



Members of the Audit Committee:
(Councillors R P Lillis (Chairman), R Woods (Vice Chairman),
K Mills, P Pilkington, N Thwaites, R Thomas, T Venner)

Our Ref: Democratic Services
Contact: Clare Rendell c.rendell@tauntondeane.gov.uk

Date 7 September 2018

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

Dear Councillor

I hereby give you notice to attend the following meeting:

AUDIT COMMITTEE

Date: Monday 17 September 2018
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

A handwritten signature in black ink, appearing to read "Bruce Lang", with a long, sweeping underline.

BRUCE LANG
Proper Officer

RISK SCORING MATRIX

Report writers score risks in reports uses the scoring matrix below

Risk Scoring Matrix

Likelihood	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%

- 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.

AUDIT COMMITTEE - AGENDA

17 September 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 23 July 2018 – **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 – **SEE ATTACHED.**

6. **Audit Committee Forward Plan**

To review the Audit Committee Forward Plan 2018/19 – **SEE ATTACHED.**

7. **Exclusion of the Press and Public**

To consider excluding the press and public during consideration of the report and appendices contained in the Counter Fraud Partnership Progress Report on the grounds that, if the press and public were present during this item, there would be likely to be a disclosure to them of exempt information of the class specified in Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 as amended as follows:

Report No. WSC 71/18 contains information that could release confidential information relating to the financial or business affairs of any particular person (including the authority holding that information). It is therefore proposed that after consideration of all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

8. **Counter Fraud Partnership – 2017/18 Progress Report**

To consider Confidential Report No WSC 71/18 to be presented by Dean Emery – **SEE ATTACHED.**

The purpose of the report is to summarise the results of the first year of the Counter Fraud Partnership.

9. **Re-admittance of Press and Public**

10. **Grant Thornton External Audit – Annual Audit Letter 2017/18**

To consider Report No WSC 72/18 to be presented by Sarah Crouch, Audit Manager, Grant Thornton – **SEE ATTACHED.**

The purpose of the report is to summarise the key findings from the external audit work carried out in respect of the 2017/18 financial year and details the actual audit fees charged.

11. **Grant Thornton External Audit – Progress and Update Report**

To consider Report No WSC 73/18 to be presented by Sarah Crouch, Audit Manager, Grant Thornton – **SEE ATTACHED.**

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

12. **SWAP Internal Audit – Progress Update 2017/18**

To consider Report No WSC 74/18 to be presented by Alastair Woodland, Audit Manager, South West Audit Partnership – **SEE ATTACHED.**

The purpose of the report is to update members on the Internal Audit Plan 2018/19 progress and bring to their attention any significant findings identified through the work.

13. **Summary of Overdue High Priority SWAP Audit Recommendations**

To consider Report No WSC 75/18 to be presented by Richard Doyle, Corporate Strategy and Performance Officer – **SEE ATTACHED.**

The purpose of the report is to provide Members with a position statement on the SWAP audit recommendations for West Somerset Council, which were assessed as high and very high priority, where the agreed remedial action is overdue.

14. **Audit Action Plan Update**

To consider Report No WSC 76/18 to be presented by Richard Doyle, Corporate Strategy and Performance Officer – **SEE ATTACHED.**

The purpose of the report is to provide an update of progress against the Annual Governance Statement Action Plan for 2018/19.

COUNCILLORS ARE REMINDED TO CHECK THEIR POST TRAYS

The Council's Vision:

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

The Council's Corporate Priorities:

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

The Council's Core Values:

- Integrity
- Respect
- Fairness
- Trust

AUDIT COMMITTEE**Minutes of the Meeting held on 23 July 2018 at 2.00 pm in the
Council Chamber, Williton****Present**

Councillor R Lillis.....	Chairman
Councillor R Woods.....	Vice-Chair
Councillor P Pilkington	Councillor K Mills
Councillor N Thwaites	Councillor R Thomas

Officers In Attendance

Assistant Director for Strategic Finance and Section 151 Officer (P Fitzgerald)
Head of Financial Services and Deputy S151 Officer (A Stark)
Senior Corporate Accountant (S Plenty)
Democratic Services Officer (C Rendell)

Also In Attendance

Peter Barber, Manager, Grant Thornton

A.15 Apology for Absence

An apology was received from Councillor T Venner.

A.16 Minutes

(Minutes of the Meeting of the Audit Committee held on 19 June 2018, circulated with the Agenda).

Members requested that the wording for minute A.8 be amended to the following:-
Members requested that where a report was generic to both the West Somerset Council (WSC) Audit Committee and the Taunton Deane Borough Council (TDBC) Corporate Governance Committee, it was important that the headings were made clear in the report.

