



Members of the Audit Committee:  
(Councillors R P Lillis (Chairman), T Venner (Vice Chairman),  
D Archer, N Thwaites, R Thomas, R Woods, A Behan)

Our Ref Democratic Services  
Contact: Marcus Prouse mprouse@tauntondeane.gov.uk

Date 28th November 2016

**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: Tuesday 6 December 2016**  
**Time: 2.00 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 December at 2.00 pm**

**Council Chamber, West Somerset House, Williton**

1. **Apologies for Absence**

2. **Minutes**

Minutes of the Meeting of the Committee held on 19 September 2016– **SEE ATTACHED.**

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 Action Plan**

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

6. **Audit Committee Forward Plan**

To review the Audit Committee Forward Plan 2017 – **TO FOLLOW.**

7. **A. Grant Thornton External Audit – Annual Audit Letter 15/16**

To consider Report No WSC 138/16 to be presented by Peter Barber, Appointed Auditor from Grant Thornton – **SEE ATTACHED**

The purpose of the report is to provide a regular update report for the Audit Committee by our external auditors, Grant Thornton. Specifically the report summarises the key findings arising from the work that they have carried out at West Somerset Council for the year ended 31 March 2016.

8. **Grant Thornton External Audit – External Audit Update**

To consider Report No WSC 139/16 to be presented by Peter Barber, Appointed Auditor from Grant Thornton – **SEE ATTACHED**.

The purpose of the report is to provide the Audit Committee with a report on progress in delivering the responsibilities as the external auditors of the Council.

**9. Grant Thornton Certification Report**

To consider Report No WSC 140/16 to be presented by Peter Barber, Appointed Auditor from Grant Thornton– **SEE ATTACHED**.

The purpose of the report is to certify certain claims and returns submitted to West Somerset Council. This certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

**10. SWAP Internal Audit – Progress Update 2015/16**

To consider Report No WSC 141/16 to be presented by Alastair Woodland, Audit Manager, South West Audit Partnership – **SEE ATTACHED**.

The purpose of the report is to provide the Audit Committee with an update on the Internal Audit Plan 2016-17 progress and bring to their attention any significant findings identified through our work.

**11. 6 Month Review of Treasury Management Activity**

To consider Report No WSC 142/16 to be presented by Steve Plenty, Senior Corporate Accountant – **SEE ATTACHED**.

The purpose of the report is to provide the Audit Committee with an update on the Treasury Management activity of the Council for the first six months of 2016/17. It focuses on a review of the Council's borrowing and investment activities.

**12. Appointment of External Auditors for 2018/19**

To consider Report No WSC 143/16 to be presented by Paul Carter, Assistant Director - Corporate Services – **SEE ATTACHED**.

The purpose of the report is to provide the Audit Committee with an introduction and explanation of the background to the letter received from Public Sector Auditor Appointments (PSAA) regarding the national scheme for appointing external auditors for 2018/19. Details are provided in the report of the various options open to us for appointing our external auditors from 2018/19 onwards.

**13. Update on Corporate Anti-Fraud Partnership**

To consider Report No WSC 144/16 to be presented by Paul Fitzgerald – Assistant Director Resources – **SEE ATTACHED**.

The purpose of the report is to update the Audit Committee with information on our existing arrangements with the South West Counter Fraud Partnership. The Audit Committee is requested to give consideration on future arrangements for Corporate Counter Fraud activities.

## **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 19 September 2016 at 2.00 pm in the Council Chamber, Williton**

#### **Present**

Councillor R Lillis.....Chairman  
Councillor T Venner.....Vice Chairman  
Councillor R Thomas  
Councillor R Woods  
Councillor A Behan

#### **Members In Attendance**

Councillor M Chilcott

#### **Officers In Attendance**

Finance Manager and Deputy s151 Officer (J Nacey)  
Corporate Strategy and Performance Manager (P Harding)  
Senior Corporate Accountant (S Plenty)  
Democratic Services Officer (E Hill)

#### **Also In Attendance**

Peter Barber, Auditor, Grant Thornton  
Kevin Henderson, Manager, Grant Thornton  
Alastair Woodland, Associate Director, South West Audit Partnership (SWAP)

#### **A.14 Apology for Absence**

Apology were received from Councillor Trollope-Bellew

#### **A.15 Minutes**

(Minutes of the Meeting of the Audit Committee held on 21 June 2016 and amended minutes from 21 March 2016, circulated with the Agenda)

The Grant Thornton Audit Manager and Members of the Committee requested the following amendments to minute attached to the agenda. Amendments to minute numbers:

A.7 – bullet point one – the word ‘audit’ was removed and replaced with ‘certification’  
A.13 – bullet point eight – this point was expanded to include discussion surrounding the £2 million borrowing.

**RESOLVED** that the Minutes of the Audit Committee held on 21 June 2016, with the requested amendment be confirmed as a correct record.

**A.16 Declarations of Interest**

<b>Name</b>	<b>Minute No.</b>	<b>Member of</b>	<b>Personal or Prejudicial</b>	<b>Action Taken</b>
Cllr N Thwaites	All	Dulverton	Personal	Spoke and voted
Cllr T Venner	All	Minehead & SCC	Personal	Spoke and voted

**A.17 Public Participation**

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

**A.18 Audit Committee Action Plan**

There was one recorded action from the last meeting on 21 June 2016. This action related to the construction of a letter to SWAP Chief Executive from the Deputy s151 Officer on behalf of the Committee expressing their concerns and requesting a letter of response.

The Officer informed the Committee that this request had not been actioned and that the Officer would complete this request following the meeting and provide an update to Members in due course.

**RESOLVED** that the requested action from 21 June 2016 to be completed by the Deputy s151 Officer, and an update provided to the Committee in due course.

**A.19 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.20 Grant Thornton External Audit – External Audit Update Progress**

(Report No. WSC 106/16, circulated with the Agenda)

This was a regular update report for Members by external auditors, Grant Thornton. Specifically the report provided an update in relation to their work for the 2015/16 financial year and also provided an update in relation to emerging national issues.

The Audit Manager for Grant Thornton outlined the report, which provided an update on the work undertaken to date as at 8 September 2016 and included the status of all the planned audit work for the Council. Additionally, the report shared headlines on some national issues that might have an impact upon the Council.

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

- Members asked how the introduction of the early close down of the Council accounts was going to work and what effect this would have on the Council, and were informed that Officers would need to create a formal procedure and action plan, which would be shared with Elected Members and there was a planned trail run during 2016/17 and 2017/18, which would allow Officers time work out any issues and update the plan. This would be shared with Members.
- Members raised concerns about the lateness of the receipt of the report detailing the Statement of Accounts for the Council, which had not been available until 15th September. This had meant amendments had been made at the last minute, resulting in Members not having enough time to read through the report.
- Members requested that Officers send out a reminder to all Elected Members about the publishing of the 2016/17 draft unaudited accounts and the availability of the unaudited accounts.
- Members were informed by the External Auditors that they could make available to Members of the Committee the checklist document for approval of the Statement of Accounts, which would provide more information to the Committee Members.

**RESOLVED** that the Auditor's update report be noted.

#### **A.21 Grant Thornton External Audit – External Audit Findings**

(Report No. WSC 98/16, circulated with the Agenda).

This short covering report introduced the annual report of the external auditor Grant Thornton. The report also incorporated a review of WSC's financial resilience as a Council.

The Associate Director for Grant Thornton outlined their findings and stated that the unaudited Statement of Accounts 2015/16 was signed off by the Council's S151 Officer in June 2016 within the statutory deadline, and before the start of the external audit review.

The external audit review had been completed and the auditor had indicated their intention to issue an "unqualified opinion" for the Statement of Accounts, as showing a true and fair view of the Council's financial position and performance.

The auditor had also reviewed the council's arrangements to secure efficiency and effectiveness in our use of resources, and provided an opinion in the form of a value for money conclusion. In view of the scale of the financial challenge faced by the Authority, the Auditor had provided a "qualified except for" VFM conclusion. This was due to the concerns surrounding the current Medium Term Financial Plan forecasts.

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

- Members raised concerns about the downgrade in valuation of two Council assets and that the difference in the valuation was concerning due to the high level of money which had been potentially lost.
- In response to a question asking what had changed within the valuation criteria to cause such a change in value, the Committee were informed that the

auditors had brought to the attention of the Officers that the valuation might not be up to date and suggested the re-valuation of the Council's large assets. In the original valuation, these large assets were valued using 'Depreciated Replacement Cost' (DRC) as unique or bespoke properties. The auditors had highlighted this was now incorrect and the assets would need re-valuation on this basis. These Council assets should have been valued at 'Market Value' and not using DRC.

- In response to a question asking how re-valuations of our assets based on 'Market Value' and not DRC would affect those assets which only provide low income streams to the Council such as meetings and community halls, the Committee were informed that the rental agreements for meetings and community halls were classed at peppercorn rent. This was an agreement that the Council had made for the benefit of the community and the peppercorn rent did not reflect the value of the asset.
- Members were informed that the Council had two general types of assets, those properties which were investment properties and delivered a return on that investment and those assets which provided a service to the community such as meetings halls.
- In response to a question asking how often did the Council reassess the value of assets, the Committee were informed that this was a rolling program. In future, assets would be re-valued using the 2015/16 guidelines.
- Members suggested to External Auditors that the section on page 34 which referred to 'Basis for Qualified Conclusion' was an important section and should be brought to the beginning of the report and to the attention of the Committee and other Elected Members. The Committee were informed that on page seven of the report in the executive summary, there was a clear indication of the auditors' opinion and conclusion with regards to the Audit Findings of the auditors.
- Discussion took place regarding the level of explanation and terminology included with the External Auditors report and Members requested that more explanation of terminology be provided.
- Officers confirmed to the Committee that a glossary of terms could be included as well as more detail from the External Auditors report could be included with the covering report produced by the responsible Council Office.

**RESOLVED** that:-

1. The Council's Statement of Accounts and the action plan be noted.
2. The Auditor's qualified value for money conclusion reflecting concerns over financial resilience of the Council be noted

**A. 22 Approval of Statement of Accounts**

(Report No. WSC 99/16, circulated with the Agenda).

The Statement of Accounts for 2015/16 was required to be approved by the Audit Committee and signed by the S151 Officer (Shirlene Adam) and the Chair of the Audit Committee (Councillor R Lillis). The Statement of Accounts document was attached to this report.

The Finance Manager presented the report and gave a brief overview of four main statements contained within the Statement of Accounts under the following headings:

- Movement in Reserves Statement
- Comprehensive Income and Expenditure Statement
- Balance Sheet
- Cash Flow Statement

These statements reflected the Council's position on 31st March 2016. The Finance Manager stated that there had been no material errors relating to previous years, or other material changes to accounting requirements, therefore no further changes to comparative financial details in relation to 2014/15 were needed. There was also a supplementary statement which related to the Collection Fund (which deals with the collection and distribution of Council Tax and Business Rates).

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

- In response to a question asking which service or department was included within the 'Highways and Transport' financial information, the Committee were informed that this included the Council's Car Parks function.
- Members were informed that they could request from the Officer a document called the Budget Book. This document contained the budget information but broken down into more details.

**RESOLVED** that:-

1. The Auditor's unqualified opinion on the 2015/16 Statement of Accounts.
2. The Statement of Accounts 2014/2015 as presented to the Committee be approved; and
3. The Chairman of the Committee and the S151 Officer be authorised to sign off the Statement of Accounts.

### **A.23 SWAP Internal Audit – Audit Plan 2015/16 Plan Progress Update**

(Report No. WSC 100/16, circulated with the Agenda).

The purpose of the report was to update members on the Internal Audit Plan 2016-17 progress and bring to their attention any significant findings identified through our work.

The Audit Manager for SWAP outlined and updated the Audit Committee on the work of the Council's Internal Audit Service and provided details on any new significant weaknesses identified during internal audit work completed since the last report to the committee in June 2016.

A schedule of audits completed during the period, detailing their respective assurance opinion rating, the number of recommendations and the respective priority rankings of these.

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

- In response to a question concerning the operational audit within the Homelessness Service asking why this was still at the draft stage only and why the response from the service manager been delayed, the Committee were informed that there had been sickness within the service, which had caused a delay in completing the suggested actions and the service manager responding to the auditors.
- Members raised concerns that the report stated there was no work planned for quarter three and asked was there a reason for this. The Committee were informed that the audits ran parallel to the Council's financial year and the audits for quarter three had yet to start. Auditors were meeting with relevant service managers to discuss and organise audits for this period. The detail within the report was out of date and things had moved on since this had been produced and published.
- In response to a question asking how the Auditors would monitor and look for fraud while the Council merge into one new Council as well as how they would look for fraud within the new Council, the Committee were informed that the auditor monitored for fraud within each service audit. For the new merged Council, the auditors would be discussing direction and priority with the Service Managers and Joint Management Team (JMT).
- In response to a question asking if there would be continuity within the five year plan for the Council's finances when going from West Somerset Council and merging into the new Council or would there be separation, the Committee were informed that the Council would always need a five year plan for its finances whether it was a single authority or merged authority. But as the Council's got closer to 2019 for the merger, the plan would include the plan for the new Council.

**RESOLVED** that the progress made in delivery of the 2016/17 internal audit plan with the significant findings be noted.

#### **A.24 Assessment of Going Concern**

(Report No. WSC 101/16, circulated with the Agenda).

The purpose of the report was to provide the Audit Committee with the S151 Officer's (Director of Operations) assessment of the Council as a "going concern" for the purposes of producing the Statement of Accounts for 2015/16.

The Finance Manager presented the report, which detailed the main factors underpinning the assessment of the Council's Going Concern were:

- The Council's current financial position,
- Projected financial position,
- Governance arrangements;
- The regulatory and control environment applicable to the Council as a local authority.

Additionally, the report detailed emerging risks that could potentially affect the Council in the following areas:

- NHS claims for Business Rates Discount
- Asset Condition and Compliance Surveys
- Transformation and the Business Cases for change

It was considered that, having regard to the Council's arrangements and such factors as were highlighted in this report, the Council remained a "going concern until at least September 2017 i.e. One year from expected opinion on the Council's 2015/16 financial statements". This assessment would be undertaken annually in the course of preparing the Council's financial statements for each year.

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

- In response to a question asking what effect would the emerging risk of NHS Business Rate claims have on the Council, the Committee were informed that although there had been claims made by the NHS to local authorities, the Officer was not aware of any claims made locally, but there was potential and we would have to mitigate for that.
- In response to a question asking if the opinion of going concern was up to September 2017, what would happen in the financial years 2017/18 and 2018/19, the Committee were informed that the s151 Officer would look at the Council's assessment of Going Concern on a regular basis to monitor any change in the status.
- Members were informed that the current position for the Council's finances during 2017-18 was achievable but it was 2018-19, which would be the challenge for the Council.

**RESOLVED** that the outcome of the assessment made of the Council's status as a "going concern" for the purposes of the draft Statement of Accounts for 2015/16 be noted.

#### **A.25 Summary of Overdue High Priority SWAP Audit Recommendations**

(Report No. WSC 102/16, circulated with the Agenda).

The purpose of the report was to provide the Audit Committee with a position statement on the SWAP audit recommendations for West Somerset Council.

The Corporate Strategy and Performance Manager updated the Audit Committee on those audited areas that had received either a priority 4 and 5 status. These were captured in the register to ensure progress was tracked and progress was reported to JMT and the Audit Committee.

This report highlighted the Priority 4 and 5 audit actions affecting the Council, where the agreed remedial action was overdue. On this occasion there were 2 priority 4 actions, which were overdue but no overdue priority 5 recommendations for the Council.

A summary of the overdue actions was provided as an Appendix to the covering report.

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

- In response to a question asking if bribery was potential risk within procurement and what steps the Council had put in place to prevent this, the Committee were informed that there was a structure for approvals and set expenditure limits within cost codes. Members were informed that the Council is implementing a program of refresher training surrounding procurement and the correct procedures and the relevant limits.
- Members requested that the Officer investigates the possibility of Elected Members having access to the staff intranet site, where all the Council's policies, procedures and information, the Committee were informed that the Officer would investigate access for Members by discussing it with the ICT Manager as well as including access to Officer's calendars through Members emails.

