheme of Delegation	<u>Constitution</u>
Anti-fraud and Corruption Strategy	<u>On our website</u>
Anti-bribery policy	<u>On our website</u>
Financial Regulations	<u>Constitution</u>
Standing Orders on Procurement and Contracts	<u>Constitution</u>

Register of Member Interests - Councillors are required to register their pecuniary and other interests. They are also required to register pecuniary interests of their spouse or live-in partner, if applicable	Published on the <a href="#">Council's website</a> and available as a pdf to download.
Register of officer Interests – includes details of financial, contractual or business interests, whether remunerated or not (including those of close family) which have or could have any connection with the work of or provision of services by the Council or by any of its direct suppliers contractors or partners.	This is held in paper format and retained by Democratic Services.
Corporate Complaints and Feedback	<a href="#">Website</a>
Staff Discipline Policy	Taunton Deane Borough Council Intranet – (HR pages) and the West Somerset shared W:Drive (with effect from 1 <sup>st</sup> February 2015 all West Somerset Employees have become employed by Taunton Deane Borough Council)
Local Government Ombudsman Annual Review Letter 2014	Available on the <a href="#">performance</a> page of the Council's website.
Whistleblowing Policy - The Council has in place arrangements for individuals to raise concerns where they believe that staff do not demonstrate the expected core values and behaviour.	<a href="#">On our website</a>
The Council set values for the organisation and publish these within our Corporate Plan.	<a href="#">Corporate Plan</a> on our website
The Register of Gifts and Hospitality records all gifts, gratuities, facilities, entertainment, tickets to events, meals and benefits in kind from whatever source given or received by Council officers or close family as a result of or in connection with a relationship formed through Council business unless the actual or estimated value is negligible.	Public documents and can be viewed at the Council Offices

<p>The Standards Advisory Committee promotes high standards of behaviour by members, reviewing policies and law as relating to members behaviour. The committee consists of three WSC Councillors, three town/parish Councillors and three independent members, one of whom is chairman to demonstrate independence and objectivity.</p> <p>The full role and functions of the Committee are set out within the Council's Constitution.</p> <p>During 2014/15 no formal complaints, alleging breaches of the code of conduct, had been received in respect of WSC Councillors.</p>	<p><a href="#">Constitution &amp; Our Website</a></p>
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#### 4. Taking informed and transparent decisions which are subject to effective scrutiny and risk management arrangements

Source of assurance	Where found
<p>West Somerset District Council has a published Constitution that sets out the decision-making arrangements and the responsibilities for different functions. There are clear rules of procedure for the running of business meetings and details of delegated authorities to individuals. The Monitoring Officer is responsible for the Constitution.</p>	<p><a href="#">Constitution</a></p>
<p>The Scrutiny Committee can scrutinise matters to be considered by committees or the Council in order to provide challenge to decisions to be made or policies to be adopted.</p>	<p><a href="#">Constitution</a> and our <a href="#">website</a></p>
<p>The Forward Plan - The Council is required to publish a document which sets out details of planned key decisions at least 28 calendar days before they are due to be taken. This Forward Plan sets out key decisions to be taken at Cabinet meetings as well as, if applicable, individual executive decisions to be taken by either the Leader, a Cabinet Member or an Officer.</p>	<p>Available on our <a href="#">website</a></p>
<p>Protocol on decision making - The Council issues and keeps an up to date a record of what part of the Council or individual has responsibility for particular types of decisions or decisions relating to particular areas or functions</p>	<p><a href="#">Constitution</a></p>

<p>The Council maintains an internal audit service through the South West Audit Partnership (SWAP) that operates to standards specified by the institute of Internal Auditors (IIA) and the Chartered Institute of Public Finance Accountants (CIPFA). Auditors test compliance with good practice and internal policies and procedures, reporting their findings to officers and to the Councils Audit Committee.</p>	<p><a href="#"><u>Southwest Audit Partnership</u></a></p>
<p>All reports to Council or committee contain a section relating to risk which ensures known risks are considered as part of the decision making process</p>	<p>Reports available via our <a href="#"><u>website</u></a></p>
<p>All reports to Council or committee contain a section relating to legal implications which ensures legal opinion is considered as part of the decision making process</p>	<p>Reports available via our <a href="#"><u>website</u></a></p>
<p>All reports to Council or committee contain a section relating to Finance which ensures financial implications are considered as part of the decision making process</p>	<p>Reports available via our <a href="#"><u>website</u></a></p>
<p>Monitoring Officer and the Solicitor to the Council– responsible for ensuring the legality of the actions of the Council and promoting good standards of ethical and corporate governance.</p>	<p>Roles defined in the <a href="#"><u>Constitution</u></a></p>
<p>Council meetings are open to the public (with the exception of items that are exempt under the Access to Information Act). The Council advertises meetings, communicate decisions and minutes to ensure they are publicly available in a timely manner.</p>	<p><a href="#"><u>Constitution &amp; Our website</u></a></p>
<p>In accordance with the Openness of Local Government Bodies Regulations 2014 recording is allowed at all formal meetings of the authority to enable those not present to see or hear the proceedings either as they take place (or later) and to enable the reporting of those proceedings.</p>	<p>See the third party recording protocol available on our <a href="#"><u>website</u></a></p>
<p>Voice recording takes place in Council meetings which allows any challenges over the accuracy of minutes to be resolved based on fact rather than recollection thereby aiding transparency.</p>	<p>Recordings held by Democratic Services.</p>
<p>Call-in mechanism is in place in relation to challenging decisions made by the Cabinet which allows re-consideration and further debate of the issue.</p>	<p><a href="#"><u>Constitution</u></a></p>



<p>The Council operates an Audit Committee which is independent of the Executive and Scrutiny functions of the Council. The committee provides independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance, to the extent that it affects the authority's exposure to risk and weakens the control environment and to oversee the financial reporting process.</p>	<p><a href="#">Constitution &amp; Our website</a></p>
<p>Monthly Budget monitoring by budget holders and quarterly finance reporting to Members helps ensure an accurate position of the Council's finances is available when financial decisions are made.</p>	<p>Reports available via our <a href="#">website</a></p>
<p>Basic open data information required under the Transparency Code is available on the Council's website including spend over £500, senior officer pay etc to aid transparency of the operation and conduct of the Council.</p>	<p>Our <a href="#">website</a></p>
<p>Freedom of Information / Environmental Information Regulations permitting scrutiny of information held by the Council of any matter (subject to exceptions and exemptions)</p>	<p>Our <a href="#">website</a></p>
<p>Area panels – these are meetings set up to engage with discreet communities to invite people to raise any issues that affect their community or quality of life so that we can work together to tackle them. Panels meet quarterly and membership includes, the Police, Highways, County, District and Parish Councillors, together with other local organisations. Area panels have been created in Dunster, Minehead, Exmoor and Watchet, Williton &amp; Quantock Vale.</p>	<p>See our <a href="#">website</a> for more information</p>

## 5. Developing the capacity and capability of members and officers to be effective in their roles

### Source of assurance

Staff have an annual appraisal meeting with their manager. Performance is reviewed and an action plan for the next period is set. This assists the member of staff in the performance of their work, helps to develop their skills and identifies any training needs as well as identifying how their role sits with the delivery of Corporate Priorities.

Southwest Audit Partnership (SWAP) in conjunction with Devon Audit Partnership Audit committee provided training 3 Oct 2014 at Sparkford Motor Museum & 10 Oct 2014 at Buckfast Abbey, Devon. The invite was issued to all Audit Committee members.

A corporate training programme is in place covering a variety of skills and knowledge to help staff become more effective.

On the 8 and 9 April 2014 Councillors William Nunn and David Tutt(both LGA Peers) visited the Council and worked with Members and officers to develop a framework for the Member Development programme. The key findings from this work suggested that the two Councils (West Somerset DC and Taunton Deane BC) should look at joint training opportunities for both sets of members. Councillor Gill Slattery from Taunton Deane Borough Council and Councillor Peter Murphy from West Somerset Council were appointed as Member Champions on Member Development.

With assistance from the LGA, Member Champions and Officers undertook an initial desk top exercise to look at other Councils who had either worked in partnership and/or transformed their services, to see if there was any relevant learning for Taunton Deane and West Somerset.

Taking on board the importance of communicating with Members, a OneTeam newsletter has been produced monthly which is sent to all Members and staff and contains, amongst other things, information relating to the implementation of the joint working business case and this has been extremely well received. In addition, a Joint Programme Advisory Group consisting of five elected Members from Taunton Deane and West Somerset Councils has met regularly and proved an effective vehicle for keeping Councillors advised of progress and disseminating that information where necessary.

#### Member Development Events held :

28 April 2014 – New Joint Management Team presented their staff restructuring proposals

3 July 2014 – representatives from Breckland Council and Eastbourne Borough Council gave presentations on their respective Authorities' approach to transformation.