RESOLVED that the Minutes of the Audit Committee held on 19 June 2018, with amendments, be confirmed as a correct record.

A.17 Declarations of Interest

Name	Minute No.	Member of	Personal or Prejudicial	Action Taken
Cllr P Pilkington	All	Timberscombe Parish Council	Personal	Spoke and voted
Cllr R Thomas	All	Minehead Town Council	Personal	Spoke and voted

A.18 Public Participation

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

A.19 Audit Committee Action Plan

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

There were four recorded actions from the last meeting on 19 June 2018, all of which had been resolved.

During the discussion of this item the following point was made:-

- Members requested reassurance that controls were in place to ensure 'business as usual' would not be affected during the Transformation Project and the stability of service provision would be assured.
The External Auditors mainly focused on the accounts and suggested that the Internal Auditors could address the risks in their audit work during the project.
- Members queried whether the wording had been revised for the Annual Governance Statement 2017/18 and whether the term 'risk takers; had been removed.
The Assistant Director for Strategic Finance would chase the Corporate Strategy and Performance Officer for a revised copy to be distributed to the Members.

RESOLVED that the Audit Committee Action Plan be noted.

A.20 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.21 Grant Thornton External Audit – Audit Findings Report

(Report No. WSC 65/18, circulated with the Agenda).

The purpose of the report was to outline findings from the audit of the Statement of Accounts and the arrangements to secure Value for Money. It also incorporated a review of the financial resilience as a Council.

Most of the external audit review had been completed and subject to work outstanding being completed and queries being resolved, the auditor had indicated their intention to issue an 'unqualified opinion' for the Statement of Accounts, as that showed a true and fair view of the Council's financial position and performance.

The Audit Manager had also reviewed the arrangements to secure economy, efficiency and effectiveness on the use of resources and provided an opinion in the form of a value for money conclusion. Their report stated that 'the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources'.

The auditors had identified four significant risks and one reasonably possible risk within their report:-

- Improper revenue recognition;
- Management override of controls;
- Valuation of property, plant and equipment;
- Valuation of pension fund net liability; and
- Operating Expenses.

All of the risks had required audit attention but none had identified any issues.

Within the Audit Opinion, the Audit Manager highlighted the emphasis of matter on the Structural Change Order for the creation of the new Somerset West and Taunton Council (SWATC). Attention was drawn to the disclosures made in note 46 in the accounts, which stated that the Authority would cease to exist as an entity and from 1 April 2019 the Authority's functions, assets and liabilities would transfer to the new SWATC. However, their opinion was not modified in respect of the matter.

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

- Members requested clarification on what the operating expenses paid to TDBC were for.
WSC no longer employed any staff directly, staff were employed by TDBC and therefore WSC were recharged for the staff costs.
- Members requested clarification on the term 'manipulate revenue recognition'.
Clarification was given.
- Members queried when the Hinkley Point B revaluation would become a risk for the New Council.
The risk would remain the same, but for the New Council instead. Funds had been put aside in the Business Rates Smoothing Reserve to help mitigate the risk.
- Concern was raised on the shift from medium term financial plans to long term financial plans, especially with the focus on Hinkley Point.
Hinkley Point was a current and future risk. Officers had tried to provide financial resilience, but there were several factors that made it difficult to achieve: Spending Review in 2019; reset of the Business Rates Base in 2020; Business Rates Retention; and the New Homes Bonus.
- Members requested clarification on the current fees for each Council and how they would be affected when the New Council was formed.
The Auditor gave clarification on the forecasted fees for the New Council.
- Members thanked the Finance Officers for all their hard work.
The Assistant Director for Strategic Finance and Section 151 Officer thanked the Auditors for all their hard work and was aware of the challenge the teams faced in the future.

RESOLVED that the Committee noted:-

- a) The report from the External Auditor on the Council's Statement of Accounts; and
- b) The External Auditor's unqualified value for money conclusion.

A.22 Approval of Statement of Accounts

(Report No. WSC 66/18, circulated with the Agenda).

The purpose of the report was to review and approve the audited Statement of Accounts prior to it being signed by the Chair of the Committee and the Section 151 Officer.

The Statement of Accounts contained four main statements that reflected the position of the Council at 31 March 2018:-

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

Comprehensive Income and Expenditure Statement

There had been significant movement on the Provision of Services which had moved from £1,180,000 surplus in 2016/17 to a reduced surplus of £273,000 in 2017/18. This related to the reduction in the cost of services being more than offset by a reduction in capital grant income and an increase in other operating expenditure. There had also been significant movements between years in respect of revaluation movements and the actuarial valuation of the pension fund. The overall impact of those was an increased surplus from £35,000 in 2016/17 to £831,000 in 2017/18.