**RESOLVED** that the summary of overdue high priority audit actions be noted.

#### **A.26 Corporate Governance Action Plan**

(Report No. WSC 103/16, circulated with the Agenda).

The purpose of the report was to provide the Audit Committee with an update of progress against the Annual Governance Statement Action Plan.

The Corporate Strategy and Performance Manager presented the report and updated the Audit Committee on the Corporate Governance Action Plan for the Council contained within the Annual Governance Statement (AGS), which was a statutory document.

Included with the covering report was the current action plan, which contained the identified governance issues identified by the Corporate Governance Officers Group.

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

- In response to a question asking if there was any dates arranged for Audit training for Elected Members, the Committee were informed that there was no dates for audit training arranged currently and that they had only run specific training for the Chairman and Vice-Chairman of Corporate Governance as they had only been elected in May 2015 to the TDBC.

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

#### **A.27 Corporate Risk Management Update**

(Report No. WSC 104/16, 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 Risk Register was a 'live' document, which highlighted the key corporate risks facing the Council. The register was a joint one between West Somerset and Taunton Deane and was formally reviewed by JMT on a quarterly basis as part of the corporate performance review day. The last JMT review took place on 19 May 2016 and the next review was scheduled for 30th September 2016.

Those risks which were managed at a corporate level were those which had a significant risk to the delivery of a corporate priority or which were cross-cutting risks that don't naturally sit with a single department or team. These risks had been identified and escalated from other risk registers within the Councils, officer concerns or from external sources.

There were currently 17 strategic risks identified and approved by JMT (13 joint risks 3 TDBC specific risks and 1 WSC Specific Risk).

Mitigating actions had continued to be delivered in respect of the various risks and these were set out in the risk register and would continue in order to manage down the risks to an acceptable level.

An extract of the corporate risk register had been provided with the covering report.

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

- In response to a question asking what would happen at the end date of SWOne contract with those services and staff currently within SWOne, the Committee were informed that the Council had negotiated a phased return of services back to the Council. We would be starting with ICT, which included moving back staff from SWOne. The Council did not want to be in the position where we had no staff or service in place when the contract ceased.
- Members were informed that as part of the negotiations, it had been agreed to have a phased return of services back to the Council. SWOne employees who would return to the Council were working part time on the transformation project and were working to bring back these services into the Council.
- In response to a question asking the SWOne employees who were returning to the Council and were working on the transformation project, what experience and skills did they have in the area of transformation, the Committee were informed that these staff had experience and knowledge within the ICT service including programming, telephones and project management.
- Members were informed if the Council contracted out the work of bringing the ICT service back in house, the daily cost of contractors would be much higher than the experienced former Council staff from SWOne who had gained new skills and knowledge during their time at SWOne.
- Discussion took place as to whether or not just bringing the ICT and others services back in house without investigating other options such as joint working with other local authorities would mean the Council might be missing out on opportunities. The Committee were informed that the Council had looked at other systems through other local authorities, which included Sedgemoor District Council (SDC). There were two sides, equally the Council

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**Audit Committee**

did not want to enter into another contract or delay too much. We must find a balance.

**RESOLVED** that the current position in relation to the identification and tracking of corporate risk be noted.

The meeting closed at 4.37pm.

# West Somerset Council

## Audit Committee – 6 December 2016 External Audit – Annual Audit Letter

This matter is the responsibility of Councillor Mrs Mandy Chilcott

Report Author: Jo Nacey, Finance Manager

### 1 Purpose of the Report

- 1.1 The attached report summarises the key findings from the external audit work carried out in respect of the 2015/16 financial year and details the actual audit fees charged. The Annual Audit Letter for 2015/16 confirms that:
- The Auditors have issued an unqualified opinion in respect of the accounts for 2015/16;
  - A qualified opinion in respect of the Value for Money (VFM) conclusion in view of the financial challenges facing the Council; and
  - The fees charged for 2015/16 were £42,525 for the statutory audit.

### 2 Recommendations

- 2.1 Members are requested to note the report.

### 3 Risk Assessment (if appropriate)

#### Risk Matrix

Description	Likelihood	Impact	Overall
The details of any specific risks are contained in the report			

### 4 Background and Full details of the Report

- 4.1 The Council's external audit function is undertaken by Grant Thornton. The external auditors, as part of their work, provide an Annual Update Letter which summarises their findings and updates regarding the actual audit fees. The Annual Audit Letter is attached to this report.

### 5 Links to Corporate Aims / Priorities

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

### 6 Finance / Resource Implications

- 6.1 The Annual Audit Letter confirms that the external auditors have issued an unqualified opinion in respect of the Council's accounts for 2015/16, which means that no material errors were found and the accounts were produced to a good standard.

6.2 However, the external auditors have only issued a qualified opinion in relation to the VFM conclusion, which reflects the significant financial challenges facing the council in the future.

## **7 Comments on Behalf of the 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. The Annual Audit Letter summarises the findings of the external auditors in relation to the audit of accounts for 2015/16 and confirms that there were no material issues.

7.2 The qualified opinion in relation to the VFM conclusion continues to be a concern albeit the auditors have stated that as both Taunton Deane Borough Council and West Somerset District Council agreed to progress work to create a new council, "there is a prospect of a different and more sustainable future for West Somerset".

## **8 Legal Implications**

8.1 The Council has a statutory duty to produce financial statements.

## **9 Environmental Impact Implications**

9.1 None

## **10 Safeguarding and/or Community Safety Implications**

10.1 None

## **11 Equality and Diversity Implications**

11.1 None

## **12 Social Value Implications**

12.1 None

## **13 Partnership Implications**

13.1 None

## **14 Health and Wellbeing Implications**

14.1 None

## **15 Asset Management Implication**

15.1 None

## **16 Consultation Implications**

16.1 None

## **Democratic Path:**

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

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

**Contact Officers**

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# The Annual Audit Letter for West Somerset District Council

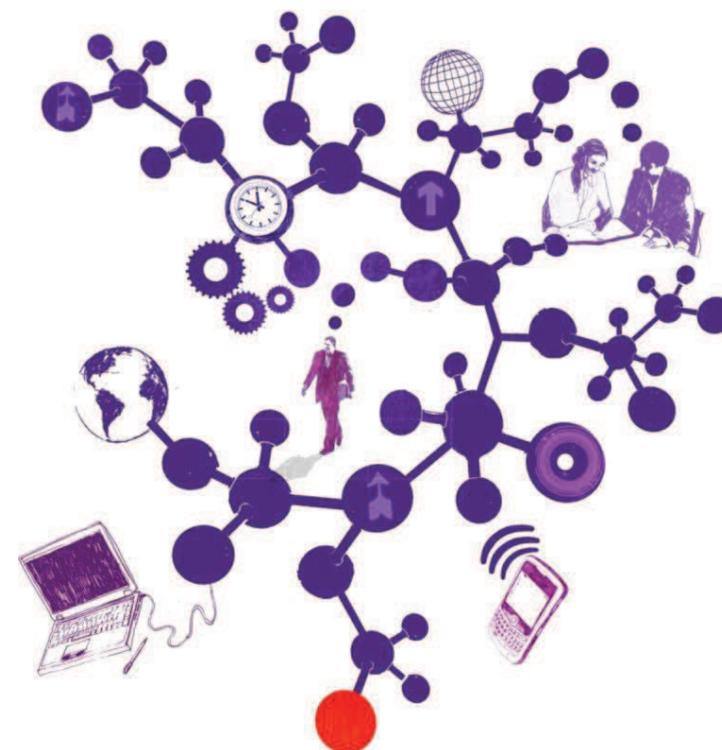
**Year ending 31 March 2016**

19 October 2016

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# Executive summary

## **Purpose of this letter**

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at West Somerset District Council for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 19 September 2016.

## **Our responsibilities**

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

## **Our work**

### **Financial statements opinion**

We gave an unqualified opinion on the Council's financial statements on 21 September 2016.

### **Value for money conclusion**

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016 except that the Council does not have a balanced medium term financial plan covering the period until 31 March 2021 and, as at the date of the opinion, had no plans in place to address the budgeted shortfall of £1.2 million.

We therefore qualified our value for money conclusion in our audit opinion on 21 September 2016.

However, as a result of the decision of both Taunton Deane Borough Council and West Somerset District Council to create a new single council covering both areas, there is the prospect of a different and more sustainable future for West Somerset..

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**Certificate**

We certified that we had completed the audit of the accounts of West Somerset District Council in accordance with the requirements of the Code on 21 September 2016.

**Certification of grants**

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is complete. We will report the results of this work to the Audit Committee in our Annual Certification Letter but, in summary, our testing identified a small number of errors, which resulted in an amendment to the claim reducing the amount owed to the Authority by £999. As the claim was amended, a qualification letter was not required.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

**Grant Thornton UK LLP**  
**October 2016**

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# Audit of the accounts

## **Our audit approach**

### **Materiality**

In our audit of the Council's accounts, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £410,000, which is 1.8% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality of £5,000 for officer's remuneration, members' allowances and auditor's remuneration.

We set a lower threshold of £20,500, above which we reported errors to the Audit Committee in our Audit Findings Report.

### **The scope of our audit**

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts on which we give our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

# Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
<p><b>Valuation of surplus assets and investment property</b> The Council changed the basis on which it valued surplus assets and investment property in 2015/16 because of the introduction of a new international financial reporting standard (IFRS 13). These assets represent 5% of the Council's total assets and their value is estimated by property valuation experts.</p> <p>The Council also needed to make changes to the disclosures for items valued at fair value under the new financial reporting standard.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"><li>• Reviewed management's processes and assumptions for the calculation of the estimate.</li><li>• Reviewed of the competence, expertise and objectivity of any management experts used.</li><li>• Reviewed the instructions issued to valuation experts and the scope of their work</li><li>• Discussed with the valuer the basis on which the valuation was carried out and challenged key assumptions.</li><li>• Reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding.</li><li>• Tested revaluations made during the year to ensure they were input correctly into the Council's asset register</li><li>• Reviewed the disclosures made by the Council in its financial statements to ensure they were in accordance with the requirements of the CIPFA Code of Practice and IFRS 13.</li></ul> <p>We did not identify any issues to report .</p>

# Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
<p><b>Valuation of property plant and equipment</b></p> <p>The Council's property, plant and equipment represents 36% of its total assets. Their value is estimated by property valuation experts.</p> <p>The Council revalues these assets on a rolling basis.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"><li>• Reviewed management's processes and assumptions for the calculation of the estimate.</li><li>• Reviewed the competence, expertise and objectivity of any management experts used.</li><li>• Reviewed the instructions issued to valuation experts and the scope of their work</li><li>• Discussed with the Council's valuer the basis on which the valuation was carried out, challenging the key assumptions.</li><li>• Reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding.</li><li>• Tested revaluations made during the year to ensure they were input correctly into the Council's asset register</li><li>• Evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value.</li></ul> <p>With one exception, our audit work did not identify any issues in respect of the valuation of property, plant and equipment. In the valuer's report it was stated that there had been no material movements in asset value since the valuation was undertaken. However, the valuer uses a much higher level of materiality (10-15%) than is acceptable for accounts purposes. We made reference to appropriate indices and these suggested that there had been material (in accounting terms) movements since the last full valuation was undertaken on 1st April 2014. As a result, we asked that the finance team and the valuer discuss this issue. In response, the valuer examined the carrying values of land and buildings and reduced them by £1,863,000. This was primarily because the basis for the valuation of two significant assets, including the council offices in Williton, was incorrect.</p>

# Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
<p><b>Valuation of pension fund net liability</b></p> <p>The Council's pension fund asset and liability, as reflected in its balance sheet, represents a significant estimate in the accounts and comprises 47% of its total liabilities.</p> <p>The values of the pension fund net liability is estimated by specialist actuaries.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"><li>• Documented the key controls that were put in place by management to ensure that the pension fund liability was not materially misstated.</li><li>• Walked through the key controls to assess whether they were implemented as expected and mitigated the risk of material misstatement in the financial statements.</li><li>• Reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation.</li><li>• Gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made.</li><li>• Reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.</li></ul>

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# Audit of the accounts

## **Audit opinion**

We gave an unqualified opinion on the Council's accounts on 21 September 2016, in advance of the 30 September 2016 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

## **Issues arising from the audit of the accounts**

We reported the key issues from our audit of the accounts of the Council to the Council's Audit Committee on 19 September 2016. Other than the valuation issues referred to on page 7, no other issues were brought to the attention of the Committee.

## **Annual Governance Statement and Narrative Report**

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council

## **Other statutory duties**

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

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# Value for Money conclusion

## Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the criterion for auditors to evaluate:

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

## Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out overleaf.

## Overall VfM conclusion

We are satisfied that, in all significant respects, except for the matter we identified below, the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

The Council does not have a balanced medium term financial plan covering the period until 31 March 2021 and as at the date of the opinion, had no plans in place to address the budgeted shortfall of £1.2 million.

Although not impacting on our value for money conclusion, the Council's decision to merge with Taunton Deane Borough Council provides the basis for a different and more sustainable future for West Somerset.

# Value for Money

## Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p><b>Medium term financial position</b> The Council has a balanced financial plan for 2016/17. However, there is a cumulative shortfall of £1.2 million for the subsequent four years of the plan.</p>	<p>We reviewed the Council's medium term financial plan, including the assumptions that underpin the plan.</p>	<p>The Council reported an underspend of £199,000 for 2015/16 and has a balanced budget in place for 2016/17. The assumptions made in developing the budget are reasonable.</p> <p>Beyond 2016/17, the position becomes significantly more challenging. The medium term financial plan shows an annual gap of £1.2 million by 2020/21. There is a gap of £0.2 million for 2017/18. Balancing the position for 2017/18 is likely to be challenging, although the Council was in a similar position last year and, as noted above, reported an underspend in 2015/16.</p> <p>The Council does not have a balanced medium term financial plan and as at the date of opinion does not have robust plans in place to address the shortfall. This matter is evidence of weaknesses in proper arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.</p> <p><b>On that basis, we concluded that there were weaknesses in the Council's arrangements for planning finances effectively to support the sustainable delivery of strategic priorities.</b></p> <p>The Council has subsequently voted to join with Taunton Deane Borough Council to create a new single council covering both areas. This is expected to deliver significant savings in the medium to long term.</p>
<p><b>Joint Management and Shared Services (JMASS) and transformation</b> The Council has a shared services agreement with Taunton Deane Borough Council and has completed the implementation and full integration of the teams at both Councils. This has already provided significant financial savings. However, further efficiencies are required, both in terms of sharing staff and in the transformation of services.</p>	<p>We reviewed how the Council is progressing the Joint Management and Shared Services arrangement, with a particular emphasis on the transformation of services. We also reviewed the project management arrangements relating to this project.</p>	<p>Both councils continue to consider all options to identify the savings required into the medium term, including closer joint working and possible merger. Although no formal decisions have been made we are satisfied that all options continued to be considered and options clearly set out the relative merits of each proposal.</p> <p><b>On that basis we concluded that the risk was sufficiently mitigated and that the Council has proper arrangements in place.</b></p>

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# Working with the Council

## **Our work with you in 2015/16**

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

An efficient audit – we delivered the accounts audit nine days before the deadline and in line with the timescale we agreed with you. Our audit team are knowledgeable and experienced in your financial accounts and systems. Our relationship with your team provides you with a financial statements audit that continues to finish ahead of schedule releasing your finance team for other important work.

Sharing our insight – we provided regular updates to the Corporate Governance Committee covering best practice and sector issues. Areas we covered included Innovation in Public Financial Management, Knowing the Ropes – Audit Committee; Effectiveness Review, Making Devolution Work and Reforging Local Government. We have also shared with you our insights on advanced closure of local authority accounts, in our publication "Transforming the financial reporting of local authority accounts" and will continue to provide you with our insights as you bring forward your production of your year-end accounts.