15 September 2014 – members of Taunton Deane and West Somerset Council’s Joint Programme Advisory Group (JPAG) and senior officers met with the Chief Executive, Finance Director, Head of Change and Members from West Dorset DC /Weymouth & Portland BC in order to learn more about Council working together and sharing resource and how they have approached service transformation.

2 October 2014 – the Leader of Eastbourne Borough Council gave a more detailed and practically based presentation on how the Council had transformed its services, particularly through the use of technology

17 February 2015 – representatives from West Devon and South Hams Councils gave a presentation on their journey through shared services to transformation and the Chief Executive of Exeter City Council gave a presentation on the City’s Journey to increasing its economic prosperity and regional status.

There was a Joint Member discussion at the workshop on 17 February 2015 giving those Members present the opportunity to set out any thoughts that could be taken forward after the May 2015 election.

## 6. Engaging with local people and other stakeholders to ensure robust public accountability

Source of assurance	Where found (if applicable)
Greater corporate use of Social Media – a WSC Twitter account has been created and has shown a significant increases in ‘followers’ during the year and an approved Social Media Policy is in place.	Twitter @wsomerset
The Council produces an Annual Statement of Accounts and publishes these on its website.	Statement of accounts page on Council <a href="#">website</a>
The Corporate Plan (2012-2016) which describes the Council’s priorities, key activities and intended outcomes for citizens and service users, our vision and our core values.	See our priorities and corporate plan on our <a href="#">website</a>
Performance Management Framework – the Council uses different performance measures (quality, outputs, value for money, customer satisfaction) to give an overview of Council performance and stimulate	See performance page on our <a href="#">website</a>

improvement; information is published quarterly on our website in the form of reports and minutes against the corporate priorities and targets and reported to the Council's leadership team, Scrutiny Committee and Cabinet for review and challenge. Local people can use performance information, to hold the council to account and have a bigger say on what happens in their communities.	
The Council Tax booklet shares details on the Council's financial position (i.e. a summary of the Statement of Accounts), priorities, and other useful information and is available on line and also available in paper format on request.	Council Tax booklet available on our <a href="#">website</a>
The Council encourages all types of feedback (complaints, compliments, comments & suggestions) from a number of channels (website, telephone, e-mail/letter, face-to-face), and these are logged on a central database for analysis and review.	Complaints and comments page of our <a href="#">website</a>
Local Government Ombudsman Annual Review Letter 2014 is published on our website setting out the number of complaints against the Council made to the Ombudsman in the previous year together with the outcome of those complaints.	Available on the <a href="#">Performance page</a> of our website.
An annual satisfaction survey is undertaken and results fed back to Cabinet as part of Quarter One performance monitoring.	See quarter one 2014 performance report on our <a href="#">website</a>
The Council produces several e-newsletters to which stakeholders can subscribe. These include business newsletter, community matters newsletter and employment & skills newsletter.	<a href="#">Subscription</a> available from our website.
Public Consultation – throughout the year officers continued to attend and deliver input into a wide range of community and business based groups. Key groups include EDF Energy's Community Forum, Main Site Forum, Transport Forum, Stogursey Parish Council, WSC Area Panels, Hinkley Strategic Delivery Forum (and theme groupings within that for Skills and Employment & training / Supply Chain development / Housing), the Somerset Nuclear Energy Group, Delivery Steering Group, Planning Obligations Board, Transport Steering Group, Emergency Services and Local Authority Group, Health Task and Finish Group, EDF Employment & Skills Operational Group, Education Inspire Group, Local Supply Chain Engagement Forum and Hinkley Tourism Action Partnership.	
Regular News articles are placed on the home page of the WSC Website promoting emerging issues and decisions and press releases given to the West Somerset Free Press newspaper.	News and Press Releases page of our <a href="#">website</a>

<p>Council meetings are open to the public (with the exception of items that are exempt under the Access to Information Act). The Council advertises meetings, communicates decisions and minutes to ensure they are publicly available in a timely manner.</p>	<p><a href="#"><u>Constitution &amp; Our Website</u></a></p>
<p>Area panels – these are meetings set up to engage with discreet communities to invite people to raise any issues that affect their community or quality of life so that we can work together to tackle them. Panels meet quarterly and membership includes, the Police, Highways, County, District and Parish Councillors, together with other local organisations. Area panels have been created in Dunster, Minehead , Exmoor and Watchet, Williton &amp; Quantocks</p>	<p><a href="#"><u>Council Meeting</u></a> pages of our website</p>
<p>The New Nuclear Programme Team officers continue to attend and deliver input into a wide range of community and business based groups. Key groups include EDF Energy’s Community Forum, Main Site Forum, Transport Forum, Stogursey Parish Council, WSC Area Panels, Hinkley Strategic Delivery Forum (and theme groupings within that for Skills and Employment &amp; training / Supply Chain development / Housing), the Somerset Nuclear Energy Group, Delivery Steering Group, Planning Obligations Board, Transport Steering Group, Emergency Services and Local Authority Group, Health Task and Finish Group, EDF Employment &amp; Skills Operational Group, Education Inspire Group, Local Supply Chain Engagement Forum and Hinkley Tourism Action Partnership.</p>	

## Review of Effectiveness

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West Somerset District Council has responsibility for conducting, at least annually, a review of its governance framework including the effectiveness of the system of internal control.

The review for the 2014/15 statement was carried out on 4<sup>th</sup> June 2015 by officers of the Corporate Officers Governance Group, made up of the Internal Audit Manager, Section 151 Officer, Monitoring Officer, Assistant Director Corporate Services and The Corporate Strategy & Performance Manager.

The review of the effectiveness is informed by senior managers within the Council who have responsibility for the development and maintenance of the governance environment, and also by the work of the internal auditors and external auditors.

The opinion of the Internal Auditors was that overall the control environment was reasonable in 2014/15 (the opinion was also "reasonable" in 2013/14).

**In its review of effectiveness, the Authority has assessed its overall governance arrangements remain adequate and fit for purpose.**

Some areas where further improvements could be made have been identified and these have been included within the Action Plan (Appendix A) which we will seek to address during the 2015/16 financial year.

## Certification

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Over the coming year we will continue to enhance our governance arrangements. We are satisfied that these steps shown within the Action Plan will address the need for improvements that were identified in our review of effectiveness and we will monitor their implementation and operation as part of our next annual review.

**On behalf of West Somerset Council:**

Signed: .....  
Anthony Trollope-Bellew  
Leader of the Council

Signed:.....  
Penny James  
Chief Executive

The review of our governance framework identified some areas where further improvements could be made. These are shown below. We will seek to address these during the 2015/16 financial year (April 2015 to March 2016).

Issue	Action	AD	When
<p><b>Corporate Plan</b></p> <p>1. The Council's current Corporate Plan expires April 2016.</p>	<ul style="list-style-type: none"> <li>Refresh the Council's Corporate Priorities and Corporate Plan, re-focusing on the purpose of the Council and on outcomes for the community. Take through the democratic process and publicise through traditional and social media.</li> </ul>	Richard Sealy	Priorities – Oct 15 Plan – Feb 16
<p><b>Transparency</b></p> <p>2. Meet increased transparency requirements.</p>	<ul style="list-style-type: none"> <li>Add further open data to the Council's website to meet the requirements of the Transparency Code 2015 to meet the Government's desire to place more power into citizens' hands to increase democratic accountability and make it easier for local people to contribute to the local decision making process and help shape public services</li> </ul>	Richard Sealy	By September 2015
<p><b>Developing ONE TEAM working.</b></p> <p>3. Ensuring staff have the knowledge and skills of key controls and governance processes.</p>	<ul style="list-style-type: none"> <li>Develop a new staff Intranet, so there is a single repository of up to date policy and procedures which staff can easily access irrespective of their location.</li> <li>Develop and implement robust staff induction process</li> <li>Deploy eLearning solution in order to deliver refresher training in DPA, FOI, Health and safety etc and have a real-time record of who has undertaken the training.</li> </ul>	Richard Sealy  Richard Sealy  Richard Sealy	Ongoing  Dec 15  Early Sept 15



<p><b>ICT security policy</b></p> <p>4 The ICT security policy requires updating. Highlighted by Audit.</p>	<ul style="list-style-type: none"> <li>• Update the policy and take through the democratic process.</li> <li>• Provide awareness to all staff of the new policy;</li> <li>• document the process for undertaking user access rights;</li> <li>• look to implement an appropriate level of monitoring of system security logs.</li> </ul>	Richard Sealy	By 31st Oct
<p><b>Health &amp; Safety</b></p> <p>5 SWAP identified health and safety risks in relation to parks and open spaces that require mitigation.</p>	Progress the two issues identified as per the agreed management action plan for these audits.	Chris Hall	<p>August 15 – issue one</p> <p>Target date for completion April 2016 – issue two</p>
<p><b>Assurance</b></p> <p>6 Ensuring the ‘basics’ are in place within each team.</p>	Initiate a process of assurance that the basics are in place across the One Team– for example regular team meetings, risk registers, appraisals etc	Richard Sealy	31 <sup>st</sup> Oct 2015

The following actions were identified within the 2013/14 Annual Governance Statement as matters which the Council sought to progress during 2014/15.

Action	Comment
<p>1. Improve the communication of the authority's purpose and vision and its intended outcomes to citizens and users</p>	<p>In light of the Council's Corporate Priorities being refreshed during 2015/16 it seems sensible to carry over this action but to ensure that the refreshed priorities, together with vision and outcomes are effectively communicated to our stakeholders through a range of media and channels.</p>
<p>2. Draft a community engagement and communications plan for the Council.</p>	<p>Not progressed as not considered to be a priority issue.</p>
<p>3. Undertake comparisons with other Councils to evidence value for money is being achieved.</p>	<p>Officers have registered with an organisation called LG Inform which compiles performance information relating to a number of Council services. Additional sources of comparative information are also used such as the datasets provided by the Department for Communities and Local Government (DCLG).</p> <p>Where data is available benchmarking can be carried out. However, since the Best Value Performance Indicators were abolished the range of comparable performance information available is more limited than it once was.</p> <p>A number of visits and events have taken place at officer and Member level with other Councils in relation to joint working and transformation in order that we can identify new ways of working and further efficiencies to use our limited resources most effectively.</p>

Action	Comment
<p>4. Undertake Member Development as part of the overall joint working programme</p>	<p><u>Member Development Events held :</u></p> <p>3 July 2014 – representatives from Breckland Council and Eastbourne Borough Council gave presentations on their respective Authorities' approach to transformation.</p> <p>15 September 2014 – members of Taunton Deane and West Somerset Council's Joint Programme Advisory Group (JPAG) and senior officers met with the Chief Executive, Finance Director, Head of Change and Members from West Dorset DC /Weymouth &amp; Portland BC in order to learn more about Council working together and sharing resource and how they have approached service transformation.</p> <p>2 October 2014 – the Leader of Eastbourne Borough Council gave a more detailed and practically based presentation on how the Council had transformed its services, particularly through the use of technology</p> <p>17 February 2015 – representatives from West Devon and South Hams Councils gave a presentation on their journey through shared services to transformation and the Chief Executive of Exeter City Council gave a presentation on the City's Journey to increasing its economic prosperity and regional status.</p> <p>There was a Joint Member discussion at the workshop on 17 February 2015 giving those Members present the opportunity to set out any thoughts that could be taken forward after the May 2015 election.</p> <p>A comprehensive Member induction programme has been put in place as a result of the May 2015 local elections which will be open to existing Members also should they require refresher training.</p>
<p>5. Prepare an annual summary of progress of the key actions to deliver the 2013-16 Corporate Plan, also achievements and challenges throughout the year.</p>	<p>In light of the significant organisational changes which took place in 2014/15 this action was not considered to be a high priority. The aim is to look at this during 2015/16. Performance updates against the Corporate Plan have however been regularly reported to Scrutiny and Cabinet throughout the year and published on the Council's website and the corporate plan has been refreshed annually.</p>



*Report Number:* WSC 105/15  
*Presented by:* Steve Plenty  
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*Report to a Meeting of:* Audit Committee  
*To be Held on:* 6<sup>th</sup> July 2015  
*Date Entered on Executive Forward Plan Or Agreement for Urgency Granted:* N/A

## ANNUAL TREASURY MANAGEMENT REVIEW 2014/15

### 1. PURPOSE OF REPORT

- 1.1 To review the treasury management activity and the performance against the Prudential Indicators for the 2014/15 financial year as prescribed by the revised CIPFA Code of Practice and in accordance with the Council's Treasury Management Strategy and Annual Investment Policy.

### 2. CONTRIBUTION TO CORPORATE PRIORITIES

- 2.1 None directly in relation to this report.

### 3. RECOMMENDATIONS

- 3.1 To note the Treasury Management activity for the 2014/15 financial year (Appendix A).

### 4. RISK ASSESSMENT (IF APPLICABLE)

#### Risk Matrix

Description	Likelihood	Impact	Overall
The Council fails to maintain an adequate system of internal control	Unlikely (1)	Major (3)	Medium (1)
<i>The Council has in place suitable arrangements</i>			

The scoring of the risks identified in the above table has been based on the scoring matrix. Each risk has been assessed and scored both before the mitigation measures have been actioned and after they have.

## **5. BACKGROUND INFORMATION**

5.1 The Council's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("the Code"), which requires local authorities to produce annual Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also recommends that members are informed of treasury management activities at least twice a year.

5.2 The scrutiny of treasury management policy, strategy and activity is delegated to the Audit Committee.

5.3 Treasury management in this context is defined as:

"The management of the local authority's cash flows, its borrowings and its investments, the management of the associated risks, and the pursuit of the optimum performance or return consistent with those risks".

5.4 Overall responsibility for treasury management remains with the Council. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives.

## **6. FINANCIAL/RESOURCE IMPLICATIONS**

6.1 As set out in the report.

## **7. COMMENTS ON BEHALF OF SECTION 151 OFFICER**

7.1 The treasury management function has been well-managed during the year. It is pleasing to note that compliance with the TMSS has been maintained. As interest rates remain low the opportunities to generate significant income through investments is limited.

## **8. EQUALITY & DIVERSITY IMPLICATIONS**

**Members need to demonstrate that they have consciously thought about the three aims of the Public Sector Equality Duty as part of the decision making process.**

The three aims the authority **must** have due regard for:

- Eliminate discrimination, harassment, victimisation
- Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it

8.1 None in respect of this report.

## **9. CRIME AND DISORDER IMPLICATIONS**

9.1 None in respect of this report.

## **10. CONSULTATION IMPLICATIONS**

10.1 None in respect of this report.

## **11. ASSET MANAGEMENT IMPLICATIONS**

11.1 None in respect of this report.

## **12. ENVIRONMENTAL IMPACT IMPLICATIONS**

12.1 None in respect of this report.

**13. LEGAL IMPLICATIONS**

13.1 None in respect of this report.

## Annual Treasury Outturn Report 2014/15

### Introduction

The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that authorities report on the performance of the treasury management function at least twice a year.

The Authority's Treasury Management Strategy for 2014/15 was approved by Full Council on the 26<sup>th</sup> March 2014.

The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.

### External Context

**Growth and Inflation:** The robust pace of GDP growth of 3% in 2014 was underpinned by a buoyant services sector, supplemented by positive contributions from the production and construction sectors. Resurgent house prices, improved consumer confidence and healthy retail sales added to the positive outlook for the UK economy given the important role of the consumer in economic activity.

Annual CPI inflation fell to zero for the year to March 2015, down from 1.6% a year earlier. The key driver was the fall in the oil price (which fell to \$44.35 a barrel a level not seen since March 2009) and a steep drop in wholesale energy prices with extra downward momentum coming from supermarket competition resulting in lower food prices. Bank of England Governor Mark Carney wrote an open letter to the Chancellor in February, explaining that the Bank expected CPI to temporarily turn negative but rebound around the end of 2015 as the lower prices dropped out of the annual rate calculation.

**Labour Market:** The UK labour market continued to improve and remains resilient across a broad base of measures including real rates of wage growth. January 2015 showed a headline employment rate of 73.3%, while the rate of unemployment fell to 5.7% from 7.2% a year earlier. Comparing the three months to January 2015 with a year earlier, employee pay increased by 1.8% including bonuses and by 1.6% excluding bonuses.

**UK Monetary Policy:** The Bank of England's MPC maintained interest rates at 0.5% and asset purchases (QE) at £375bn. Its members held a wide range of views on the response to zero CPI inflation, but just as the MPC was prepared to look past the temporary spikes in inflation to nearly 5% a few years ago, they felt it appropriate not to get panicked into response to the current low rate of inflation. The minutes of the MPC meetings reiterated the Committee's stance that the economic headwinds for the UK economy and the legacy of the financial crisis meant that increases in the Bank Rate would be gradual and limited, and below average historical levels.



Political uncertainty had a large bearing on market confidence this year. The possibility of Scottish independence was of concern to the financial markets, however this dissipated following the outcome of September's referendum. The risk of upheaval (the pledge to devolve extensive new powers to the Scottish parliament; English MPs in turn demanding separate laws for England) lingers on. The highly politicised March Budget heralded the start of a closely contested general election campaign and markets braced for yet another hung parliament.

On the continent, the European Central Bank lowered its official benchmark interest rate from 0.15% to 0.05% in September and the rate paid on commercial bank balances held with it was from -0.10% to -0.20%. The much-anticipated quantitative easing, which will expand the ECB's balance sheet by €1.1 trillion was finally announced by the central bank at its January meeting in an effort to steer the euro area away from deflation and invigorate its moribund economies. The size was at the high end of market expectations and it will involve buying €60bn of sovereign bonds, asset-backed securities and covered bonds a month commencing March 2015 through to September 2016. The possibility of a Greek exit from the Eurozone refused to subside given the clear frustrations that remained between its new government and its creditors.