Thought leadership – We have shared with you our publication on Building a Successful Joint Venture and will continue to support you as you consider greater use of alternative delivery models for your services.

Providing training – we ran a workshop on developments in financial accounting, which was attended by members of your finance team.

We will continue to work with you and support you over the next financial year. Locally our focus will be on delivering an efficient audit, but we will also consider progress towards merger.

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# Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

## Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit	42,525	42,525	56,700
Housing Benefit Grant Certification	6,996	6,996	11,950
<b>Total fees (excluding VAT)</b>	<b>49,521</b>	<b>49,521</b>	<b>68,650</b>

## Reports issued

Report	Date issued
Audit Plan	March 2016
Audit Findings Report	September 2016
Annual Audit Letter	October 2016



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# West Somerset Council

## Audit Committee – 6 December 2016

### External Audit – Progress Report and Update

This matter is the responsibility of Councillor Mrs Mandy Chilcott

Report Author: Jo Nacey, Finance Manager

#### 1 Purpose of the Report

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

#### 2 Recommendations

- 2.1 Members are requested to note the update report.

#### 3 Risk Assessment (if appropriate)

##### Risk Matrix

Description	Likelihood	Impact	Overall
The details of any specific risks are contained in the report			

#### 4 Background and Full details of the Report

- 4.1 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 Links to Corporate Aims / Priorities

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

#### 6 Finance / Resource Implications

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

#### 7 Legal Implications

- 7.1 The Council has a statutory duty to produce financial statements.

**8 Environmental Impact Implications**

8.1 None

**9 Safeguarding and/or Community Safety Implications**

9.1 None

**10 Equality and Diversity Implications**

10.1 None

**11 Social Value Implications**

11.1 None

**12 Partnership Implications**

12.1 None

**13 Health and Wellbeing Implications**

13.1 None

**14 Asset Management Implication**

14.1 None

**15 Consultation Implications**

15.1 None

**Democratic Path:**

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

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

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Audit Committee  
West Somerset District Council  
*Progress Report and Update*  
*Year ended 31 March 2017*

December 2016

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Associate Director

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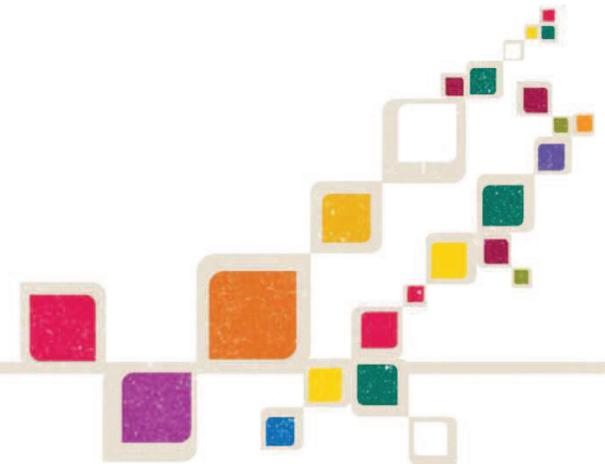
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to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



# Introduction

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

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

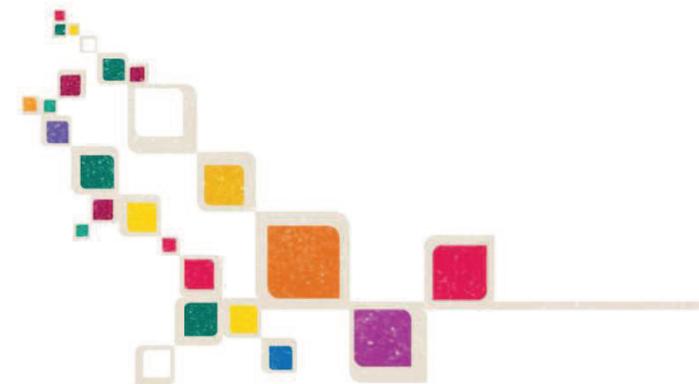
- Advancing closure: Transforming the financial reporting of local authority accounts (August 2016)  
<http://www.grantthornton.co.uk/en/insights/advancing-closure-the-benefits-to-local-authorities/>

## Members and officers may also be interested in our recent webinars:

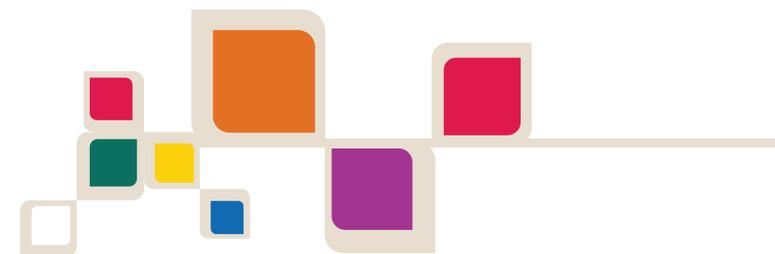
**Alternative delivery models:** Interview with Helen Randall of Trowers and Hamlins, discussing LATCs and JVs in local government. <http://www.grantthornton.co.uk/en/insights/qa-on-local-authority-alternative-delivery-models/>

**Cyber security in the public sector:** Our short video outlines questions for public sector organisations to ask in defending against cyber crime <http://www.grantthornton.co.uk/en/insights/cyber-security-in-the-public-sector/>

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

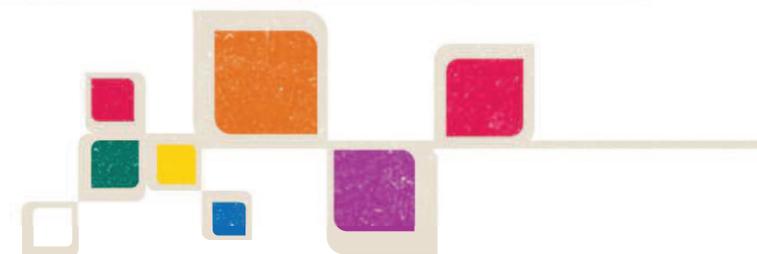


# Progress at December 2016



2015/16 work			
	Planned Date	Complete?	Comments
<p><b>Annual Audit Letter</b> We are required to issue the Annual Audit Letter by the 30 November</p>	31 <sup>st</sup> October 2016	Yes	The Annual Audit Letter is included on the agenda.
<p><b>Grant Claims Audit</b> We are required to certify your Housing Benefits Grant Claim by 30 November.</p>	30 <sup>th</sup> November 2016	Yes	The Housing Benefit claim was signed off on 21 <sup>st</sup> November. Our report on our work is included on the agenda.
2016/17 work			
	Planned Date	Complete?	Comments
<p><b>Fee Letter</b> We are required to issue a 'Planned fee letter for 2016/17' by the end of April 2016</p>	30 April 2016	Yes	The fee letter was issued on 6 <sup>th</sup> April 2016.
<p><b>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 the Council's 2016-17 financial statements.</p>	March 2017	Not yet due	
<p><b>Interim accounts audit</b> Our interim fieldwork visit plan included:</p> <ul style="list-style-type: none"> <li>• updated review of the Council's control environment</li> <li>• updated 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>• Value for Money conclusion risk assessment.</li> </ul>		Not yet due	The interim audit is likely to be undertaken in late January and early February.

# Progress at December 2016



2016/17 work	Planned Date	Complete?	Comments
<p><b>Final accounts audit</b></p> <p>Including:</p> <ul style="list-style-type: none"> <li>• audit of the 2016/17 financial statements</li> <li>• proposed opinion on the Council's accounts</li> <li>• proposed Value for Money conclusion</li> <li>• review of the Council's disclosures in the consolidated accounts against the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16</li> </ul>	July 2017	Not yet due	We are currently planning on starting our final accounts audit on 26 June 2017.
<p><b>Value for Money (VfM) conclusion</b></p> <p>The scope of our work is unchanged to 2015/16 and is set out in the final guidance issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".</p> <p>The guidance confirmed the overall criterion as; "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".</p> <p>The three sub criteria for assessment to be able to give a conclusion overall are:</p> <ul style="list-style-type: none"> <li>• Informed decision making</li> <li>• Sustainable resource deployment</li> <li>• Working with partners and other third parties</li> </ul>	January to June 2017	Not yet due	
<p><b>Other areas of work</b></p> <p>Meetings with Members, Officers and others</p>		Ongoing	Peter Barber and Kevin Henderson met with Jo Nacey, Paul Fitzgerald and Paul Carter on 21 <sup>st</sup> November.

# Grant Thornton Sector Issues



# Integrated Reporting

## Looking beyond the report

The move away from reporting based on historic financial information is beginning to gain momentum and Integrated Reporting is now mandatory in some countries.

In the UK, CIPFA proposed in their consultation document that the narrative report from 2017/18 reflects elements of the International Integrated Reporting Council's framework whilst the Treasury is encouraging public sector organisations to adopt Integrated Reporting.

*Integrated reporting: Looking beyond the report* was produced by our global Integrated Reporting team, based in the UK, New Zealand and South Africa, to help organisations obtain the benefits of Integrated Reporting.

The International Integrated Reporting Council (IIRC) describes Integrated Reporting as "*enhancing the way organisations think, plan and report the story of their business.*"

At Grant Thornton, we fully agree with this and, in our view, the key word is 'enhancing' because a lot of the elements to support effective Integrated Reporting are likely to be in place already.

But anyone focussing purely on the production of the report itself will not reap the full benefits that effective Integrated Reporting can offer.

Instead, think of Integrated Reporting as demonstrating "integrated thinking" across your entire organisation, with the actual report being an essential element of it.

Our methodology is based on six modules which are designed to be independent of each other.

1. **Secure support** – effective Integrated Reporting needs leadership from the top.
2. **Identify stakeholders** – who are they and how can you engage with them?
3. **Identify the capitals for your organisation** – what resources do you use to create value?
4. **What do you have – and what do you need?** – do you have the data you need and is it accurate?
5. **Set limits and create boundaries** – make sure your report is focussed.
6. **Review and improve** – Integrated Reporting is a continuous learning process.

Our approach to Integrated Reporting is deliberately simple; experience has shown us that this works best. Things are often only complicated because people made them that way.

Our experienced, independent teams can help you keep focused throughout the entire Integrated Reporting process and can support you, no matter what stage you are at. Please speak to your Engagement Lead if you would like to discuss this further.

## Grant Thornton publications

### Challenge question:

- Have you thought about how the principles of Integrated Reporting can help your organisation become more focussed?

 Grant Thornton  
An account for growth

  
Integrated reporting  
Looking beyond the report  
November 2016

# Integrated Thinking and Reporting

## Focusing on value creation in the public sector

Grant Thornton has seconded staff to the International Integrated Reporting Council on a pro bono basis for a number of years.

They have been working on making the principles of Integrated Reporting <IR> relevant to the public sector and co-authored a recent report by CIPFA and the World Bank: *Integrated thinking and reporting: focusing on value creation in the public sector - an introduction for leaders*.

Around one third of global gross domestic product (GDP) is made up by the public sector and this is being invested in ensuring there is effective infrastructure, good educational opportunities and reliable health care. In many ways, it is this investment by the public sector that is helping to create the conditions for wealth creation and preparing the way for the success of this and future generations.

Traditional reporting frameworks, focussed only on historic financial information, are not fit-for-purpose for modern, multi-dimensional public sector organisations.

Integrated Reporting supports sustainable development and financial stability and enables public sector organisations to broaden the conversation about the services they provide and the value they create.

The public sector faces multiple challenges, including:

- Serving and being accountable to a wide stakeholder base;
- Providing integrated services with sustainable outcomes;
- Maintaining a longer-term perspective, whilst delivering in the short term; and
- Demonstrating the sustainable value of services provided beyond the financial.

The <IR> Framework is principle based and enables organisations to tailor their reporting to reflect their own thinking and strategies and to demonstrate they are delivering the outcomes they were aiming for.

Integrated Reporting can help public sector organisations deal with the above challenges by:

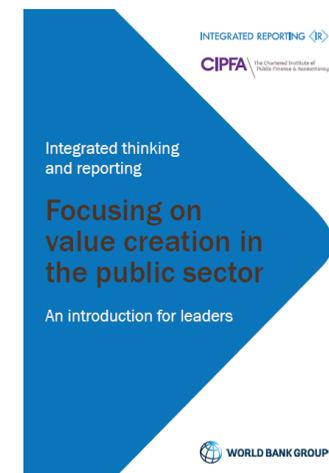
- Addressing diverse and often conflicting public accountability requirements;
- Focussing on the internal and external consequences of an organisation's activities;
- Looking beyond the 'now' to the 'near' and then the 'far';
- Considering the resources used other than just the financial.

The report includes examples of how organisations have benefitted from Integrated Reporting.

## CIPFA Publications

### Challenge question:

- Have you reviewed the CIPFA guide to Integrated Reporting in the public sector?



# Brexit

## Planning can help organisations reduce the impact of Brexit

Several months have passed since the referendum to leave the European Union (EU), during which there has been a flurry of political activity, including the party conference season.

After many years of relative stability, organisations will need to prepare themselves for a period of uncertainty and volatility and will need to keep their risk registers under constant review. The outcome of the US Presidential election in November 2016 has added to this uncertainty.

The High Court ruling that Parliament should have a say before the UK invokes Article 50 of the Lisbon Treaty – which triggers up to two years of formal EU withdrawal talks – will not, in our view, impact on the final outcome. There appears to be a general political consensus that Brexit does mean Brexit, but we feel there could be slippage beyond the original timetable which expected to see the UK leave the EU by March 2019.

2017 elections in The Netherlands (March), France (April/May), and Germany (October/November) will complicate the Brexit negotiation process and timeline at a time when Brexit is more important for the UK than it is for the remaining 27 Member States

The question still remains, what does Brexit look like?

While there may be acceptance among politicians that the UK is leaving the EU, there is far from any agreement on what our future relationship with the continent should be.

So, what do we expect based on what has happened so far?

### Existing EU legislation will remain in force

We expect that the Government will introduce a “Repeal Act” (repealing the European Communities Act of 1972 that brought us into the EU) in early 2017.

As well as undoing our EU membership, this will transpose existing EU regulations and legislation into UK law. We welcome this recognition of the fact that so much of UK law is based on EU rules and that trying to unpick these would not only take many years but also create additional uncertainty.

### Taking back control is a priority

It appears that the top priority for government is 'taking back control', specifically of the UK's borders. Ministers have set out proposals ranging from reducing our dependence on foreign doctors or cutting overseas student numbers. The theme is clear: net migration must fall.

## Grant Thornton update

### Challenge questions:

- Have you assessed the potential impact of Brexit on your organisation?
- Does your risk register include Brexit and is this regularly updated and reported?

### Leaving the Single Market appears likely

The tone and substance of Government speeches on Brexit, coupled with the wish for tighter controls on immigration and regulation, suggest a future where the UK enjoys a much more detached relationship with the EU.

Potential existing examples for the UK's future relationship, such as the 'Norwegian' or 'Swiss' models, seem out of the question. The UK wants a 'bespoke deal'.

Given the rhetoric coming from Europe, our view is that this would signal an end to the UK's membership of the Single Market. With seemingly no appetite to amend the four key freedoms required for membership, the UK appears headed for a so-called 'Hard Brexit'. It is possible that the UK will seek a transitional arrangement, to give time to negotiate the details of our future trading relationship.

# Brexit

This is of course, all subject to change, and, politics, especially at the moment, moves quickly.

Where does this leave the public sector?

After a relatively stable summer, we expect there will be increased volatility as uncertainty grows approaching the formal negotiation period.

## Planning can help organisations reduce the impact of Brexit

The chancellor has acknowledged the effect this may have on investment and signalled his intention to support the economy, delaying plans to get the public finances into surplus by 2019/20.

We expect that there will be some additional government investment in 2017, with housing and infrastructure being the most likely candidates.