The US economy rebounded strongly in 2014, employment growth was robust and there were early signs of wage pressures building, albeit from a low level. The Federal Reserve made no change to US policy rates. The central bank however continued with 'tapering', i.e. a reduction in asset purchases by \$10 billion per month, and ended them altogether in October 2014. With the US economy resilient enough to weather the weakness of key trading partners and a strong US dollar, in March 2015 the Fed removed the word "patient" from its statement accompanying its rates decisions, effectively leaving the door open for a rise in rates later in the year.

**Market reaction:** From July, gilt yields were driven lower by a combination of factors: geo-political risks emanating from the Middle East and Ukraine, the slide towards deflation within the Eurozone and the big slide in the price of oil and its transmission through into lower prices globally. 5-, 10- and 20-year gilt yields fell to their lows in January (0.88%, 1.33% and 1.86% respectively) before ending the year higher at 1.19%, 1.57% and 2.14% respectively.

### Local Context

At 31/03/2015 the Authority's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £5.633m, while usable reserves and working capital which are the underlying resources available for investment were £4.198m.

At 31/03/2015, the Authority had £1m of borrowing and £12.166m of investments. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, referred to as internal borrowing.

The Authority has a reducing CFR and its capital expenditure plans do not currently imply any need to borrow over the forecast period. Investments are forecast to fall as capital receipts are used to finance capital expenditure and reserves are used to finance the revenue budget.

The Council has adopted a strategy of using new capital receipts to reduce the CFR, with £1.8m used for this purpose in 2014/15, and a further £1.7m projected reduction through use of receipts in 2015/16.

## Borrowing Strategy

At 31/03/2015 the Authority held £1m of loans, (a decrease of £2.5m on 31/03/2014) as part of its strategy for funding previous years' capital programmes.

The Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.

As short-term interest rates have remained, and are likely to remain at least over the forthcoming two years, lower than long-term rates, the Authority determined it was more cost effective in the short-term to use internal resources and borrow short-term loans instead.

The benefits of internal borrowing were monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose assists the Authority with this 'cost of carry' and breakeven analysis.

Temporary short-dated loans borrowed from other local authorities, has remained affordable and attractive. In February 2015 the Authority re-financed £1m of such loans at a rate of 0.62% for a period of 364 days.

## Borrowing Activity in 2014/15

	Balance on 01/04/2014 £000	Maturing Debt £000	Debt Prematurely Repaid £000	New Borrowing £000	Balance on 31/03/2015 £000	Avg Rate % and Avg Life (yrs)
CFR	7,633				5,633	
Short Term Borrowing <sup>1</sup>	3,500	(3,500)	0	1,000	1,000	0.46% / 0.89 yrs
Long Term Borrowing	0	0	0	0	0	0
<b>TOTAL BORROWING</b>	3,500	(3,500)	0	1,000	1,000	0.46% / 0.89 yrs
Other Long Term Liabilities	0	0	0	0	0	0
<b>TOTAL EXTERNAL DEBT</b>	3,500	(3,500)	0	1,000	1,000	0.46% / 0.89 yrs
Increase/ (Decrease) in Borrowing £m					(2,500)	
<b>INTERNAL BORROWING</b>	4,133				4,633	
<b>TOTAL BORROWING</b>	7,633				5,633	

<sup>1</sup> Loans with maturities less than 1 year.

**Abolition of the PWLB:** In January 2015 the Department of Communities and Local Government (CLG) confirmed that HM Treasury (HMT) would be taking the necessary steps to abolish the Public Works Loans Board. HMT has confirmed however that its lending function will continue unaffected and local authorities will retain access to borrowing rates which offer good value for money. The authority intends to use the PWLB's replacement as a potential source of borrowing if required.

### Investment Activity

The Authority has held significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2014/15 the Authority's investment balances have ranged between £2.749 and £14.989 million.

The Guidance on Local Government Investments in England gives priority to security and liquidity and the Authority's aim is to achieve a yield commensurate with these principles.

### Investment Activity in 2014/15

Investments	Balance on 01/04/2014 £000	Investments Made £000	Maturities/ Investments Sold £000	Balance on 31/03/2015 £000	Avg Rate/Yield (%)
Short term Investments (call accounts, deposits) - Banks and Building Societies with ratings of A- or higher	2,749	76,989	72,082	7,656	0.52%
Money Market Funds	0	18,479	13,969	4,510	0.45%
Building societies without credit ratings	0	2,000	2,000	0	0.47%
<b>TOTAL INVESTMENTS</b>	2,749	97,468	88,051	12,166	0.50%
Increase/ (Decrease) in Investments £m				9,417	

Security of capital has remained the Authority's main investment objective. This has been maintained by following the Authority's counterparty policy as set out in its Treasury Management Strategy Statement for 2014/15.

Counterparty credit quality was assessed and monitored with reference to credit ratings (the Authority's minimum long-term counterparty rating is A- across rating agencies Fitch, S&P and Moody's); credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

## Credit Risk

Counterparty credit quality as measured by credit ratings is summarised below:

Date	Value Weighted Average - Credit Risk Score	Value Weighted Average - Credit Rating	Time Weighted Average - Credit Risk Score	Time Weighted Average - Credit Rating
31/03/2014	6.45	A	6.67	A-
30/06/2014	5.18	A+	5.03	A+
30/09/2014	5.41	A+	4.81	A+
31/12/2014	5.09	A+	5.35	A+
31/03/2015	4.93	A+	4.25	AA-

### Scoring:

-Value weighted average reflects the credit quality of investments according to the size of the deposit

-Time weighted average reflects the credit quality of investments according to the maturity of the deposit

-AAA = highest credit quality = 1

-D = lowest credit quality = 26

-Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security

### Counterparty Update

The European Parliament approved the EU Bank Recovery and Resolution Directive (BRRD) on April 15, 2014. Taking the view that potential extraordinary government support available to banks' senior unsecured bondholders will likely diminish, over 2014-15 Moody's revised the Outlook of several UK and EU banks from Stable to Negative (note, this is not the same as a rating review negative) and S&P placed the ratings of UK and German banks on Credit Watch with negative implications, following these countries' early adoption of the bail-in regime in the BRRD.

S&P also revised the Outlook for major Canadian banks to negative following the government's announcement of a potential bail-in policy framework.

The Bank of England published its approach to bank resolution which gave an indication of how the reduction of a failing bank's liabilities might work in practice. The Bank of England will act if, in its opinion, a bank is failing, or is likely to fail, and there is not likely to be a successful private sector solution such as a takeover or share issue; a bank does not need to be technically insolvent (with liabilities exceeding assets) before regulatory intervention such as a bail-in takes place.

The combined effect of the BRRD and the UK's Deposit Guarantee Scheme Directive (DGSD) is to promote deposits of individuals and SMEs above those of public authorities, large corporates and financial institutions. Other EU countries, and eventually all other developed countries, are expected to adopt similar approaches in due course.

In December the Bank's Prudential Regulation Authority (PRA) stress tested eight UK financial institutions to assess their resilience to a very severe housing market shock and to a sharp rise in interest rates and address the risks to the UK's financial stability. Institutions which 'passed' the tests but would be at risk in the event of a 'severe economic downturn' were Lloyds Banking Group and Royal Bank of Scotland. Lloyds Banking Group, [whose constituent banks are on the Authority's lending list], is taking measures to augment capital and the PRA does not require the group to submit a revised capital plan. RBS, which is not on the Authority's lending list for

investments, has updated plans to issue additional Tier 1 capital. The Co-operative Bank failed the test.

The European Central Bank also published the results of the Asset Quality Review (AQR) and stress tests, based on December 2013 data. 25 European banks failed the test, falling short of the required threshold capital by approximately €25bn (£20bn) in total - none of the failed banks featured on the Authority's lending list.

In October following sharp movements in market signals driven by deteriorating global growth prospects, especially in the Eurozone, Arlingclose advised a reduction in investment duration limits for unsecured bank and building society investments to counter the risk of another full-blown Eurozone crisis. Durations for new unsecured investments with banks and building societies which were previously reduced. Duration for new unsecured investments with some UK institutions was further reduced to 100 days in February 2015.

### **Budgeted Income and Outturn**

The average cash balances were £14.165m during the year including S106 Hinkley funds. The UK Bank Rate has been maintained at 0.5% since March 2009. Short-term money market rates have remained at relatively low levels (see Table 1 in Appendix 2). New deposits were made at an average rate of 0.52%. Investments in Money Market Funds generated an average rate of 0.45%.

The Authority's General Fund budgeted investment income for the year was £0.015m. The Authority's investment outturn for the year was £0.014m. NB £0.051m of investment income has been achieved during the year and allocated to the Hinkley S106 funds.

### **Compliance with Prudential Indicators**

The Authority confirms compliance with its Prudential Indicators for 2014/15 (see Appendix 1), which were set in March 2014 as part of the Authority's Treasury Management Strategy Statement.

### **Treasury Management Indicators**

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

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

	2014/15	2015/16	2016/17
Upper limit on fixed interest rate exposure	100%	100%	100%
Actual	100%		
Upper limit on variable interest rate exposure	100%	100%	100%
Actual	0%		

**Maturity Structure of Borrowing:** This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Upper	Lower	Actual
Under 12 months	100%	0%	100%
12 months and within 24 months	100%	0%	0%
24 months and within 5 years	100%	0%	0%
5 years and within 10 years	100%	0%	0%
10 years and above	100%	0%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

**Principal Sums Invested for Periods Longer than 364 days:** The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2014/15	2015/16	2016/17
Limit on principal invested beyond year end	£6m	£6m	£6m
Actual	£0m	£0m	£0m

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

	Target	Actual
Portfolio average credit rating	A-	A+

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

	<b>Target</b>	<b>Actual</b>
Total cash available within 3 months	£1.5m	£5.3m

**Investment Training**

During 2014/15 staff attended seminars and conferences provided by Arlingclose Ltd.

**Prudential Indicators 2014/15**

The Local Government Act 2003 requires the Authority to have regard to CIPFA's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

**Estimates of Capital Expenditure:** The Authority's planned capital expenditure and financing may be summarised as follows.

Capital Expenditure and Financing	2014/15 Actual £000	2015/16 Estimate £000	2016/17 Estimate £000
General Fund	2,457	790	0
<b>Total Expenditure</b>	<b>2,457</b>	<b>790</b>	<b>0</b>
Capital Receipts	562	472	0
Grants	1,895	241	0
Revenue	0	77	0
<b>Total Financing</b>	<b>2,457</b>	<b>790</b>	<b>0</b>

**Estimates of Capital Financing Requirement:** The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose.

Capital Financing Requirement	31.03.15 Actual £m	31.03.16 Estimate £m	31.03.17 Estimate £m
General Fund	5.633	3.707	3.559
<b>Total CFR</b>	<b>5.633</b>	<b>3.707</b>	<b>3.559</b>

The CFR is forecast to fall by £2.216m over the next three years as capital expenditure financed by debt is outweighed by resources put aside for debt repayment.



**Gross Debt and the Capital Financing Requirement:** In order to ensure that over the medium term debt will only be for a capital purpose, the Authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Debt	31.03.15 Actual £m	31.03.16 Estimate £m	31.03.17 Estimate £m
Borrowing	1	0	0
<b>Total Debt</b>	<b>1</b>	<b>0</b>	<b>0</b>

Total debt is expected to remain below the CFR during the forecast period.

The actual debt levels are monitored against the Operational Boundary and Authorised Limit for External Debt, below.

**Operational Boundary for External Debt:** The operational boundary is based on the Authority's estimate of most likely, i.e. prudent, but not worst case scenario for external debt.

Operational Boundary	2014/15 £m	2015/16 £m	2016/17 £m
Borrowing	7.7	7.7	7.7
<b>Total Debt</b>	<b>7.7</b>	<b>7.7</b>	<b>7.7</b>

**Authorised Limit for External Debt:** The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	2014/15 £m	2015/16 £m	2016/17 £m
Borrowing	10	10	10
<b>Total Debt</b>	<b>10</b>	<b>10</b>	<b>10</b>

**Ratio of Financing Costs to Net Revenue Stream:** This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2014/15 Actual %	2015/16 Estimate %	2016/17 Estimate %
General Fund	3.26	4.33	2.82

**Incremental Impact of Capital Investment Decisions:** This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the capital programme proposed.

Incremental Impact of Capital Investment Decisions	2014/15 Estimate £	2015/16 Estimate £	2016/17 Estimate £
General Fund - increase in annual Band D Council Tax	0.00	0.00	0.00

**Adoption of the CIPFA Treasury Management Code:** The Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* in March 2012.

**Money Market Data and PWLB Rates**

*The average, low and high rates correspond to the rates during the financial year rather than those in the tables below.*

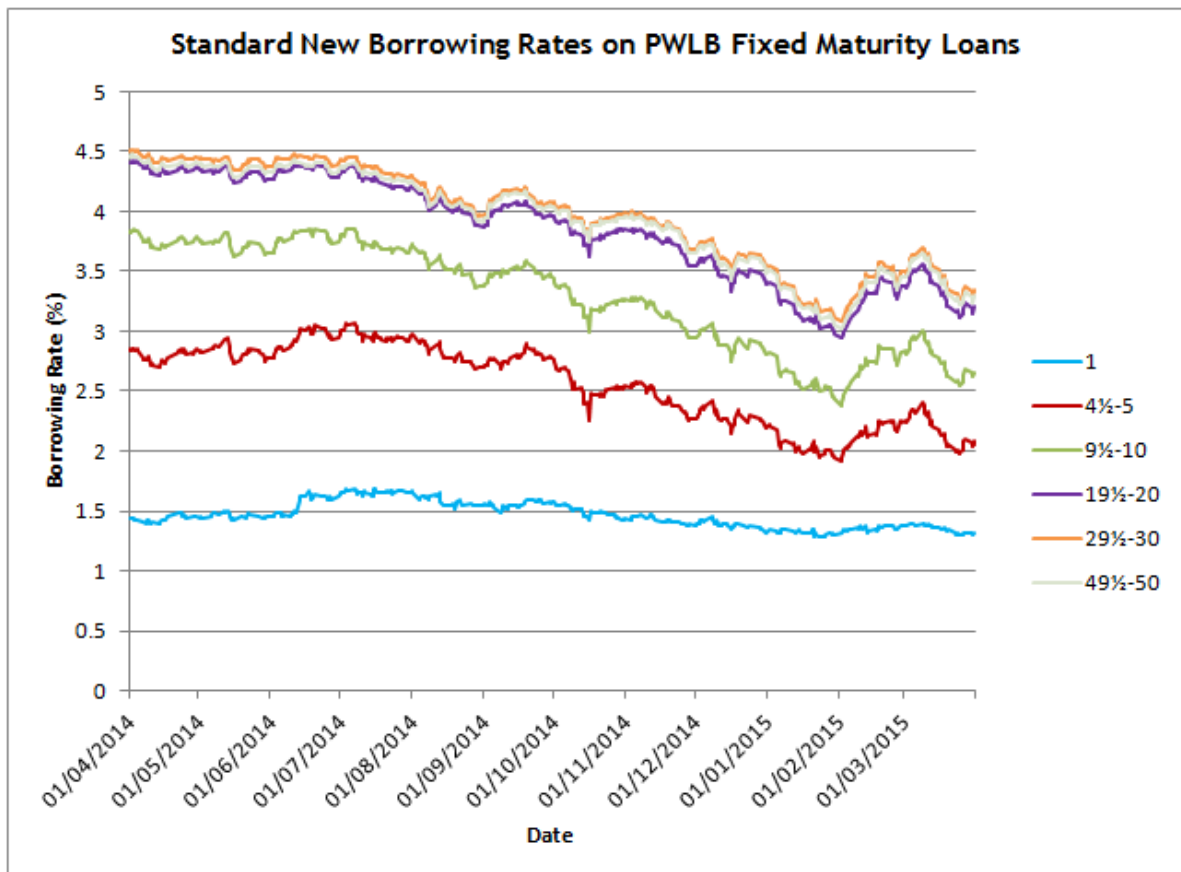
*Please note that the PWLB rates below are Standard Rates. Authorities eligible for the Certainty Rate can borrow at a 0.20% reduction.*

**Table 1: Bank Rate, Money Market Rates**

Date	Bank Rate	O/N LIBID	7-day LIBID	1-month LIBID	3-month LIBID	6-month LIBID	12-month LIBID	2-yr SWAP Bid	3-yr SWAP Bid	5-yr SWAP Bid
01/04/2014	0.50	0.36	0.39	0.42	0.46	0.56	0.84	1.05	1.44	2.03
30/04/2014	0.50	0.36	0.40	0.42	0.47	0.57	0.85	1.09	1.47	2.02
31/05/2014	0.50	0.35	0.40	0.43	0.48	0.67	0.87	1.11	1.46	1.98
30/06/2014	0.50	0.36	0.40	0.43	0.50	0.71	0.94	1.33	1.70	2.17
31/07/2014	0.50	0.37	0.41	0.43	0.50	0.72	0.97	1.34	1.71	2.17
31/08/2014	0.50	0.36	0.42	0.43	0.50	0.77	0.98	1.22	1.53	1.93
30/09/2014	0.50	0.43	0.45	0.43	0.51	0.66	1.00	1.25	1.57	1.99
31/10/2014	0.50	0.40	0.43	0.43	0.51	0.66	0.98	1.10	1.38	1.78
30/11/2014	0.50	0.35	0.50	0.43	0.51	0.66	0.97	0.93	1.15	1.48
31/12/2014	0.50	0.43	0.48	0.42	0.51	0.66	0.97	0.92	1.12	1.44
31/01/2015	0.50	0.45	0.45	0.43	0.51	0.66	0.95	0.83	0.98	1.18
28/02/2015	0.50	0.43	0.47	0.43	0.51	0.66	0.96	0.99	1.22	1.53
31/03/2015	0.50	0.50	0.62	0.43	0.51	0.74	0.97	0.88	1.06	1.34
<b>Average</b>	0.50	0.39	0.44	0.43	0.50	0.67	0.95	1.09	1.38	1.79
<b>Maximum</b>	0.50	0.50	0.62	0.43	0.51	0.81	1.00	1.38	1.77	2.26
<b>Minimum</b>	0.50	0.24	0.36	0.42	0.46	0.56	0.84	0.80	0.96	1.18
<b>Spread</b>	--	0.26	0.26	0.01	0.05	0.25	0.16	0.58	0.81	1.08