Clarity is a long way off. However, public sector organisations should be planning now for making a success of a hard Brexit, with a focus on:

**Staffing** – organisations should begin preparing for possible restrictions on their ability to recruit migrant workers and also recognise that the UK may be a less attractive place for them to live and work. Non-UK employees might benefit from a degree of reassurance as our expectation is that those already here will be allowed to stay. Employees on short term or rolling contracts might find it more difficult to stay over time.

**Financial viability** – public sector bodies should plan how they will overcome any potential shortfalls in funding (e.g. grants, research funding or reduced student numbers).

**Market volatility** – for example pension fund and charitable funds investments and future treasury management considerations.

**International collaboration** – perhaps a joint venture or PPP scheme with an overseas organisation or linked research projects.

## Grant Thornton update

### Challenge questions:

- Have you assessed the potential impact of Brexit on your organisation?
- Does your risk register include Brexit and is this regularly updated and reported?

For regular updates on Brexit, please see our website:

<http://www.grantthornton.co.uk/en/insights/brexit-planning-the-future-shaping-the-debate/>

# Local Audit and Accountability Act (LAAA) 2014

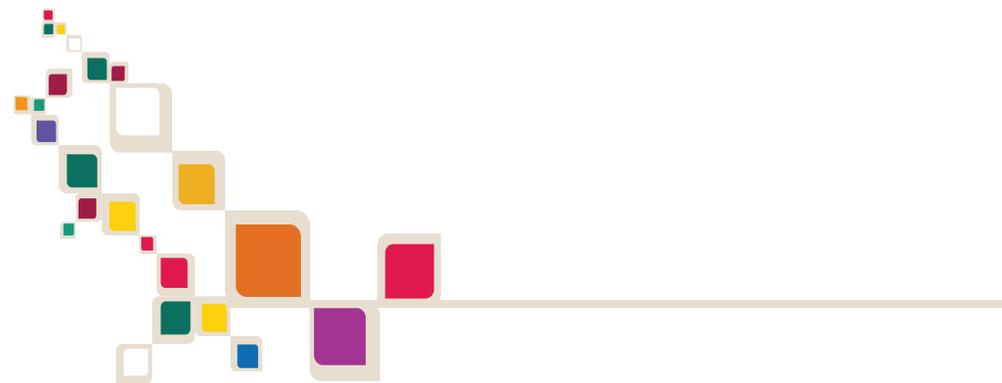
On 31st January 2014 the Local Audit and Accountability Act (LAAA) 2014 came into force. This act abolished the Audit Commission and for the first time allows Local Authorities to appoint their own auditors.

This is a significant change for many organisations. High quality external audit is one of the cornerstones of public accountability and plays an important part in the strategic, operational and financial delivery of Local Government. Done well the role can bring significant benefits.

## What does this mean for your organisation?

This change means that for the 2018/19 financial year you will take on the authority to appoint your own external auditor. This will be the first time you will have the opportunity to make this appointment.

External auditors need to be in place by 31 December 2017 for the audit of the 2018/19 financial year. We would encourage organisations to begin their planning early, as there are a number of possible options to consider.



# Three options are available....

## Audit Procurement Options ...

The legislation sets out three possible options for you to consider:

- undertake an individual auditor procurement and appointment exercise;
- undertake a joint audit procurement and appointing exercise with other bodies, those in the same locality for instance;
- join a 'sector led body' arrangement where specified appointing person status has been achieved under the regulations.

## Setting up an Auditor Panel

Options 1 and 2 above require you to set up an auditor panel to advise on the selection and appointment of an external auditor. Guidance to assist you with this task has been issued by CIPFA at - <http://www.cipfa.org/policy-and-guidance/publications/guide-to-auditor-panels-pdf>.

## Using a Sector Led Body

Option 3 - Public Sector Audit Appointments (PSAA) have been specified by the Secretary of State for Communities and Local Government as a person eligible to appoint external auditors in the sector. They are currently gathering support for a sector led body to make the majority of these appointments.

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## Which option should we choose?

There are possible advantages and disadvantages to each option but these are likely to vary according to the type of authority and your size, geographic location etc.

## Can we choose any auditor?

Under the LAAA 2014 audit firms carrying out audits of Local Government bodies have to be licensed and registered to carry out external audit services with the Institute for Chartered Accountants in England and Wales. The list can be found here..

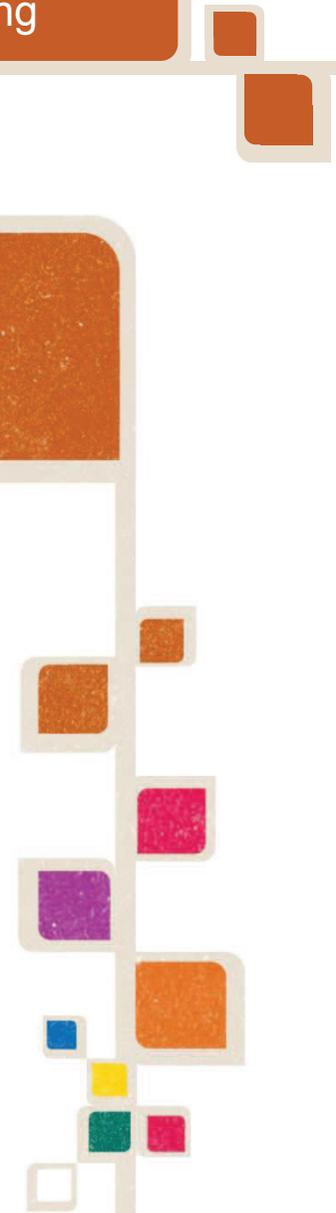
<http://www.icaew.com/en/technical/audit-and-assurance/local-public-audit-in-england/local-auditor-register>

As the largest supplier of external audit services to Local Government bodies Grant Thornton have already completed this process and has 35 registered engagement leads across the country.

## Timing and length of appointment

Auditors must be in place by 31 December 2017. The appointment can be for longer than a year but there must be a new appointment process at least once every 5 years.

## Preparing for tendering



# Procurement Options – What and How

## Preparing for tendering

### Challenge question:

Have you chosen a procurement route?

### What are you procuring?

The work of your external auditors is governed by the National Audit Office's Code of Audit Practice. There is no expected change to the NAO's Code which requires external auditors :

- to be satisfied that the accounts present a true and fair view, and comply with any legislative requirements that apply to them
- to ensure that proper practices have been observed in the preparation of the accounts and
- to ensure that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in their use of resources.

Auditors are required to report their work by expressing an opinion on the financial statements and by forming a conclusion on the authority's arrangements for achieving value for money.

In addition auditors have additional powers under the Act such as responding to objections from members of the public in relation to the accounts.

### Procurement Options

There are a number of procurement options open to you at this time. We have set out the main options below. In considering each option you will need to ensure that you comply with the Public Contracting Regulations (PCR) 2015 and take into account EU Procurement rules.

EU Procurement rules require authorities to advertise in OJEU where the estimated total contract value (over the duration of the contract) exceeds £172,514 for other public bodies and £111,676 for schedule 1 entities.

#### Option 1

Restricted procedure under the Public Contracts Regulations 2015. This is a two stage tender process : at the first stage, bidders complete a pre-questionnaire (PQQ) which is used to assess an organisation's commercial, technical and financial capabilities and provides a method of shortlisting interested parties who meet the minimum qualification criteria.

For the second stage, bidders are invited to the Invitation to Tender (ITT) which is often a more descriptive and thorough document that consider how the bidders will meet the tender requirements.

The authority will have to comply with strict procurement timescales allowing bidders 30 days to express an interest and another 30 days for submission of tenders.

# Procurement options

## *Option 2 – using an Open Procedure*

This is a one-stage procedure, where bidders complete all tender documents (PQQ and tender response) at the same time. The authority evaluate the bids and then evaluates the PQQ part of the submission. The disadvantage of this approach is that the authority may be inundated with large numbers of tenders and will be required to evaluate all bidders.

## *Existing frameworks*

There are a number of well established frameworks across the public sector which cover the procurement of external audit services. Frameworks are valuable in that they are already EU/UK compliant and terms and conditions are pre-agreed, removing much of the burden for you in assessing suppliers and in shortening the process for appointment.

Whilst all frameworks allow for further competition, a number do allow call-off without competition, otherwise frequently referred to as direct award. This reduces administrative costs and the time taken for appointment.

This is applicable to two such frameworks, RM1502/ConsultancyONE as hosted by Crown Commercial Service, and Framework 664/Consultancy Services as hosted by ESPO.

Equally, there is an option for a mini-competition of suppliers under these and other frameworks. If you choose a mini-competition, it is useful to note that not all suppliers are on every framework.

## *Combined procurement – PSAA*

Public Sector Audit Appointments have led the development of a national combined procurement option.

## *Direct appointment*

If the contract is below the PCR 2015 levels (which we believe it would be for West Somerset should you opt for a 3 year appointment) you can make a direct appointment of an auditor. You will need to ensure that you comply with the 'below threshold' contract rules.

## **Next steps**

We recognise that appointing your external auditor is a significant decision. We would be pleased to discuss with you the different options available to you.

## Preparing for tendering

### Challenge question:

Have you chosen a procurement route?

# Grant Thornton Technical update



# Annual Governance Statement

## What are the requirements?

Regulation 6(1) of the Accounts and Audit Regulations 2015 require authority's to review at least once a year the effectiveness of its internal control systems and that the findings of this review must be considered by the Authority meeting as a whole or by a committee.

The regulations require that the Authority or nominated committee must approve an Annual Governance Statement prepared in accordance with proper practices. CIPFA's updated guidance "*Delivering Good Governance in Local Government: Framework 2016 edition*" is considered in the CIPFA Code of Practice on Local Authority Accounting to represent proper practices for an Annual Governance Statement (AGS) to be produced.

The AGS should accompany the accounts, but does not need to be included within them and can be published separately.

## What is the purpose of the AGS?

CIPFA's guidance requires the Authority to report publicly on the extent to which it complies with its own code of governance on an annual basis, including how they have monitored and evaluated the effectiveness of their governance arrangements in the year, and on any planned changes in the coming period. The process of preparing the AGS should itself add value to the effectiveness of the Authority's corporate governance and internal control framework.

The AGS should provide a brief communication regarding the review of governance that has taken place and the role of the governance structures involved. It should be high level, strategic and written in an open and readable style. It should be focused on outcomes and value for money and provide clear links to the Authority's vision and strategic objectives.

## Auditors' responsibilities

Auditors are required to conclude whether the AGS has been presented in accordance with proper practices and report if it does not meet these requirements or if it is misleading or inconsistent with other information of which the auditor is aware.

In doing so, auditors take into account the knowledge of the Authority gained through their work in relation to the annual accounts and through their work in relation to the Authority's value for money arrangements.

### Key challenge questions

1. Is the content of the AGS consistent with your knowledge of the operations of the Authority over the year?
  - Do you recognise what is said?
  - Does it focus on the those issues of greatest significance to achieving the Authority's vision and strategic objectives?
  - Does it recognise the significant risks that you were aware of during the year?
2. Does the AGS succinctly describe the control environment in an understandable way?
3. Does it provide an open and balanced assessment of the effectiveness of its control environment?
  - Are the Authority's conclusions from its assessment clear? Does this mean that the arrangements are good or need improvement?
  - What else have you seen during the year?
  - Is it consistent with the findings of internal audit, external audit and external regulators?
4. Is the AGS clear about what further actions need to be taken to address the identified issues?

# Additional references

## What should be included in the AGS?

- a) An acknowledgement of responsibility for ensuring there is a sound system of governance (incorporating the system of internal control).
- b) A reference to and assessment of the effectiveness of key elements of the governance framework, including group activities where the activities are significant, and the role of those responsible for the development and maintenance of the governance environment such as the authority, the executive, the audit committee and others as appropriate.
- c) An opinion on the level of assurance that the authority's governance arrangements can provide.
- d) An agreed action plan.
- e) A conclusion.

**Source: Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, CIPFA (2016)**

### Seven principles of good governance

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

*Source: Delivering Good Governance in Local Government: Framework 2016 edition, CIPFA/SOLACE (2016)*



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GRT102468



# Grant Thornton

Shirlene Adam  
Director – Operations  
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22 November 2016

Dear Shirlene,

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## **Certification work for West Somerset District Council for year ended 31 March 2016**

We are required to certify certain claims and returns submitted West Somerset District Council ('the Council'). This certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

The Local Audit and Accountability Act 2014 gave the Secretary of State power to transfer Audit Commission responsibilities to other bodies. Public Sector Audit Appointments (PSAA) have taken on the transitional responsibilities for HB COUNT issued by the Audit Commission in February 2015.

We have certified one claim, the Housing Benefits Subsidy Claim, for the financial year 2015/16 with total expenditure of £13.4 million. Further details on the certified claim are set out in Appendix A.

There are no significant issues arising from our certification work which we wish to highlight for your attention. However, as noted in Appendix A, some adjustments have been made to the claim, resulting in a reduction in claimed subsidy of £999. Notwithstanding these adjustments, we are satisfied that the Council has appropriate arrangements in place to compile a complete, accurate and timely claim for audit certification

The indicative certification fee for 2015/16 for the Council is based on the final 2013/14 certification fees, reflecting the amount of work required by the auditor to certify the claims and returns in that year. The final fee for 2015/16 of £6,996 is the same as the indicative scale fee set by the Public Sector Audit Appointments. This is set out in more detail in Appendix B.

Yours sincerely

Peter Barber – Associate Director  
For Grant Thornton UK LLP

**Chartered Accountants**

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**Appendix A - Details of claims and returns certified for 2015/16**

<b>Claim or return</b>	<b>Value (£)</b>	<b>Amended?</b>	<b>Amendment (£)</b>	<b>Qualified?</b>	<b>Comments</b>
Housing benefits subsidy claim (BEN01)	13,386,364	Yes	Minus £999	No	Entry incorrectly made in cell 15 rather than cell 14 (£972).  Uncashed cheque £25  Adjustment of £2 arising from the amendment to cells 14/15 (affects the amount attributable to modified schemes)

**Appendix B: Fees for 2015/16 certification work**

<b>Claim or return</b>	<b>2014/15 fee (£)</b>	<b>2015/16 indicative fee (£)</b>	<b>2015/16 actual fee (£)</b>	<b>Variance (£)</b>	<b>Explanation for variances</b>
Housing benefits subsidy claim (BEN01)	11,950	6,996	6,996	Nil	No variance

*Report Number:* WSC 141/16  
*Presented by:* Alastair Woodland, Assistant Director  
*Author of the Report:* Alastair Woodland, Assistant Director  
*Contact Details:*  
*Tel. No. Direct Line* 01823 356160  
*Email:* Alastair.woodland@southwestaudit.co.uk

*Report to a Meeting of:* Audit Committee  
*To be Held on:* 6 December 2016  
*Date Entered on Executive Forward Plan Or Agreement for Urgency Granted:* N/A

## **INTERNAL AUDIT PLAN 2016-17 PROGRESS UPDATE**

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

- 1.1 To update members on the Internal Audit Plan 2016-17 progress and bring to their attention any significant findings identified through our work.

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

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

### **3. RECOMMENDATIONS**

- 3.1 Members are asked to note progress made in delivery of the 2016/17 internal audit plan and note the significant findings.

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

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

### **5. BACKGROUND INFORMATION**

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

- Details of any new significant weaknesses identified during internal audit work completed since the last report to the committee in September.

- A schedule of audits completed during the period, detailing their respective assurance opinion rating, the number of recommendations and the respective priority rankings of these.