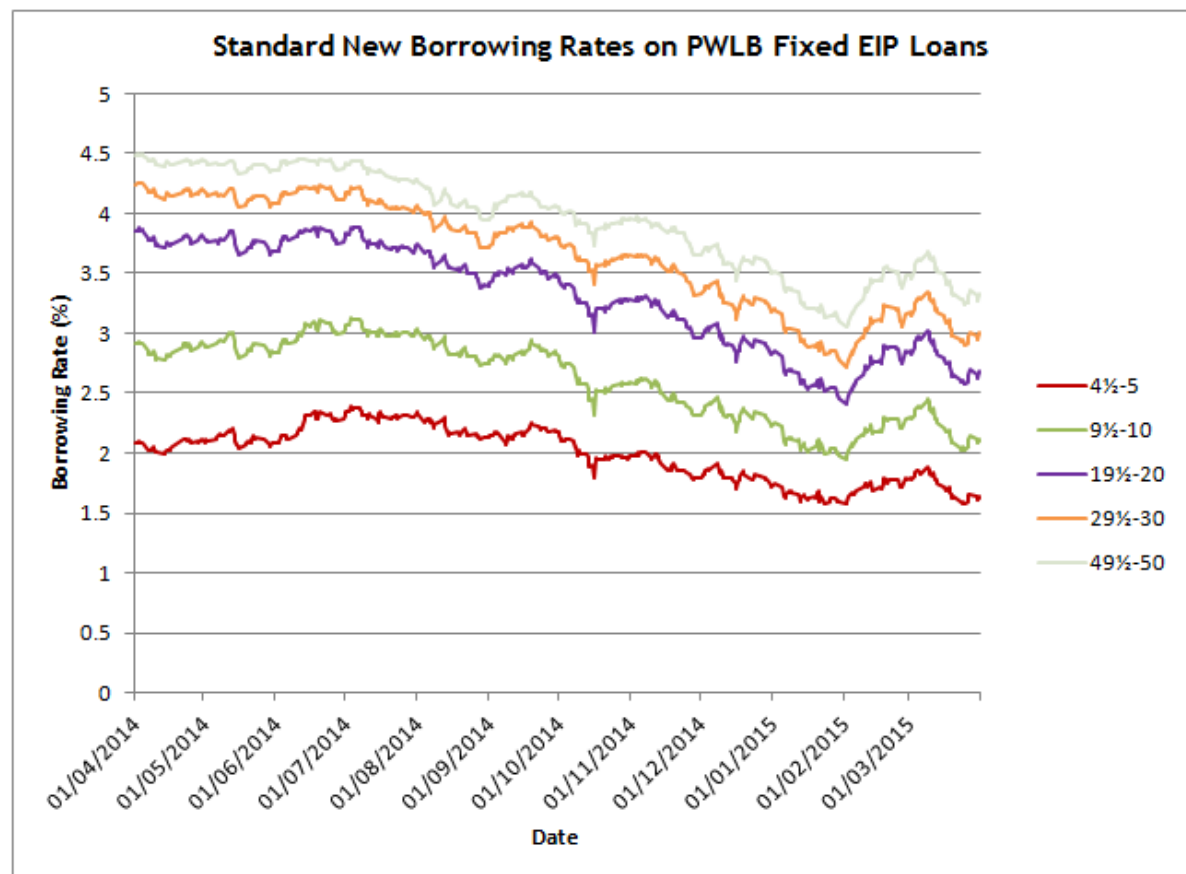
**Table 2: PWLB Borrowing Rates - Fixed Rate, Maturity Loans**

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2014	127/14	1.44	2.85	3.83	4.41	4.51	4.49	4.47
30/04/2014	166/14	1.45	2.86	3.79	4.37	4.46	4.43	4.41
31/05/2014	206/14	1.45	2.78	3.65	4.27	4.38	4.35	4.33
30/06/2014	248/14	1.63	2.95	3.74	4.30	4.40	4.36	4.34
31/07/2014	294/14	1.66	2.96	3.70	4.21	4.30	4.27	4.25
31/08/2014	334/14	1.55	2.70	3.38	3.88	3.97	3.94	3.93
30/09/2014	378/14	1.57	2.77	3.46	3.96	4.07	4.05	4.03
31/10/2014	424/14	1.44	2.54	3.27	3.86	3.99	3.97	3.96
30/11/2014	465/14	1.39	2.27	2.94	3.54	3.68	3.66	3.65
31/12/2014	508/14	1.32	2.19	2.80	3.39	3.53	3.50	3.49
31/01/2015	042/15	1.30	1.94	2.44	2.98	3.12	3.08	3.06
28/02/2015	082/15	1.37	2.24	2.83	3.37	3.50	3.46	3.45
31/03/2015	126/15	1.31	2.06	2.65	3.20	3.33	3.29	3.28
	Low	1.28	1.91	2.38	2.94	3.08	3.03	3.02
	Average	1.47	2.56	3.28	3.85	3.96	3.93	3.92
	High	1.69	3.07	3.86	4.42	4.52	4.49	4.48



**Table 3: PWLB Borrowing Rates - Fixed Rate, Equal Instalment of Principal (EIP) Loans**

Change Date	Notice No	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2014	127/14	2.09	2.92	3.85	4.24	4.42	4.49
30/04/2014	166/14	2.12	2.93	3.82	4.20	4.38	4.45
31/05/2014	206/14	2.08	2.84	3.68	4.08	4.27	4.36
30/06/2014	248/14	2.29	3.01	3.76	4.12	4.30	4.38
31/07/2014	294/14	2.32	3.02	3.73	4.05	4.21	4.28
31/08/2014	334/14	2.13	2.75	3.40	3.72	3.89	3.95
30/09/2014	378/14	2.18	2.82	3.48	3.79	3.97	4.05
31/10/2014	424/14	1.97	2.59	3.29	3.66	3.86	3.96
30/11/2014	465/14	1.79	2.31	2.96	3.32	3.54	3.65
31/12/2014	508/14	1.72	2.23	2.82	3.17	3.39	3.50
31/01/2015	042/15	1.59	1.98	2.45	2.77	2.99	3.10
28/02/2015	082/15	1.78	2.29	2.84	3.16	3.38	3.48
31/03/2015	126/15	1.62	2.10	2.67	2.99	3.21	3.31
	Low	1.58	1.94	2.40	2.72	2.95	3.06
	Average	1.99	2.61	3.31	3.66	3.85	3.94
	High	2.39	3.13	3.89	4.26	4.43	4.50



**Table 4: PWLB Variable Rates**

	1-M Rate	3-M Rate	6-M Rate	1-M Rate	3-M Rate	6-M Rate
	Pre-CSR	Pre-CSR	Pre-CSR	Post-CSR	Post-CSR	Post-CSR
01/04/2014	0.55	0.56	0.57	1.45	1.46	1.47
30/04/2014	0.55	0.56	0.57	1.45	1.46	1.47
31/05/2014	0.55	0.57	0.58	1.45	1.47	1.48
30/06/2014	0.59	0.61	0.67	1.49	1.51	1.57
31/07/2014	0.58	0.61	0.69	1.48	1.51	1.59
31/08/2014	0.58	0.62	0.72	1.48	1.52	1.62
30/09/2014	0.64	0.68	0.75	1.54	1.58	1.65
31/10/2014	0.61	0.63	0.68	1.51	1.53	1.58
30/11/2014	0.58	0.64	0.69	1.48	1.54	1.59
31/12/2014	0.60	0.62	0.66	1.50	1.52	1.56
31/01/2015	0.59	0.60	0.65	1.49	1.50	1.55
28/02/2015	0.61	0.61	0.66	1.51	1.51	1.56
31/03/2015	0.62	0.62	0.66	1.52	1.52	1.56
<b>Low</b>	0.55	0.56	0.57	1.45	1.46	1.47
<b>Average</b>	0.59	0.61	0.66	1.49	1.51	1.56
<b>High</b>	0.64	0.68	0.76	1.54	1.58	1.66

*Report Number:* WSC 106/15  
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*Report to a Meeting of:* Audit Committee  
*To be Held on:* 6 July 2015  
*Date Entered on Executive Forward Plan* N/A  
*Or Agreement for Urgency Granted:*

## DEBT ANALYSIS – AS AT 31 MARCH 2015

### 1. PURPOSE OF REPORT

- 1.1 To provide the Audit Committee with an update on the level of debts outstanding to the Authority as at 31<sup>st</sup> March 2015.