**6. FINANCIAL/RESOURCE IMPLICATIONS**

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

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

7.1 No Specific comments.

**8. EQUALITY & DIVERSITY IMPLICATIONS**

8.1 There are no direct implications from this report.

**9. CRIME AND DISORDER IMPLICATIONS**

9.1 There are no direct implications from this report.

**10. CONSULTATION IMPLICATIONS**

10.1 There are no direct implications from this report.

**11. ASSET MANAGEMENT IMPLICATIONS**

11.1 There are no direct implications from this report.

**12. ENVIRONMENTAL IMPACT IMPLICATIONS**

12.1 There are no direct implications from this report.

**13. HEALTH & WELLBEING**

13.1 There are no direct implications from this report.

**14. LEGAL IMPLICATIONS**

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

# West Somerset Council

## Report of Internal Audit Activity

### Plan Progress 2016/17 November

# Contents

The contacts at SWAP in connection with this report are:

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## Internal Audit Plan Progress 2016/2017

Our audit activity is split between:

- **Operational Audit**
- **Governance Audit**
- **Key Control Audit**
- **IT Audit**
- **Grants**
- **Other Reviews**



### Role of Internal Audit

The Internal Audit service for the West Somerset District Council is provided by 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 approved by the Corporate Governance Committee at its meeting on March 2016.

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

- Operational Audit Reviews
- Cross Cutting Governance Audits
- Annual Review of Key Financial System Controls
- IT Audits
- Grants
- Other Special or Unplanned Review

Internal Audit work is largely driven by an Annual Audit Plan. This is approved by the Section 151 Officer, following consultation with the Joint Management Team. The 2016-17 Audit Plan was reported to this Committee and approved by this Committee at its meeting in March 2016.

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

## Internal Audit Plan Progress 2016/2017

### Outturn to Date:

We rank our recommendations on a scale of 1 to 5, with 1 being minor or administrative concerns to 5 being areas of major concern requiring immediate corrective action. Recommendations are prioritised from 1 to 5 on how important they are to the service/area audited. These are not necessarily how important they are to the organisation at a corporate level.



### Internal Audit Work

The schedule provided at **Appendix B** contains a list of all audits as agreed in the Annual Audit Plan 2016/17. It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

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

As is shown in **Appendix B** good progress is being made against the Internal Audit Plan.

As agreed with this Committee, where a review has a status of ‘Final’ and has returned a ‘Partial’ or ‘No Assurance’ rating, I will provide a summary of the work and further details to inform Members of the key issues identified. Since the last update in September there are three reviews that have returned a Partial Assurance opinion, these being Homelessness; Licensing; and User and Access Management. The Homelessness audit identified the following risk as ‘High’:

Homelessness – *‘The duty of care provided is not appropriate or delivered effectively’*

Whilst there were a number of Priority three (Medium) recommendations under this risk, the main reason for the ‘High’ risk assessment is due to a lack of evidence that Gas Safety Regulations had been complied with. Further details on this issue, and the other ‘Partial Assurance’ audits can be found within **Appendix C**.

## Internal Audit Plan Progress 2016/2017

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



### Approved Changes to the Audit Plan

The audit plan for 2016/17 is detailed in **Appendix B**. Inevitably changes to the plan will be required during the year to reflect changing risks and ensure the audit plan remains relevant to West Somerset District Council. Members will note that where necessary any changes to the plan throughout the year will have been subject to agreement with the appropriate Service Manager and the Audit Client Officer.

Since the last update there has been one change to the audit plan. We were also asked to examine the new building control partnership. To accommodate this, the Healthy Organisation review has been dropped. Where audits are dropped, they are take forward for consideration in the follow year's audit plan.

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



Audit Framework Definitions

Control Assurance Definitions

- Substantial
- Reasonable
- Partial
- No Assurance

<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>No Assurance</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.

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

Recommendations are prioritised from 1 to 5 on how important they are to the service/area audited. These are not necessarily how important they are to the organisation at a corporate level.



## Audit Framework Definitions

### Categorisation of Recommendations

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

- Priority 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.

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

### Definitions of Risk

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

# Summary of Audit Findings

## APPENDIX C

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ←→ 5 = Major					Comments
						Recommendation					
						1	2	3	4	5	
<b>FINAL</b>											
Governance, Fraud & Corruption	Absence Management	Q1	Final	Reasonable	5	0	0	5	0	0	
Follow up	Private Water Supplies	Q1	Final	No Opinion	0	0	0	0	0	0	
Governance, Fraud & Corruption	Imprest/Cash Spot Checks	Q1	Final	Reasonable	8	0	0	8	0	0	
Governance, Fraud & Corruption	Members Expenses	Q1	Final	Reasonable	5	0	0	5	0	0	
Operational Audits	Licensing	Q2	Final	Partial	6	0	0	5	1	0	
ICT	User Management ( <i>Starters and Leavers - HR, Facilities, ICT</i> )	Q2	Final	Partial	9	0	0	7	2	0	
<b>DRAFT</b>											
Follow up	Asset Management Follow Up	Q2	Draft								
Operational Audits	Capital Programme Approval & Monitoring / linked with Contract monitoring	Q2	Drafting								
Governance, Fraud & Corruption	<b>(NEW)</b> Building Control Partnership	Q3	Draft								
Key Controls	Council Tax & NNDR	Q3	Discussion Document								
Key Controls	Housing Benefits	Q3	Drafting								
<b>IN PROGRESS</b>											
Key Controls	Treasury Management	Q3	In Progress								

# Summary of Partial Opinions

# APPENDIX C

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ↔ 5 = Major					Comments
						Recommendation					
						1	2	3	4	5	
Key Controls	Creditors	Q3	Scoping								
<b>NOT STARTED</b>											
Key Controls	Debtors	Q3									Scheduled to start December.
Key Controls	Main Accounting	Q3									Scheduled to start December.
Governance, Fraud & Corruption	Transformational Programme	Q4									
ICT	Back-up routines ( <i>Resilience</i> )	Q4									
Governance, Fraud & Corruption	Information/Data Security/Data Protection	Q4									
Operational Audits	Supported Housing (both Extra Care and Sheltered)	Q4									
<b>DROPPED</b>											
Governance, Fraud & Corruption	Healthy Organisation	Q2									Replaced by Building Control Partnership

## 2015-16 Audits

Operational Audit	Homelessness	Q4	Final	Partial	11	0	1	9	1	0	Reponses delayed due to sickness absence.
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### Summary of Audit Assignments Undertaken since the September 2016 Update

**Audit Assignments completed since the June 2016 update:**

**These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee.**



#### Summary of Audit Findings and High Priority Service Findings

As agreed with this committee, any finalised audit that has a priority four recommendation, or returns a 'Partial' or 'No Assurance' opinion will be brought to the attention of this committee. Since the last update in June one finalised audit has two Priority four recommendations, this being Land Charge, a non-opinion audit. Details are provided below.

#### Operational Audits

Operational audits are a detailed evaluation of a Service's control environment. A risk matrix is devised and controls are tested that mitigate those risks. Where weaknesses or areas for improvement are identified, actions are agreed with management and target dated.

#### Licensing – Partial Assurance

This audit focused on the following areas:

1. Licence Fees are charged in excess of the Service's 'reasonable costs' and/or the Service's 'reasonable costs' are excessive.
2. The Service fails to collect all income due.
3. Licensable Activities are not managed in line with legislation and the Council's policies and procedures.

A total of six recommendations were made. The main for improvement is around the setting of the licensing fees. The one high priority recommendation is show below.

**Licensing Fee - Priority 4 Recommendations**

Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action	Date of Action	Resp. Officer
<p>The Council's discretionary licence fees have not been amended since 2012.</p>	<p>There is a risk that the Council is charging too much, or indeed too little, for the licences issued.</p>	<p>I recommend that the Licensing Manager ensures that a full costing exercise is immediately undertaken for all discretionary licensable activities, and where applicable, adjustments are made to the charges. The costing spreadsheet used at TDBC could be used to undertake this annual exercise.</p>	<p>Agreed - The previous Licensing Manager had carried out some calculations using the same methodology as TDBC; however, due to fewer licences being issued at WSC, some licence fees were not considered 'reasonable' and these costings were not used.</p>	<p>For 2017-18 Financial Year.</p>	<p>Licensing Manager</p>

**Audit Assignments completed since the June 2016 update:**

**These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee.**

Operational Audits Continued

Homelessness – Partial Assurance

The audit covered the following key areas:

- Preventable homelessness increases in the district area.
- The duty of care provided is not appropriate or delivered effectively
- The Council does not administer homeless cases effectively; Finances are not controlled and data not secured
- The service does not meet performance targets or service standards

In terms of results, findings indicate broadly a good level of control in the areas examined, although there are some key areas to address. Weaknesses were found in temporary accommodation property lease agreements which have in some cases expired but tenants continue to be placed. Repairs and, critically, Gas safety certification at one of the sites also need addressing. There are some recommendations made due to areas for improvement with finance analysis, Data Protection and FOI request handling.

One priority four (High) recommendation has been made, which is detailed below. A further nine priority three (medium) recommendations have been made and one priority two recommendation.

## Homelessness - Priority 4 Recommendations

Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action	Date of Action	Resp. Officer
Not all leased properties are compliant with Gas Safety Regulations.	Breach of the Health and Safety Legislation and putting lives at risk.	I recommend that the Housing Options, Advice and Homeless Manager ensures that the service take urgent action to ensure that all leased properties in use are covered by a current Gas Safety certificate.	This process needs to be looked into to ensure properties remain compliant. Where internal resources cannot deliver the certificate an external service will be procured.	Dec 2016	Housing Options, Advice and Homeless Manager

**Audit Assignments completed since the June 2016 update:**

**These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee.**

ICT Audits

ICT Reviews provide assurance that the main IT systems and infrastructure comply with industry best practice. As with Operational Audits an opinion is given.

**User and Access Management – Partial Assurance**

This was a joint review across TDBC and WSC. The objective of this audit was to ensure physical and logical (IT Controls) access to the Council assets are appropriately managed in accordance with the business requirements.

There are two significant finding that related to WSC. Firstly, there are no formal procedures relating to the creation and authorisation of a proximity pass for TDBC or WSC. Cards could be created by simply turning up and requesting a card. Secondly, Active Directory users are removed from the directory after a varying length of time, usually 6 months. Other sub-systems such as Acolaid and Northgate also follow the same pattern. This means that their audit trail is also removed. In the event of a dispute or investigation in the future, absence of audit trail would mean resolution is difficult. There is also a requirement to keep audit trail for some transactions under Data Protection legislation.

The remaining seven recommendations are presented as medium priority. Partial assurance audits are historically followed up within six months of completion, so it is recommended that a follow up review be completed in early 2017-18.

The two high priority level four recommendations made are detailed below together with the agreed management action and timeframe for implementation of the recommendation.

User and Access Management - Priority 4 recommendation.

Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action	Date of Action	Resp. Officer
There are no standard forms to request a proximity pass. Cards could be created by simply turning up and requesting a card.	There is an increased risk that, in the absence of appropriate formal request and authorisation that cards can be produced fraudulently and access exploited.	The Assistant Director establishes a formal procedure relating to the request and issuing of a proximity pass which includes authorisation from an agreed list of signatories. This list of signatories will need to be provided to Facilities Management to ensure that authorisation procedures are followed.	Agreed	31 March 2017	Facilities Manager
Active Directory users are removed from the directory after a varying length of time, usually 6 months. Other sub-systems such as Acolaid and Northgate also follow the same pattern. This means that their audit trail is also removed.	In the event of a dispute or investigation in the future, absence of audit trail would mean resolution is difficult. There is also a requirement to keep audit trail for some transactions under Data Protection legislation.	The Assistant Director ensures accounts are suspended and not deleted until necessary audit trail is no longer required. Guidelines should be created which reflects these requirements and system administrators instructed to follow it.	On the assumption that this finding applies to individual business systems access rather than AD accounts, a 6 monthly review will be carried out of all system accounts, with the individual system owners being required to authorise on going access.	30 April 2017	ICT and Communications Manager

*Report Number:* WSC 142/16  
*Presented by:* Cllr M Chilcott, Lead Member for Resources  
*Author of the Report:* Steve Plenty, Senior Corporate Accountant  
*Contact Details:*  
*Tel. No. Direct Line* 01984 635217  
*Email:* sjplenty@westsomerset.gov.uk  
  
*Report to a Meeting of:* Audit Committee  
*To be Held on:* 6<sup>th</sup> December 2016  
*Date Entered on Executive Forward Plan* N/A  
*Or Agreement for Urgency Granted:*

## TREASURY MANAGEMENT UPDATE – 30<sup>TH</sup> SEPTEMBER 2016

### 1 PURPOSE OF REPORT

- 1.1 To provide Members with an update on the Treasury Management activity of the Council for the first six months of 2016/17. It focuses on a review of the Council's borrowing and investment activities.

### 2 CONTRIBUTION TO CORPORATE PRIORITIES

- 2.1 None directly in relation to this report.

### 3 RECOMMENDATIONS

- 3.1 To note the Treasury Management position as at 30th September 2016 (Appendix A).
- 3.2 To recommend that the six-monthly Treasury Management Update and the Treasury Management Outturn report, are in future presented to Scrutiny Committee and Cabinet in line with other performance reports that are brought before Members.

### 4 RISK ASSESSMENT (IF APPLICABLE)

#### Risk Matrix

Description	Likelihood	Impact	Overall
The Council fails to maintain an adequate system of internal control	Possible (2)	Major (3)	Medium (6)
<i>The Council has an agreed TMSS and effective management practices to ensure compliance</i>	(1)	(2)	(2)

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 On 24<sup>th</sup> February 2016 the Council approved the Treasury Management Strategy Statement, Minimum Revenue Policy and Annual Investment Strategy for 2016/17 in line with the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").

5.2 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These reports are required to be adequately scrutinised by committee before being recommended to the Council. This role is undertaken by the Audit Committee.

## **6 FINANCIAL / RESOURCE IMPLICATIONS**

6.1 Investment income is predicted to be £0.005m above the budget of £0.015m for the financial year 2016/17.

6.2 The Council currently has no external loans and is not predicting the need to borrow externally for the remainder of the 2016/17 financial year, however finance officers will continue to monitor this closely.

## **7 SECTION 151 OFFICER COMMENTS**

7.1 Effective management of the Council's cash flow, investments and borrowing arrangements are an important part of the governance, risk management, and financial control arrangements. The Council manages significant cash flows on a daily basis, and uses appropriately skilled staff within the Finance 'One Team' to monitor and manage these within the parameters set by the Council through the Treasury Management Strategy. The Council is also supported in delivering its treasury management arrangements through advice from our advisor – Arlingclose.

7.2 It is being recommended as part of this report that future performance against the strategy on a six-monthly basis will be presented to the Scrutiny Committee and Cabinet in line with other performance reports brought before Members.

## **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 The S151 Officer has a legal requirement to ensure appropriate arrangements are in place to adequately control the Council's resources.

# Treasury Management Update Six Months Ended 30<sup>th</sup> September 2016

## 1. 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 yearly (mid-year and at year end).

The Authority's Treasury Management Strategy for 2016/17 was approved by full Council on 24<sup>th</sup> February 2016 which can be accessed on the website at the following place: <http://www.westsomersetonline.gov.uk/Council---Democracy/Council-Meetings/Full-Council/Full-Council---24-February-2016>

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

## 2. External Context

The preliminary estimate of Q2 2016 GDP (Gross Domestic Product) showed reasonably strong growth as the economy grew 0.7% quarter-on-quarter, as compared to 0.4% in Q1 and year/year growth running at a healthy pace of 2.2%. However the UK economic outlook changed significantly on 23<sup>rd</sup> June 2016. The surprise result of the referendum on EU membership prompted forecasters to rip up previous projections and dust off worst-case scenarios. Growth forecasts had already been downgraded as 2016 progressed, as the very existence of the referendum dampened business investment, but the crystallisation of the risks and the subsequent political turmoil prompted a sharp decline in household, business and investor sentiment.

The repercussions of this plunge in sentiment on economic growth were judged by the Bank of England to be severe, prompting the Monetary Policy Committee to initiate substantial monetary policy easing at its August meeting to mitigate the worst of the downside risks. This included a cut in Bank Rate to 0.25%, further gilt and corporate bond purchases (QE) and cheap funding for banks (Term Funding Scheme) to maintain the supply of credit to the economy. The minutes of the August meeting also suggested that many members of the Committee supported a further cut in Bank Rate to near-zero levels (the Bank, however, does not appear keen to follow peers into negative rate territory) and more QE should the economic outlook worsen.