### 2. CONTRIBUTION TO CORPORATE PRIORITIES

- 2.1 The Council's debt position links to the Local Democracy priority of achieving financial sustainability.

### 3. RECOMMENDATIONS

- 3.1 That Audit Committee note the information contained within the report.

### 4. RISK ASSESSMENT

#### Risk Matrix

Description	Likelihood	Impact	Overall
That the Council does not put in place appropriate arrangements to recover monies that are owed to the Authority.	3	4	12
<i>Continued collection of debt following the procedures and arrangements the Authority has in place.</i>	2	3	6
That from 1 <sup>st</sup> April 2013 there is a detrimental financial impact on the Council due to unpaid Business Rates.	4	4	16
<i>Continued collection of debt following the procedures and arrangements the Authority has in place.</i>	2	3	6

The scoring of the risks identified in the above table has been based on the scoring matrix. Each risk has been assessed and scored both before the mitigation measures have been actioned and after they have.

- 4.1 As the table shows, the arrangements in place in respect of income collection has a positive impact on mitigating the identified risks.

## 5. **BACKGROUND INFORMATION**

- 5.1 Analysis of the Authority's current level of debt used to form part of the Corporate Performance Report presented to Members on a quarterly basis. During discussions it was suggested by the then current Section 151 Officer that scrutiny of these debts would be better undertaken by the Audit Committee separately. Therefore set out below are details of the different streams of debt owed to the Authority as at 31<sup>st</sup> March 2015, comparing this to what was outstanding as at 31<sup>st</sup> March 2014 (the previous year).

### **Corporate (Sundry) Debts**

<b>Age of debt</b>	<b>Amount Outstanding As At 31 March 2015 (£)</b>	<b>Amount Outstanding As At 31 March 2014 (£)</b>
Less than 3 months	77,109	248,190
3 to 6 months	20,483	11,149
6 months to 1 year	20,225	11,284
Over 1 year	107,007	139,584
<b>Total Balance</b>	<b>224,824</b>	<b>410,207</b>

- 5.2 Sundry Debts are a mixture of all different invoices raised by Council departments. Some examples are licencing fees, water testing charges, rent and building control charges. For the Council's cash flow/income streams it is important (with the help of the corporate recovery department) that staff and managers are fully aware of any unpaid cases and swiftly follow up action is undertaken to recoup the amount owed.
- 5.3 The newest debts (less than three months) show a significant reduction. Much of this reduction was as a consequence of an invoice for £167,293 that was paid by Taunton Deane Borough Council in April. If this amount is disregarded, we retain a comparable figure with the previous year at £81k.
- 5.4 The oldest debts (over six months) show a healthy decrease of £23k in comparison to the previous year.
- 5.5 The chasing of these old debts through both the teams that issue the invoices and the recovery service continues to work well. In extreme cases when payment is not made, a County Court Judgement is obtained. This further course of action is at the discretion of the Senior Recovery Officer after liaison with the service area and/or the legal department. The exception to this relates to Housing debts, where after initial recovery action it is current Council policy to pursue further anything over £450.00 through the County Court and write off anything below this amount.
- 5.6 For the whole financial year, a total of £32,645.70 has been written off against old corporate debts, with the majority of cases being Housing debts. To put this amount in context over £1.4 million is raised in invoices each year.

It can be confirmed that 100% of the £32,645.70 has been charged to the write off provision already included in the authority's Statement of Accounts. This amount also includes a high individual write off from Economic Development of £13,024 for a company that ceased trading so no longer could be pursued. In accordance with the Council's Financial Regulations this large write off was agreed by Cabinet.



### Housing Benefit Overpayments

	<b>Figures at 31 March 2015 (£)</b>	<b>Figures at 31 March 2014 (£)</b>
Overpayments Created over whole year	633,225	513,382
Debts being recovered automatically from system via ongoing entitlement to Housing Benefit	383,263	308,362
Debts being recovered from former claimants (Manual Invoices)	187,017	148,886
Write Offs	10,120	9,664
<b>Total Outstanding</b>	<b>532,873</b>	<b>497,264</b>

- 5.7 The collection rate of 50.45% a new all-time record, exceeds the target of 43% even though the collectable debit increased by £154k in the final quarter.
- 5.8 It should also be noted that previous years' collection figures have already excelled in comparison to the thirteen members of the South West Overpayments Liaison Group. Last year we were commended as one of the top performing Councils in the country for overpayment collection by the Department of Works and Pensions.
- 5.9 Unfortunately the table above clearly shows that overpayment creation continues to rise with £633k in overpayments being created in 2014 - an increase of £120k in comparison to the previous year. However, due to good recovery performance, the total outstanding has only increased by £35k. The increase is mainly due to the Benefits Team now receiving new information for both pensions and earnings from the Inland Revenue. This data is called Real Time Information (RTI) and in some cases these changes can be backdated many years and have led to a substantial increase in identified overpayments. In a few instances very large overpayments have been created.
- 5.10 Because of this significant increase in overpayments it follows that the automatic collection of overpayments through the Northgate system has increased by £75k this year from £308k to £383k.
- 5.11 Recovery officer collection has peaked at new levels collecting £187k, an increase of £39k. Officer resource has continually been directed at this income stream because the Council benefits financially. It should be noted that we receive income through benefit subsidy on most overpayments and with repayments from customers it is possible to receive more money than the original overpayment. For 2014/15 the Council received £184k in subsidy and collected £570k (£383k + £187k) against overpaid benefit of £633k. Consequently, we derived surplus income due to government subsidy of £121k.
- 5.12 Write off levels remain at very low levels with just £4,743 being written off this quarter and only £10,120 in the whole year. This compares favourably to last year's total write off figure of £9,664. It is notable that the total amount written off equates to less than 2% when compared to the outstanding debt (£532,873). To allow context, Sedgemoor wrote off £250k in 2014/15 for old debts, while statistics from our liaison group highlight a much higher write off levels of between 4-7% a year.

## Council Tax Debts

Year from 1 April to 31 March	Amount Outstanding As At 31 March 2015 (£)	Amount Outstanding As At 31 March 2014 (£)	Reduction (£)
Pre 2008	26,004	120,781	94,777
2008	34,535	48,336	13,801
2009	20,610	41,296	20,686
2010	53,385	81,429	28,044
2011	73,835	113,783	39,948
2012	116,903	194,344	77,441
2013	268,083	637,492	369,409
<b>Total (Old)</b>	<b>593,355</b>	<b>1,237,461</b>	<b>644,106</b>
2014	526,445	19,941,907	19,415,462
<b>Total (All)</b>	<b>1,119,800</b>	<b>21,179,368</b>	<b>20,059,568</b>

- 5.13 The table above reflects that all old debt years have decreased with a total reduction of £644,106. The opening debit in 2013/14 was £18,716,143 compared to an opening debit in 2014/15 of £19,941,907 and of this large annual billing figure, only **£526,445** remains uncollected at year end. This compares more than favourably with the previous year as £637,492 was outstanding. This reduction is reflected in the increased collection rate.
- 5.14 The end of year collection rate was 97.25%. This surpassed last year's collection total of 96.90%, and exceeded the in-year target of 97%. It is now appropriate to compare collection rates with previous years with all the changes coming in on 1 April 2013. As a reminder, detailed below are some of the factors that have increased the risk of both delays and the possibility of non-collection:
- 15% Council Tax now payable by 1,433 working age claimants (many of whom paid nothing prior to 1 April 2013)
  - A full Council Tax charge for owners of empty properties after 1 month (they were previously entitled to a 6 months empty exemption)
  - 150% premium for long term empty properties (an increase of 50%)
- 5.15 The small Recovery team only has a finite amount of resource and workloads in recent times have dramatically increased, with a peak of over 1,700 cases beyond Liability Order stage with a current balance of £859k. Current caseload is around 1,500 and this figure can be broken down into eight specific recovery areas with the actual case numbers, values and monetary value as a percentage quoted below:
- Enforcement Agent/Bailiff (or awaiting) 764 cases value £511k (59%)
  - No Trace 188 cases value £102k (12%)
  - Arrangement 258 cases value £111k (13%)
  - Possible Committal 38 cases value £48k (6%)
  - Write-Off 3 cases value £2k (less than 1%)
  - On Hold 165 cases value £61k (7%)
  - Attachment of Earnings 19 cases value £11k (1%)
  - Attachment of Benefits 59 cases value £13k (2%).