In response to the Bank of England's policy announcement, money market rates and bond yields declined to new record lows. Since the onset of the financial crisis over eight years ago, Arlingclose's rate outlook has progressed from 'lower for longer' to 'even lower for even longer' to, now, 'even lower for the indeterminable future'.

The new members of the UK government, particularly the Prime Minister and Chancellor, are likely to follow the example set by the Bank of England. After six years of fiscal consolidation, the Autumn Statement on 23<sup>rd</sup> November is likely to witness fiscal initiatives to support economic activity and confidence, most likely infrastructure investment. Tax cuts or something similar cannot be ruled out.

Whilst the economic growth consequences of BREXIT remain speculative, there is uniformity in expectations that uncertainty over the UK's future trade relations with the EU and the rest of the world will weigh on economic activity and business investment, dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment. These effects will dampen economic growth through the second half of 2016 and in 2017.

Meanwhile, inflation is expected to pick up due to a rise in import prices, dampening real wage growth and real investment returns. The August Quarterly *Inflation Report* from the Bank of England forecasts a rise in CPI to 0.9% by the end of calendar 2016 and thereafter a rise closer to the Bank's 2% target over the coming year, as previous rises in commodity prices and the sharp depreciation in sterling begin to drive up imported material costs for companies.

The rise in inflation is highly unlikely to prompt monetary tightening by the Bank of England, with policymakers looking through import-led CPI spikes, concentrating instead on the negative effects of Brexit on economic activity and, ultimately, inflation.

**Market reaction:** Following the referendum result gilt yields fell sharply across the maturity spectrum on the view that Bank Rate would remain extremely low for the foreseeable future. The yield on the 10-year gilt fell from 1.37% on 23<sup>rd</sup> June to a low of 0.52% in August, a quarter of what it was at the start of 2016. The 10-year gilt yield has since risen to 0.69% at the end of September. The yield on 2- and 3-year gilts briefly dipped into negative territory intra-day on 10th August to -0.1% as prices were driven higher by the Bank of England's bond repurchase programme. However both yields have since recovered to 0.07% and 0.08% respectively. The fall in gilt yields was reflected in the fall in PWLB borrowing rates, as evidenced in Tables 2 and 3 in Appendix 2.

On the other hand, after an initial sharp drop, equity markets appeared to have shrugged off the result of the referendum and bounced back despite warnings from the IMF on the impact on growth from 'Brexit' as investors counted on QE-generated liquidity to drive risk assets.

The most noticeable fall in money market rates was for very short-dated periods (overnight to 1 month) where rates fell to between 0.1% and 0.2%

### **3. Local Context**

At 31/3/2016 the Authority's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £5.490m, while usable reserves and working capital which are the underlying resources available for investment were £10.328m. The Authority had no borrowing and £12.795m of investments.

The Authority's current strategy is to maintain borrowing and investments below their underlying levels, referred to as internal borrowing.

### **4. Borrowing Strategy during the half year**

At 30/9/2016 the Authority held no loans, this position remains unchanged from that reported at 31<sup>st</sup> March 2016 as part of the Treasury Management Outturn report. The Authority does not expect to borrow in the remainder of 2016/17.

### Borrowing Activity in 2016/17

	Balance on 01/04/2016 £'000	MRP £'000	Maturing Debt £'000	New Borrowing £'000	Balance on 30/09/2016 £'000	Average Rate %
CFR	5,490	(143)			5,347	
Increase/(Decrease) in Borrowing					5,347	

## **5. Investment Activity**

The Authority holds invested funds on its own behalf with a separate fund for the section 106 contribution from EDF related to the building of Hinkley C nuclear power station representing income received in advance of expenditure plus balances and reserves held. Cash flow forecasts indicate that during 2016/17 the Authority's investment balances would range between £12m and £24m combining General Funds and the S106 'Hinkley funds'.

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.

The transposition of European Union directives into UK legislation places the burden of rescuing failing EU banks disproportionately onto unsecured local authority investors through potential bail-in of unsecured bank deposits including certificates of deposit.

Given the increasing risk and continued low returns from short-term unsecured bank investments, it is the Authority's aim to further diversify into more secure and/or higher yielding asset classes.

### Investment Activity in 2016/17

Investments	Balance on 01/04/2016 £'000	Investments Made £'000	Maturities/ Investments Sold £'000	Balance on 30/09/2016 £'000	Average Rate (Yield) %
Short term investments (call accounts, deposits)					
- Banks and Building Societies with ratings of A- or higher	198	10,429	9,520	1,107	0.31
- Local Authorities	6,000	1,000	3,000	4,000	0.54
Long term investments					
Banks and Building Societies with ratings of A- or higher	3,000	0	0	3,000	0.83
Money Market Funds	3,597	15,201	13,997	4,801	0.48
Debt Management Office (DMO)	0	28,938	22,098	6,840	0.20
<b>TOTAL INVESTMENTS</b>	<b>12,795</b>	<b>55,568</b>	<b>48,615</b>	<b>19,748</b>	
Increase/(Decrease) in Investments				6,953	

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 2016/17.

Counterparty credit quality was assessed and monitored with reference to credit ratings (the Authority's minimum long-term counterparty rating for institutions defined as having "high credit quality" 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

The table below shows counterparty credit quality as measured by credit ratings and the percentage of the in-house investment portfolio exposed to bail-in risk.

Date	Value Weighted Average - Credit Risk Score	Value Weighted Average - Credit Rating	Time Weighted Average - Credit Risk Score	Time Weighted Average - Credit Rating	Investments Exposed to bail-in Risk (%)
31/03/2016	2.74	AA	1.50	AAA	30%
30/06/2016	2.98	AA	1.61	AA+	28%
30/09/2016	3.09	AA	1.52	AA+	30%

### 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

Investments made by the Authority for the first six months of the year have all been short term with no investments made for longer than 364 days. Money market funds and call accounts have also been utilised to manage the Council's surplus internal cash flow.

## Counterparty Update

Various indicators of credit risk reacted negatively to the result of the referendum on the UK's membership of the European Union. UK bank credit default swaps saw a modest rise but bank share prices fell sharply, on average by 20%, with UK-focused banks experiencing the largest falls. Non-UK bank share prices were not immune although the fall in their share prices was less pronounced.

Fitch downgraded the UK's sovereign rating by one notch to AA from AA+, and Standard & Poor's downgraded its corresponding rating by two notches to AA from AAA. Fitch, S&P and Moody's have a negative outlook on the UK. S&P took similar actions on rail company bonds guaranteed by the UK Government. S&P also downgraded the long-term ratings of the local authorities to which it assigns ratings as well as the long-term rating of the EU from AA+ to AA, the latter on the agency's view that it lowers the union's fiscal flexibility and weakens its political cohesion.

Moody's affirmed the ratings of nine UK banks and building societies but revised the outlook to negative for those that it perceived to be exposed to a more challenging operating environment arising from the 'leave' outcome.

There was no immediate change to Arlingclose's credit advice on UK banks and building societies as a result of the referendum result. Our advisor believes there is a risk that the uncertainty over the UK's future trading prospects will bring forward the timing of the next UK recession.

The European Banking Authority released the results of its 2016 round of stress tests on the single market's 51 largest banks after markets closed on Friday 29th July. The stress tests gave a rather limited insight into how large banks might fare under a particular economic scenario. When the tests were designed earlier this year, a 1.7% fall in GDP over three years must have seemed like an outside risk. Their base case of 5.4% growth now looks exceptionally optimistic and the stressed case could be closer to reality. No bank was said to have failed the tests. The Royal Bank of Scotland made headline news as one of the worst performers as its ratios fell by some of the largest amounts, but from a relatively high base. Barclays Bank and Deutsche Bank ended the test with Common Equity Tier 1 (CET1) ratios below the 8% threshold, and would be required to raise more capital should the stressed scenario be realised. The tests support our cautious approach on these banks.

In July Arlingclose completed a review of unrated building societies' annual financial statements. Cumberland, Harpenden and Vernon Building Society were removed from Arlingclose's advised list, following a deterioration in credit indicators. The maximum advised maturity was also lowered for eleven societies from 6 months to 100 days due to the uncertainty facing the UK property market following the EU referendum.

### **Budgeted Income and Outturn**

The average cash balances were £18.725m during the period. The UK Bank Rate had been maintained at 0.5% since March 2009 until August 2016, when it was cut to 0.25%. It is now forecast to fall further towards zero but not go negative. Short-term money market rates have remained at relatively low levels (**see Table 1 in Appendix 2**). Following the reduction in Bank Rate, rates for very short-dated periods (overnight – 1 month) fell to between 0.1% and 0.2%. Debt Management Account Deposit Facility (DMADF) rates fell to 0.15% for periods up to 3 months and to 0.10% for 4 – 6 month deposits.

New investments on an unsecured basis with banks and building societies over the 6-month period were made at an average rate of 0.31% and investments with other Local Authorities returned an average rate of 0.54%. Investments in Money Market Funds generated an average rate of 0.48%, investments with the Debt Management Office (DMO) generated an average of 0.20%, whereas investments placed in Covered Floating Rate Notes generated an average of 0.83%.

The Authority's budgeted investment income for the year is £0.015m with forecast returns predicted to be £0.020m as reported in the Financial Monitoring Report as at 31<sup>st</sup> August 2016. Investment income in respect of Hinkley S106 funds are ring-fenced and added to the S106 Account.

The Bank Rate is expected to be cut further towards zero in the coming months, which will in turn lower the rates short-dated money market investments with banks and building societies. As all of the Authority's surplus cash continues to be invested in short-dated money market instruments, it will most likely result in a (substantial) fall in investment income over the year.

## **6. Compliance with Prudential Indicators**

The Authority confirms compliance with its Prudential Indicators for 2016/17, which were set in February 2016 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 will be:

#### **Borrowing**

	2016/17 %	2017/18 %	2018/19 %
Upper limit on fixed interest rate exposure	100	100	100
Actual	0		
Upper limit on variable interest rate exposure	100	100	100
Actual	0		

#### **Investments**

	2016/17 %	2017/18 %	2018/19 %
Upper limit on fixed interest rate exposure	100	100	100
Actual	15.2		
Upper limit on variable interest rate exposure	100	100	100
Actual	84.8		

Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

**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

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:

	2016/17 £m	2017/18 £m	2018/19 £m
Limit on principal invested beyond year end	6.00	6.00	6.00
Actual	2.50	0.00	0.00

**Security:** The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average [credit rating] or [credit score] 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 30/09/2016
Portfolio average credit rating	A-	AA

**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.

	Target	Actual 30/09/2016
Total cash available within 3 months	£3.500m	13.748m

## 7. Investment Training

Officers of the finance team have undertaken treasury management training in the form of attending workshops provided by the Authority's Treasury Management advisors, Arlingclose.

## 8. Outlook for the remainder of 2016/17

The economic outlook for the UK has immeasurably altered following the popular vote to leave the EU. The long-term position of the UK economy will be largely dependent on the agreements the government is able to secure with the EU, particularly with regard to Single Market access.

The short to medium-term outlook has been more downbeat due to the uncertainty generated by the result and the forthcoming negotiations. Economic and political uncertainty will likely dampen or delay investment intentions, prompting lower activity levels and potentially a rise in unemployment. The downward trend in growth apparent on the run up to the referendum may continue through the second half of 2016, although some economic data has held up better than was initially expected, perhaps suggesting a less severe slowdown than feared.

Arlingclose has changed its central case for the path of Bank Rate over the next three years. Arlingclose believes any currency-driven inflationary pressure will be looked through by Bank of England policymakers. Arlingclose's central case is for Bank Rate to remain at 0.25%, but there is a 40% possibility of a drop to close to zero, with a small chance of a reduction below zero.

Gilt yields are forecast to be broadly flat from current levels, albeit experiencing short-term volatility.

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
<b>Official Bank Rate</b>													
<b>Upside risk</b>	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25
<b>Arlingclose Central Case</b>	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
<b>Downside risk</b>	-0.25	-0.25	-0.25	-0.25	-0.25	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50

Global interest rate expectations have been pared back considerably. There remains a possibility that the Federal Reserve will wait until after November's presidential election, and probably hike interest rates in in December 2016 but only if economic conditions warrant.

In addition, Arlingclose believes that the Government and the Bank of England have both the tools and the willingness to use them to prevent market-wide problems leading to bank insolvencies. The cautious approach to credit advice means that the banks currently on the Authority's counterparty list have sufficient equity buffers to deal with any localised problems in the short term.

## Appendix 1

### Prudential Indicators 2016/17

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	2015/16 Actual £'000	2016/17 Estimate £'000
Affordable Housing	213	
Seaward Way Project	84	27
Asset Disposal/Demolition Costs	72	74
Play Equipment	40	
Vehicles, Plant and Equipment	133	
Disabled Facilities Grants	138	511
IT Systems and Hardware	122	382
Hinkley Impact Mitigation Projects	874	1,948
Other Schemes	147	725
<b>Total Capital Expenditure</b>	<b>1,823</b>	<b>3,667</b>
Capital Receipts	(578)	(538)
Capital Grants	(236)	(1,014)
Revenue Contributions	(51)	
S106 General	(84)	(167)
S106 Hinkley	(874)	(1,948)
<b>Total Capital Financing</b>	<b>(1,823)</b>	<b>(3,667)</b>

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

Capital Financing Requirement	31.03.16 Actual £m	31.03.17 Estimate £m	31.03.18 Estimate £m	31.03.19 Estimate £m
General Fund	5,490	5,347	5,204	5,061

The CFR is forecast to fall over the next three years as capital expenditure financed by debt (currently forecast to be £nil) 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	31.03.16 Actual £m	30.09.16 Actual £m	31.03.17 Estimate £m	31.03.18 Estimate £m	31.03.19 Estimate £m
Borrowing	0.000	0.000	0.000	0.000	0.000
Finance Leases	0.039	0.039	0.039	0.039	0.039
Total Debt	0.039	0.039	0.039	0.039	0.039

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	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m
Borrowing	7.70	7.70	7.70	7.70

The Authority confirms that during 2016/17, the Operational Boundary has not been not breached at any time.

**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	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m
Borrowing	10.00	10.00	10.00	10.00

Total external debt at 30<sup>th</sup> September 2016 was £nil. The Authority confirms that during 2016/17 the Authorised Limit has not been breached at any time.

**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	2015/16 Actual %	2016/17 Estimate %	2017/18 Estimate %	2018/19 Estimate %
General Fund	-0.26	-0.34	0	2.24

The actual ratio for 2015/16 and the estimated ratio for 2016/17 are negative due to the Council having no debt to service (no interest to pay on borrowing) and a capital programme which does not impact on the revenue budget.

**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 earlier in this report.

Incremental Impact of Capital Investment Decisions	2016/17 Estimate £	2017/18 Estimate £	2018/19 Estimate £
General Fund - increase in annual Band D Council Tax	0	0	0

**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.

## Appendix 2

### 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. Borrowing eligible for the project rate can be undertaken at a 0.40% 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
01/4/2016	0.50	0.36	0.36	0.39	0.46	0.61	0.88	0.78	0.83	0.98
30/4/2016	0.50	0.36	0.36	0.38	0.47	0.62	0.90	0.86	0.95	1.13
31/5/2016	0.50	0.35	0.37	0.39	0.46	0.61	0.89	0.82	0.92	1.09
30/6/2016	0.50	0.35	0.36	0.39	0.43	0.55	0.80	0.49	0.49	0.60
31/7/2016	0.50	0.15	0.45	0.42	0.52	0.64	0.77	0.47	0.47	0.54
31/8/2016	0.25	0.11	0.18	0.18	0.38	0.54	0.69	0.42	0.42	0.48
30/9/2016	0.25	0.10	0.25	0.45	0.51	0.61	0.74	0.43	0.42	0.47
<b>Minimum</b>	0.25	0.02	0.15	0.18	0.30	0.50	0.66	0.38	0.37	0.42
<b>Average</b>	0.43	0.26	0.37	0.42	0.52	0.66	0.83	0.61	0.64	0.75
<b>Maximum</b>	0.50	0.43	0.55	0.61	0.72	0.83	1.04	0.88	0.99	1.20
<b>Spread</b>	0.25	0.41	0.40	0.43	0.42	0.33	0.38	0.51	0.62	0.78

**Table 2: PWLB Borrowing Rates – Fixed Rate, Maturity Loans (Standard Rate)**

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/4/2016	125/16	1.33	1.82	2.51	3.24	3.33	3.19	3.15
30/4/2016	165/16	1.37	1.95	2.65	3.34	3.40	3.25	3.21
31/5/2016	205/16	1.36	1.93	2.56	3.22	3.27	3.11	3.07
30/6/2016	249/16	1.17	1.48	2.09	2.79	2.82	2.61	2.57
31/7/2016	292/16	1.07	1.31	1.84	2.57	2.65	2.48	2.44
31/8/2016	336/16	1.09	1.23	1.65	2.22	2.29	2.12	2.08
30/9/2016	380/16	1.02	1.20	1.70	2.34	2.43	2.29	2.27
	Low	1.01	1.15	1.62	2.20	2.27	2.10	2.07
	Average	1.20	1.54	2.12	2.81	2.87	2.70	2.67
	High	1.40	2.00	2.71	3.40	3.46	3.31	3.28

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

<b>Change Date</b>	<b>Notice No</b>	<b>4½-5 yrs</b>	<b>9½-10 yrs</b>	<b>19½-20 yrs</b>	<b>29½-30 yrs</b>	<b>39½-40 yrs</b>	<b>49½-50 yrs</b>
01/4/2016	125/16	1.50	1.86	2.54	2.99	3.25	3.34
30/4/2016	165/16	1.59	1.99	2.68	3.11	3.34	3.42
31/5/2016	205/16	1.58	1.97	2.58	2.99	3.23	3.30
30/6/2016	249/16	1.24	1.51	2.11	2.55	2.79	2.86
31/7/2016	292/16	1.13	1.34	1.87	2.31	2.58	2.67
31/8/2016	336/16	1.12	1.25	1.67	2.02	2.23	2.31
30/9/2016	380/16	1.05	1.22	1.72	2.13	2.36	2.44
	<b>Low</b>	1.03	1.17	1.64	2.00	2.20	2.28
	<b>Average</b>	1.30	1.57	2.15	2.58	2.82	2.89
	<b>High</b>	1.63	2.04	2.73	3.17	3.41	3.48

**Table 4: PWLB Variable Rates (standard rate)**

	<b>1-M Rate</b>	<b>3-M Rate</b>	<b>6-M Rate</b>	<b>1-M Rate</b>	<b>3-M Rate</b>	<b>6-M Rate</b>
	<b>Pre-CSR</b>	<b>Pre-CSR</b>	<b>Pre-CSR</b>	<b>Post-CSR</b>	<b>Post-CSR</b>	<b>Post-CSR</b>
1/4/2016	0.61	0.65	0.67	1.51	1.55	1.57
30/4/2016	0.61	0.65	0.67	1.51	1.55	1.57
31/5/2016	0.65	0.66	0.70	1.55	1.56	1.60
30/6/2016	0.64	0.62	0.62	1.54	1.52	1.52
31/7/2016	0.55	0.48	0.45	1.45	1.38	1.35
31/8/2016	0.38	0.41	0.48	2.18	1.31	1.38
30/9/2016	0.38	0.40	0.48	1.28	1.30	1.38

Report Number: WSC 143/16

# West Somerset Council

## Audit Committee 6 December 2016

### Appointment of External Auditors for 2018/19

This matter is the responsibility of Executive Councillor Mandy Chilcott

Report Author: Paul Carter, Assistant Director – Corporate Services

#### 1 Executive Summary / Purpose of the Report

1.1 The report introduces and explains the background to the letter received from Public Sector Auditor Appointments (PSAA) regarding the national scheme for appointing external auditors for 2018/19. Details are provided in the report of the various options open to us for appointing our external auditors from 2018/19 onwards. The report concludes and recommends that we should opt into the national scheme being run by PSAA.

#### 2 Recommendations

2.1 The Audit Committee are asked to endorse the recommendation to Council on 14 December 2016 for WSC to opt in to the PSAA scheme for procuring our external auditor for 2018/19 and beyond.

#### 3 Risk Assessment

##### Risk Matrix

Description	Likelihood	Impact	Overall
Failure to implement and maintain appropriate, cost effective and independent external audit arrangements for 2018/19 and beyond leads to our breaching our legal obligations	3	4	12
<i>The mitigations for this are the proposed changes as set out in the report</i>	2	4	8

##### 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%

## 4 Background and Full details of the Report

### *Background*

- 4.1 The Local Audit and Accountability Act 2014 abolished the Audit Commission and requires, from 2018/19, local authorities to appoint their own external auditors.
- 4.2 Our current external audit function is provided by Grant Thornton under contract from Central Government. The external audit work currently costs us circa £50k per annum.
- 4.3 By 31 December 2017 we are required to have arrangements in place for our external audit provision for the 2018/19 financial year.
- 4.4 These changes have NO impact on our internal audit arrangements which continue to be provided by the South West Audit Partnership (SWAP).

### *Options for Procurement*

- 4.5 Essentially there are three options available to us:
  - i) Undertake an individual procurement exercise (i.e. do it ourselves);
  - ii) Conduct a joint procurement exercise with other bodies (e.g. a local scheme with other councils or public bodies in our area); or

- iii) Join a 'sector led body' arrangement where specified appointing person status has been achieved under regulations (i.e. the procurement is undertaken on our behalf).

4.6 Options i) and ii) above require the creation of an auditor panel to advise on the appointment. There is no requirement for an auditor panel with option 3.

#### *The Public Sector Audit Appointments National Scheme*

4.7 The Secretary of State for Communities and Local Government has approved Public Sector Audit Appointments (PSAA) as a sector led body that can undertake this procurement as outlined in Option iii) above.

4.8 PSAA is a not-for-profit company established by the Local Government Association and administers the current external audit contracts on behalf of central government. The PSAA has established an advisory panel drawn from local government and police bodies to assist in the design of the scheme.

4.9 The attached letter from PSAA provides details of the opt in scheme proposed by PSAA. In summary however the intention is to provide a scheme which saves time and resources for councils by undertaking a collective procurement. Specifically this will mean we avoid having to:

- Establish an audit panel with independent members;
- Manage the procurement process
- Monitor the independence of the auditor during the duration of the appointment
- Deal with the replacement of any auditor if required
- Manage the contract with the auditor

4.10 The costs of setting up and managing the scheme will be covered by the audit fees. Whilst the exact costs are unknown at this stage PSAA anticipate them being lower than their current costs.

4.11 A Full Council decision is required should we wish to opt in to the PSAA scheme and we need to formally notify PSAA by 9 March 2017 should we intend to do so.

#### *Conclusions*

4.12 Our annual spend on external audit is circa £50k per annum. The costs of undertaking our own procurement exercise could be disproportionate and are unlikely to result in our procuring a contract at a lower price than a sector led exercise.

4.13 Whilst a detailed analysis of the various options has not been undertaken, it is clear that the scheme proposed by PSAA offers distinct benefits in terms of simplicity, cost, resources and time over procuring and managing a contract locally.

## **5 Links to Corporate Aims / Priorities**

5.1 There are no specific links to the Corporate Aims and Priorities

## **6 Finance / Resource Implications**

6.1 External audit provide a vital role in auditing our accounts, ensuring we are operating within the law and have proper arrangements in place for securing economy, efficiency

and effectiveness.

- 6.2 Our annual spend on this function and the value of the 'contract' is comparatively small. The costs of running an internal procurement exercise could be disproportionate and consequently it makes sense from a financial perspective to opt into the PSAA scheme.

**7 Legal Implications (if any)**

- 7.1 We are required by law to have independent external audit arrangements in place. Opting into the PSAA scheme provides us with a cost effective and low resource mechanism for delivering this responsibility.

**8 Environmental Impact Implications (if any)**

- 8.1 No implications.

**9 Safeguarding and/or Community Safety Implications (if any)**

- 9.1 No implications.

**10 Equality and Diversity Implications (if any)**

- 10.1 No implications.

**11 Social Value Implications (if any)**

- 11.1 The proposal relates to the procurement of specialist external auditing work. It will be led by a non-for-profit company established by the Local Government Association who will consult with us as part of the procurement process.

**12 Partnership Implications (if any)**

- 12.1 The proposal allows us to work in partnership with other public sector bodies to jointly procure services. This should allow us to both minimise procurement and contract costs.

**13 Health and Wellbeing Implications (if any)**

- 13.1 No implications.

**14 Asset Management Implications (if any)**

- 14.1 No implications.

**15 Consultation Implications (if any)**

- 15.1 No implications.

**Democratic Path:**

- **Audit Committee – Yes / No** (delete as appropriate)
- **Cabinet – ~~Yes~~ / No** (delete as appropriate)

- **Full Council – Yes / ~~No~~** (delete as appropriate)

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

**List of Appendices (delete if not applicable)**

Appendix A	Letter dated 27 October 2016 from Public Sector Audit Appointments
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**Contact Officers**

Name	Paul Carter	Name	Richard Sealy
Direct Dial	07802 868175	Direct Dial	01823 358690
Email	<a href="mailto:p.carter@tauntondeane.gov.uk">p.carter@tauntondeane.gov.uk</a>	Email	<a href="mailto:r.sealy@tauntondeane.gov.uk">r.sealy@tauntondeane.gov.uk</a>
Name		Name	
Direct Dial		Direct Dial	
Email		Email	

27 October 2016

Email: [appointingperson@psaa.co.uk](mailto:appointingperson@psaa.co.uk)

Penny James  
West Somerset District Council  
The Deane House  
Belvedere Road  
Taunton Somerset TA1 1HE

Copied to: Shirlene Adam, Director - Operations, West Somerset District Council  
Bruce Lang, Monitoring Officer, West Somerset District Council

Dear Ms James

### Invitation to opt into the national scheme for auditor appointments

As you know the external auditor for the audit of the accounts for 2018/19 has to be appointed before the end of 2017. That may seem a long way away, but as there is now a choice about how to make that appointment, a decision on your authority's approach will be needed soon.

We are pleased that the Secretary of State has expressed his confidence in us by giving us the role of appointing local auditors under a national scheme. This is one choice open to your authority. We issued a prospectus about the scheme in July 2016, available to download on the [appointing person](#) page of our website, with other information you may find helpful.

The timetable we have outlined for appointing auditors under the scheme means we now need to issue a formal invitation to opt into these arrangements. The covering email provides the formal invitation, along with a form of acceptance of our invitation for you to use if your authority decides to join the national scheme. We believe the case for doing so is compelling. To help with your decision we have prepared the additional information attached to this letter.

I need to highlight two things:

- we need to receive your formal acceptance of this invitation by 9 March 2017; and
- the relevant regulations require that, except for a body that is a corporation sole (a police and crime commissioner), the decision to accept the invitation and to opt in needs to be made by the members of the authority meeting as a whole. We appreciate this will need to be built into your decision making timetable.

If you have any other questions not covered by our information, do not hesitate to contact us by email at [appointingperson@psaa.co.uk](mailto:appointingperson@psaa.co.uk).

Yours sincerely



Jon Hayes, Chief Officer

## **Appointing an external auditor**

### **Information on the national scheme**

#### **Public Sector Audit Appointments Limited (PSAA)**

We are a not-for-profit company established by the Local Government Association (LGA). We administer the current audit contracts, let by the Audit Commission before it closed.

We have the support of the LGA, which has worked to secure the option for principal local government and police bodies to appoint auditors through a dedicated sector-led national procurement body. We have established an advisory panel, drawn from representative groups of local government and police bodies, to give access to your views on the design and operation of the scheme.

#### **The national scheme for appointing local auditors**

We have been specified by the Secretary of State for Communities and Local Government as the appointing person for principal local government bodies. This means that we will make auditor appointments to principal local government bodies that choose to opt into the national appointment arrangements we will operate for audits of the accounts from 2018/19. These arrangements are sometimes described as the 'sector-led body' option, and our thinking for this scheme was set out in a prospectus circulated to you in July. The prospectus is available on the [appointing person](#) page of our website.

We will appoint an auditor for all opted-in authorities for each of the five financial years beginning from 1 April 2018, unless the Secretary of State chooses to terminate our role as the appointing person beforehand. He or she may only do so after first consulting opted-in authorities and the LGA.

#### **What the appointing person scheme will offer**

We are committed to making sure the national scheme will be an excellent option for auditor appointments for you.

We intend to run the scheme in a way that will save time and resources for local government bodies. We think that a collective procurement, which we will carry out on behalf of all opted-in authorities, will enable us to secure the best prices, keeping the cost of audit as low as possible for the bodies who choose to opt in, without compromising on audit quality.

Our current role means we have a unique experience and understanding of auditor procurement and the local public audit market.

Using the scheme will avoid the need for you to:

- establish an audit panel with independent members;
- manage your own auditor procurement and cover its costs;
- monitor the independence of your appointed auditor for the duration of the appointment;
- deal with the replacement of any auditor if required; and
- manage the contract with your auditor.

Our scheme will endeavour to appoint the same auditors to other opted-in bodies that are involved in formal collaboration or joint working initiatives, if you consider that a common auditor will enhance efficiency and value for money.

We will also try to be flexible about changing your auditor during the five-year appointing period if there is good reason, for example where new joint working arrangements are put in place.

Securing a high level of acceptances to the opt-in invitation will provide the best opportunity for us to achieve the most competitive prices from audit firms. The LGA has previously sought expressions of interest in the appointing person arrangements, and received positive responses from over 270 relevant authorities. We ultimately hope to achieve participation from the vast majority of eligible authorities.

### **High quality audits**

The Local Audit and Accountability Act 2014 provides that firms must be registered as local public auditors with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB). The quality of registered firms' work will be subject to scrutiny by both the RSB and the Financial Reporting Council (FRC), under arrangements set out in the Act.

We will:

- only contract with audit firms that have a proven track record in undertaking public audit work;
- include obligations in relation to maintaining and continuously improving quality in our contract terms and in the quality criteria in our tender evaluation;
- ensure that firms maintain the appropriate registration and will liaise closely with RSBs and the FRC to ensure that any quality concerns are detected at an early stage; and
- take a close interest in your feedback and in the rigour and effectiveness of firms' own quality assurance arrangements.

We will also liaise with the National Audit Office to help ensure that guidance to auditors is updated as necessary.

### **Procurement strategy**

In developing our procurement strategy for the contracts with audit firms, we will have input from the advisory panel we have established. The panel will assist PSAA in developing arrangements for the national scheme, provide feedback to us on proposals as they develop, and helping us maintain effective channels of communication. We think it is particularly important to understand your preferences and priorities, to ensure we develop a strategy that reflects your needs within the constraints set out in legislation and in professional requirements.

In order to secure the best prices we are minded to let audit contracts:

- for 5 years;
- in 2 large contract areas nationally, with 3 or 4 contract lots per area, depending on the number of bodies that opt in; and
- to a number of firms in each contract area to help us manage independence issues.

The value of each contract will depend on the prices bid, with the firms offering the best value being awarded larger amounts of work. By having contracts with a number of firms, we will be able to manage issues of independence and avoid dominance of the market by one or two firms. Limiting the national volume of work available to any one firm will encourage competition and ensure the plurality of provision.

## **Auditor appointments and independence**

Auditors must be independent of the bodies they audit, to enable them to carry out their work with objectivity and credibility, and in a way that commands public confidence.

We plan to take great care to ensure that every auditor appointment passes this test. We will also monitor significant proposals for auditors to carry out consultancy or other non-audit work, to protect the independence of auditor appointments.