The employment of the enforcement agents (EA) offering free collection to the Council remains the most cost effective way to collect from a majority of cases where there has been no or little contact and also where previously agreed arrangements have been defaulted on. This is reflected in the above figures with well over half the arrears caseload being referred onto them. Their fees have now all been standardized and are detailed in statute with £75.00 being incurred as soon as a case is sent to them. A further fee of £235.00 can only be charged once for the first and subsequent visits, even if multiple cases are held.

The Council continues to have an active committal programme for the recovery of large debts as a last resort. A handful of selective cases are taken before the Somerset Magistrates each

year. This action has been very successful with only a few liability remissions and a majority of cases either paying in full or subjective to payment arrangements imposed by the court with a suspended prison sentence.

Bankruptcies are also taken against individuals but only in extreme cases and where all other recovery avenues have been considered.

- 5.16 A few areas of concerns have been highlighted by the recovery team for review in an effort to make the service both more efficient and enhance ongoing collection rates:
- The large number and monetary value of gone away/no trace cases. This has more recently been reduced from a peak of 252 cases with a value of £149k to 188 cases with a value of £102k. A project is now in place and continues to reduce these numbers further. Staff are currently being trained on a new Experian tracing product (Citizen View Plus) and this should enhance both the speed and the level of tracing achieved.
  - The increase and monitoring of on hold cases (a lot of small balance cases). The currently 165 cases with a value of £61k. Again this has also been highlighted for action in the previous quarter, however, it has only dropped by a small number of cases although it is hoped significant reductions by the next quarter.
  - The stricter monitoring of arrangement cases. In the last quarter we had 410 cases with a value of £154k and this has reduced to 258 cases with a value of £111k. This is due to bringing in a more stringent cancellation period with arrangements now being sent cancellation letters after only being 7 days in arrears (previously 40 days).
  - The completing of Enforcement Agent return work, it was reported in the last quarter that this figure was dramatically reduced from a peak of 200 work items to a handful of cases and this remains the case.
  - The large amount of post outstanding this has peaked in the last year at over 1,200 items and recovery action was held on all accounts with a post item. A backlog busting plan was put in place to tackle this large amount of post and to stop the recovery holds on accounts. This plan has been successful with 328 items of post outstanding on 31 March and recovery holds are no longer put in place to stop reminders. The post is also much more up to date with the oldest less than a month old.
- 5.17 Benchmarking continues to be carried out with the five Somerset Authorities and West Somerset is comparable.
- 5.18 Write offs are now undertaken on a quarterly basis. This year a total of £131,379.95 in liabilities and £9,354.95 in court costs have been written off. As shown in the table above the old debt figure over the last 12 months has reduced by £644,106. The total of these write offs (£140,734.90) equates to 21% of this old debt reduction. It should be noted we are currently removing a significant number of historic cases with no forwarding address resulting in more write offs than usual. Also last year the Valuation Office Agency backdating a band H domestic assessment for a hospital going back to 1995 and we were unable to bill the liable party. This resulting in Cabinet needing to agree a £34k write off.

### Business Rates Debts

Year from 1 April	Amount Outstanding As At 31 March 2015 (£)	Amount Outstanding As At 31 March 2014 (£)	Reduction (£)
Pre 2008	3,998	3,517	(481)
2008	2,338	4,998	2,660
2009	4,928	3,828	(1,100)
2010	8,727	17,203	8,476
2011	27,648	49,960	22,312
2012	75,658	111,515	35,857
2013	112,463	184,365	71,902
<b>Total (Old)</b>	<b>235,760</b>	<b>375,386</b>	<b>139,626</b>
2014	174,123	12,812,724	12,638,601
<b>Total (All)</b>	<b>409,883</b>	<b>13,188,110</b>	<b>12,778,227</b>

- 5.21 The table above reflects all old debt years have decreased with a total reduction of £139,626. The opening debit in 2013/14 was £11,662,403 compared to an opening debit in 2014/15 of £12,812,724 and of this large annual billing figure only **£174,123** remains uncollected at year end. This compares more than favourably with the previous year, with £184,365 outstanding in 2013 and this is reflected in the increased collection rate.
- 5.22 As previously reported, Business Rate Collection is closely monitored and although it was below target throughout the year due to the increase from 10 to 12 monthly payments, we were confident it would exceed the in-year target of 98%. The collection rate in 2014/15 was 98.50% giving us the best in-year collection rate achieved since records began in 2006.
- 5.23 The dip in the collection rate experienced throughout last year was more notable because six of West Somerset's largest payers (Hinkley Point , Butlins, Morrisons, Tesco, Watchet Paper Mill and Doniford Bay Holiday Park) took up the legal option of paying over twelve months (instead of ten) thus having a major influence on the Council's cash flow levels. The twelve monthly regulation only came in on Business Rates on 1 April 2014, therefore, it is now appropriate to compare monthly collection rates going forward. Further analysis has now taken place to confirm although only 4.8% (93 of our 1912 ratepayers) opted for twelve monthly payments, in Rateable Value terms it relates to over 16 million of the 31 million total. This equates to nearly 52% of the value opted for a longer payment term. In monetary terms it relates to £1.3 million (that would have been paid by January) now being collected over February and March instalments - this is why the collection rate picked up dramatically in the final quarter.
- 5.24 The overall levels of overall debts have risen and balances subject to further court action (beyond Liability Order stage) have increased from last year £120k to £192k.
- 5.25 Due to retention (the possible financial losses to the Council mentioned below by the Finance Manager) and the fact that there are only 44 business rate recovery cases, when compared to the large number of Council Tax accounts, these cases are monitored to a much greater degree. The £192k can be broken down into five specific recovery areas with the actual case numbers, values and monetary value as a percentage:
- Enforcement Agent/Bailiff (or awaiting) 18 cases £116k (60%)
  - Arrangement 13 cases £37k (19%)
  - Possible Committal 5 cases £23k (12%)
  - On Hold 5 cases £12k (6%)
  - No Forwarding 3 cases £4k (2%).

- 5.26 Write offs are now undertaken on a quarterly basis. This year a total of £8,646.96 in liabilities and £147.00 in court costs have been written off. As shown in the table above the old debt figure over the last 12 months has been reduced by £139,626. The total of these write offs (£8,793.96) equates to 6% of this old debt reduction.
- 5.27 As at 31 March 2015 78 cases (4% when compared to all the 1900 commercial assessments) were under appeal totalling nearly 16 million in Rateable Value which amounts to over half the total RV of 31 million.

## **6. FINANCIAL/RESOURCE IMPLICATIONS**

- 6.1 Clearly the collection of income and debts due to the authority is very important as the Net Budget for provision of services includes assumptions and targets for income. Where costs are not covered by general grant funding or Council Tax, the customer pays additional fees and charges as set by the Council. This income is therefore necessary for the provision of services. Failure to collect debts could eventually lead to losses which would be a cost to the General Fund, and therefore adversely affect reserve balances.
- 6.2 As the billing authority for Council Tax and Business Rates, we also collect taxation income that is due to be paid over to Central Government, the County Council, Police and Fire authorities. Failure to collect these monies will affect this Council's funding, but also that of these other organisations.
- 6.3 The risk of non-collection is assessed each year as part of the financial year end arrangements, with some provision made for potential losses, however the Council's takes all possible action to avoid non-collection. Debt write-off is very much a last resort.

## **7. COMMENTS ON BEHALF OF SECTION 151 OFFICER**

- 7.1 Levels of debt can adversely affect the Council's cash flow as well as the underlying funding position as described above. As such all debt is actively managed to keep outstanding amounts to a minimum.
- 7.2 The risk in respect of cash flow and non-collection is greater than previous years following the introduction of Business Rates Retention, as the payments of Standard Shares in Business Rates to Government, County and Fire authorities is based on budget estimates. As from 1st April 2013 the Council also has to bear 40% of the costs of any debts written off in respect of Business Rates.

## **8. EQUALITY & DIVERSITY IMPLICATIONS**

**Members need to demonstrate that they have consciously thought about the three aims of the Public Sector Equality Duty as part of the decision making process.**

The three aims the authority **must** have due regard for:

- Eliminate discrimination, harassment, victimisation
- Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it

- 8.1 None in respect of this report.

## **9. CRIME AND DISORDER IMPLICATIONS**

- 9.1 None in respect of this report.

## **10. CONSULTATION IMPLICATIONS**

10.1 None in respect of this report.

**11. ASSET MANAGEMENT IMPLICATIONS**

11.1 None in respect of this report.

**12. ENVIRONMENTAL IMPACT IMPLICATIONS**

12.1 None in respect of this report.

**13. LEGAL IMPLICATIONS**

13.1 None in respect of this report.