We will consult you on the appointment of your auditor, most likely from September 2017. To make the most effective allocation of appointments, it will help us to know about:

- any potential constraints on the appointment of your auditor because of a lack of independence, for example as a result of consultancy work awarded to a particular firm;
- any joint working or collaboration arrangements that you think should influence the appointment; and
- other local factors you think are relevant to making the appointment.

We will ask you for this information after you have opted in.

Auditor appointments for the audit of the accounts of the 2018/19 financial year must be made by 31 December 2017.

## **Fee scales**

We will ensure that fee levels are carefully managed by securing competitive prices from firms and by minimising our own costs. Any surplus funds will be returned to scheme members under our articles of association and our memorandum of understanding with the Department for Communities and Local Government and the LGA.

Our costs for setting up and managing the scheme will need to be covered by audit fees. We expect our annual operating costs will be lower than our current costs because we expect to employ a smaller team to manage the scheme. We are intending to fund an element of the costs of establishing the scheme, including the costs of procuring audit contracts, from local government's share of our current deferred income. We think this is appropriate because the new scheme will be available to all relevant principal local government bodies.

PSAA will pool scheme costs and charge fees to audited bodies in accordance with a fair scale of fees which has regard to size, complexity and audit risk, most likely as evidenced by audit fees for 2016/17. Pooling means that everyone in the scheme will benefit from the most competitive prices. Fees will reflect the number of scheme participants – the greater the level of participation, the better the value represented by our scale fees.

Scale fees will be determined by the prices achieved in the auditor procurement that PSAA will need to undertake during the early part of 2017. Contracts are likely to be awarded at the end of June 2017, and at this point the overall cost and therefore the level of fees required will be clear. We expect to consult on the proposed scale of fees in autumn 2017 and to publish the fees applicable for 2018/19 in March 2018.

## Opting in

The closing date for opting in is 9 March 2017. We have allowed more than the minimum eight week notice period required, because the formal approval process for most eligible bodies, except police and crime commissioners, is a decision made by the members of an authority meeting as a whole.

We will confirm receipt of all opt-in notices. A full list of authorities who opt in will be published on our website. Once we have received an opt-in notice, we will write to you to request information on any joint working arrangements relevant to your auditor appointment, and any potential independence matters that would prevent us appointing a particular firm.

If you decide not to accept the invitation to opt in by the closing date, you may subsequently make a request to opt in, but only after 1 April 2018. The earliest an auditor appointment can be made for authorities that opt in after the closing date is therefore for the audit of the accounts for 2019/20. We are required to consider such requests, and agree to them unless there are reasonable grounds for their refusal.

## Timetable

In summary, we expect the timetable for the new arrangements to be:

- Invitation to opt in issued 27 October 2016
- Closing date for receipt of notices to opt in 9 March 2017
- Contract notice published 20 February 2017
- Award audit contracts By end of June 2017
- Consult on and make auditor appointments By end of December 2017
- Consult on and publish scale fees By end of March 2018

## Enquiries

We publish frequently asked questions on our [website](#). We are keen to receive feedback from local bodies on our plans. Please email your feedback or questions to: [appointingperson@psaa.co.uk](mailto:appointingperson@psaa.co.uk).

If you would like to discuss a particular issue with us, please send an email to the above address, and we will make arrangements either to telephone or meet you.

# West Somerset Council

## Audit Committee 6 December 2016

### Update on Corporate Counter Fraud arrangements

This matter is the responsibility of Councillor Mandy Chilcott

Report Author: Paul Fitzgerald, Assistant Director Resources

#### 1 Executive Summary

- 1.1 This report provides Audit Committee with information on our existing arrangements with the South West Counter Fraud Partnership.
- 1.2 The Audit Committee is requested to give consideration on future arrangements for Corporate Counter Fraud activities.

#### 2 Recommendations

- 2.1 The Audit Committee is asked to note the information provided in this report and support a proposal to pursue an alternative Corporate Counter Fraud function that is largely self-funding from 1 April 2017.

#### 3 Risk Assessment

##### Risk Matrix

Description	Likelihood	Impact	Overall
Financial and reputational risk in not having an effective Anti-Fraud function	3	4	12
<i>Design and implement an effective Corporate Anti-Fraud function.</i>	2	4	8
Insufficient capacity, finance or expertise to adequately deliver an effective Anti-Fraud function	5	4	20
<i>Work in partnership with other Councils</i>	2	4	8

## 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

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

## 4 Background

- 4.1 On 2 July 2014, the DCLG invited local authorities to submit bids for funding over 2014-2015 and 2015-2016 to deliver financial savings in tackling non-welfare fraud. The DCLG specified that bidding proposals should seek to achieve efficiencies and transformation through partnership working between local authorities and/or with other public and private sector partners.
- 4.2 On 22 September 2014 the Audit Committee supported the submission of a joint bid from West Somerset, Taunton Deane and South Somerset Councils to the DCLG and recommended that Cabinet and Full Council approve necessary match funding of up to £10,000 to develop a cost-effective Corporate Anti-Fraud function.
- 4.3 West Somerset Council, Taunton Deane Borough Council and South Somerset District Council worked with the South West Audit Partnership Ltd (SWAP) to submit a successful bid for funding of £110,000 with initial match funding totalling £40,000 being provided by the three Councils. As shown in section 8 below, the total amount invested by the three Councils in 2015/16 and 2016/17 including Government funding totals £188,000.
- 4.4 Progress in developing our counter-fraud function was affected by a number of factors such as Government announcements, the JMASS project and developments in the creation of the DWP's Single Fraud Investigation Service

(SFIS). Further work was needed to develop the business case, and select the preferred delivery model either through SWAP, a Local Authority Partnership or a combination of a SWAP/Local Authority Partnership arrangement. In addition, discussions were held with other local authorities to confirm their commitment, or otherwise, in joining a partnership from the outset.

- 4.5 By May 2015, work had progressed in the formation of a Corporate Anti-Fraud service, with SWAP managing and operating a full counter-fraud function for the partner authorities. SWAP recruited three staff to detect and investigate fraud and to ensure fraud prevention controls were improved to safeguard the partner authorities appropriately against fraud. These staff were brought together within the South West Counter Fraud Partnership (SWCFP) that was has been operational since 1 July 2015. The ambition was that over time, SWCFP would be effectively self-financing due to the additional income gathered as a result of anti-fraud activities and measures.
- 4.6 The business case submitted to Government suggested that savings in the region of £88,000 may be identified across the three Councils, however our ambition was based on increased ongoing savings being delivered.
- 4.7 There is no budgetary provision for funding the SWCFP, or any Corporate Anti-Fraud function, from 1 April 2017 onwards.

## 5 Progress to date

- 5.1 On 1 December 2015 Heather Tiso, Revenues & Benefits Manager provided a verbal update to the Audit Committee on the progress of our Counter Fraud arrangements. While no financial savings through investigative work had been brought to fruition in the 5 months SWCFP had been operational, fraud awareness training had been organised and delivered to officers and Members of the three Councils.
- 5.2 On 21 March 2016 the Audit Committee approved a Corporate Anti-Fraud Policy setting out the high level priorities we need to meet to achieve the Council's vision of zero tolerance for fraud, corruption and bribery throughout the authority. While supporting the policy, Members expressed concern on the "cost to the Council in maintaining our position within the South West Counter Fraud partnership" and "wanted to see results and recovery of fraudulently gained monies."
- 5.3 From 1 July 2016 SWAP have agreed to a reduction in the cost of SWCFP until 31 March 2017 as Sedgemoor District Council have temporarily joined the counter-fraud partnership arrangement for part of this year.
- 5.4 SWCFP have reported the following financial savings that had been achieved for the three Councils as a result of investigations up to 30 September 2016:

	£
West Somerset Council	0
Taunton Deane Borough Council	2,888
South Somerset District Council	1,006

- 5.5 There have been just two fraud referrals for West Somerset Council, with both cases being investigated and closed with no fraud proven.
- 5.6 Data matching undertaken by SWCFP for potential fraud of Single Person Discount has identified 29 instances where further work needs to be undertaken to establish the validity of the award.

## **6 Next Steps**

- 6.1 West Somerset Council faces significant and increasing financial challenges for the foreseeable future. Therefore it is vital that we consider options from 1 April 2017 that are affordable and that do not add to budget pressures. Members will need to determine its investment in counter-fraud arrangements against other priorities in this context.
- 6.2 The Council needs to decide to:
- a) continue with the current arrangements with the SWCFP and if so, agree an appropriate budget for such activities; or
  - b) cease Corporate Counter Fraud activities other than those embedded in existing core service financial and operational controls, and accept both the potential financial and reputational risk in not having an effective Anti-Fraud function; or
  - c) consider provision of an alternative counter-fraud function that is largely self-funding from 1 April 2017.
- 6.3 In anticipation Members may wish to give consideration to option c) outlined above, officers have approached other Councils with Corporate Anti-Fraud teams that may be in a position to provide services predominantly on a risk and reward basis. As an example, one such Council established a Corporate Anti-Fraud Team on 1 April 2015 utilising software that cross-matches a wide range of Local Authority data against credit reference files. During 2015/16 this team achieved financial savings of over £200,000.
- 6.4 If West Somerset Council wish to pursue any agreement with the provider of investigation services referred to in paragraph 6.3, they have proposed a partnership agreement for 3 years. Such an agreement would have built in opt-outs if the services provided do not generate agreed performance measures. The provider would charge of 33% of actual income and penalties due to West Somerset Council as a result of investigative activity. Such a fee would reflect we would only receive income based on a percentage of Council Tax or Business Rates. For example if we are able to bill for additional Council Tax income of £10,549 through investigation activities, only £1,000 would be income due to West Somerset Council based on its precepting share of 9.48% in 2016/17. This would result in a payment of £333 to the provider.

## **7 National Fraud Initiative 2014-2016**

- 7.1 This report also provides a good opportunity to brief the Committee on the

outcomes from the last National Fraud Initiative (NFI) work undertaken by this Council. 'NFI 2014' covers the period 2014 to 2016. The requirement to participate in the NFI process is mandatory.

7.2 The main NFI 2014 site contains 35 reports relevant for this Council, of which 8 are identified as high priority "key reports". This covers areas such as housing benefit, payroll, creditors, licensing, etc. The reports match a range of data sets and highlight potential anomalies for investigation. Investigating the matches can be resource intensive, therefore we adopt a prioritisation approach where a sample of matches are tested, and if this highlights risks or issues with a set of matches then further testing is undertaken.

7.3 The following table summarises the outcome for this Council:

Total Matches Identified	621
Of which, Total Recommended Matches for review	112
Total Matches Processed (reviewed)	284
Number of frauds	0
Number of errors	0
Outcome of NFI investigation in fraud losses	£0

7.4 The table shows that of the 284 matches reviewed no fraud cases were identified.

7.5 In addition to the main NFI site there is the Flexible Matching Service NFI site, which contains 2 reports providing matches between Council Tax and Electoral Register data sets and council tax rising 18s information.

Total Matches Identified	3,411
Total Matches Processed / In Progress	269
Number of frauds	0
Number of errors	0
Outcome of NFI investigation in fraud losses	£0

7.6 The above information indicates that the overall level of losses identified is very low. This is reassuring as it indicates the core business controls in operation are effective in preventing fraud and error.

## **8 Links to Corporate Aims / Priorities**

8.1 This report links to Key Theme 4 - An Efficient & Modern Council as it reviews how services are delivered, by whom and to what standard in order to best allocate our resources.

## **9 Finance / Resource Implications**

9.1 Expenditure and funding of the SWCFP from 1 July 2015 to 31 March 2017 is

as follows:

	<b>TDBC</b>	<b>WSC</b>	<b>SSDC</b>	<b>Total</b>
SWCFP services 1 July 2015 - 30 June 2015	£56,000.00	<b>£14,000.00</b>	£42,000.00	<b>£112,000.00</b>
SWCFP services 1 July 2016 - 31 March 2017	£33,112.50	<b>£9,933.75</b>	£26,178.75	<b>£69,225.00</b>
Accredited Counter Fraud Specialist training for SWCFP	£3,600.00	<b>£900.00</b>	£2,700.00	<b>£7,200.00</b>
<b>Total expenditure</b>	<b>£92,712.50</b>	<b>£24,833.75</b>	<b>£70,878.75</b>	<b>£188,425.00</b>

	<b>TDBC</b>	<b>WSC</b>	<b>SSDC</b>	<b>Total</b>
DCLG funding	£55,000.00	<b>£13,750.00</b>	£41,250.00	<b>£110,000.00</b>
Match Funding 1 July 2016 - 31 March 2017	£37,712.50	<b>£11,083.75</b>	£29,628.75	<b>£78,425.00</b>
<b>Total Funding</b>	<b>£92,712.50</b>	<b>£24,833.75</b>	<b>£70,878.75</b>	<b>£188,425.00</b>

9.2 The cost of Council Tax collection and fraud investigation is borne by District Councils. The County Council receives a larger share of the Council Tax and would therefore receive the greatest part of the additional income that arises from identifying fraud in Council Tax. Somerset County Council have committed funding to the Revenues & Benefits Service for West Somerset Council of £42,274.92 in 2016/17 and 2017/18. This funding is intended to meet the costs of additional staff in undertaking activities to reduce Council Tax discounts, reductions and exemptions by 5% and so increase the net Council Tax collected. Given the funding already provided by Somerset County Council, it is unlikely extra funding will be available for additional activities to prevent and detect Council Tax fraud.

9.3 In instances where a fraudulent application has been made for Council Tax Rebate (CTR), West Somerset Council could offer a person the opportunity to pay a financial penalty as an alternative to prosecution. The penalty is 50% of the excess CTR applied subject to a minimum of £100 and a maximum of £1,000. In cases where an offence has been committed but the fraud has been discovered before any CTR has been paid, the penalty is £100. Income raised from penalties applied to Council Tax accounts would be retained by West Somerset Council, so effective investigations in this area could assist in funding a Corporate Counter Fraud function in the future. The cost of prosecutions under the Fraud Act is borne by West Somerset Council and as such, prosecutions should only be taken where it is financially viable to do so.

## **10 Legal Implications**

10.1 The legislation concerning matters on Anti-Fraud are mainly contained in:

- The Fraud Act 2006
- Theft Act 1968

- Bribery Act 2010
- Local Government Finance Act 1992
- Regulation of Investigatory Powers Act 2000
- Social Security Administration Act 1992
- Police and Criminal Evidence (PACE) Act 1984 and the Criminal Procedure and Investigations Act 1996
- Prevention of Social Housing Fraud Act 2013
- The Detection of Fraud and Enforcement (England) Regulations 2013.

## **11 Environmental Impact Implications**

11.1 There are no environmental implications associated with this report.

## **12 Safeguarding and/or Community Safety Implications**

12.1 Safeguarding and community safety implications have been considered, and there are not expected to be any specific implications relating to this report.

## **13 Equality and Diversity Implications**

13.1 Members need to demonstrate 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

13.2 An Equality Impact Assessment (EIA) was prepared to support the Corporate Anti-Fraud Policy presented to the Audit Committee on 21 March 2016.

## **14 Social Value Implications**

14.1 There are no social value implications associated with this report.

## **15 Partnership Implications**

15.1 Partnership implications have been considered, and are discussed in the main body of this report. Should the Council decide to pursue alternative options this has the potential that the South West Counter Fraud Partnership would not exist in its current form, and may be discontinued unless new partners join.

15.2 This possibility has been discussed with SWAP management and they have arrangements on standby to transfer the three staff from the fraud team to the core internal audit team therefore no staff are “at risk”. Similarly there are no implications for the core internal audit plan as a result of any changes to counter-fraud arrangements.

## **16 Health and Wellbeing Implications**

16.1 There are no Health and Wellbeing implications associated with this report.

## **17 Asset Management Implications**

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

## **18 Consultation Implications**

18.1 There are no Consultation implications associated with this report.

### **Democratic Path:**

- **Audit Committee - Yes**
- **Cabinet - No**

**Reporting Frequency:**  **Ad-hoc**

### **Contact Officers**

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