Movement in Reserves Statement

The total of the Council's Usable Reserves (capital and revenue combined) had increased by £1,274,000 in year to £8,115,000. The largest movement was seen in the Business Rates Smoothing Reserve which had been increased to mitigate against the volatility risk of future business rates funding. During the year, additional funding of £150,000 had also been put towards the Sustainability Reserve.

Balance Sheet

The Balance Sheet showed that net assets had moved from a negative £916,000 to a negative of only £85,000. The most significant liability on the Balance Sheet remained in respect of the Pensions Reserve although in overall terms the Pensions Liability had been reduced by £1,108,000.

Cash Flow Statement

Cash and cash equivalents were represented by: cash in hand; deposits with financial institutions repayable without penalty on notice of no more than 24 hours; and investments that matured in one month or less from the date of the Balance Sheet and were readily convertible into cash. During the year the Council's cash and cash equivalents had reduced by approximately £635,000.

Result of the Audit of the Statement of Accounts

Most of the external audit review had been completed and was subject to outstanding work being completed and queries being resolved. 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 arrangements to secure economy, efficiency and effectiveness in the use of resources and had provided an opinion in the form of a value for money conclusion. Their report stated that 'the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources'.

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

- Concern was raised on whether money had been put aside for existing staff and what would happen to the pension liability when the New Council was created.
WSC and TDBC partnership had started back in 2014, at which point the majority of staff had moved across to TDBC employment which had not affected the pension liability. With the creation of the New Council, due diligence would be carried out with the Implementation Plan, which was used to manage the change.
- Members queried whether it was possible to calculate a higher percentage increase on council tax to collect more funds.
The Council could only increase the council tax by a certain percentage which was set by Central Government. If WSC wanted to raise it by more than that percentage, a referendum would be required, which was costly to administer, so officers had to be careful when they made the decision to raise the council tax.
- Members requested clarification on the terms Operations and Operating Expenditures.
Officers had been advised to group together other headings with the managing structure of Operations, to fall in line with the headings used for budget monitoring. Operating Expenditures were detailed in table ten of the report.
- The Assistant Director for Strategic Finance and Section 151 Officer thanked the Finance Team for all their hard work.

RESOLVED that the Committee:-

- a) Noted the Auditor's unqualified opinion on the Statement of Accounts;
- b) Approved the 2017/18 Statement of Accounts, subject to completion of the Audit with no material changes and delegated the Chair of Audit Committee and Section 151 Officer or Deputy Section 151 Officer to approve an amended final Statement of Accounts if material changes were required on completion of the audit;
- c) Requested the Chairman of the Committee sign the Statement of Accounts; and
- d) Approved the management letter of representation in respect of the financial statements for the year end 31 March 2018, as presented at the meeting.

(The meeting closed at 3.28pm)

AUDIT COMMITTEE ACTION PLAN

Date/Minute Number	Action Required	Action Taken
<p>23 July 2018</p> <p>A.19 Audit Committee Action Plan</p>	<p><u>RESOLVED:-</u></p> <p>Members requested reassurance that controls were in place to ensure 'business as usual' would not be affected during the Transformation Project.</p>	<p>The External Auditors suggested that the Internal Auditors could address the risks in their audit work during the project.</p>
<p>19 June 2018</p> <p>A.12 Annual Governance Statement 2017/18</p>	<p><u>RESOLVED:-</u></p> <p>Concern was raised on the term 'risk takers' used in the report.</p>	<p>The wording would be amended. This was chased on 23.07.2018 and the Assistant Director for Strategic Finance would chase the Corporate Strategy and Performance Officer for a revised copy to be distributed to the Members.</p>

West Somerset Council - Audit Committee – Forward Plan 2018/19

Meeting	DRAFT AGENDA ITEMS	LEAD OFFICER
23 July 2018 <u>Deadline:</u> 12 July 2018	Grant Thornton External Audit – Audit Findings Report Approval of the Statement of Accounts Forward Plan	Sarah Crouch Andrew Stark
17 September 2018 <u>Deadline:</u> 6 Sept 2018	Grant Thornton External Audit – Annual Audit Letter 2017/18 Grant Thornton External Audit – Progress & Update Report SWAP Internal Audit – Progress Update 2017/18 Summary of Overdue Level 4/5 Actions Corporate Governance Action Plan Update Powys Counter Fraud Partnership – Update Report Forward Plan	Sarah Crouch Sarah Crouch Alastair Woodland Richard Doyle Richard Doyle Heather Tiso
3 December 2018 <u>Deadline:</u> 22 Nov 2018	Grant Thornton External – Progress Report SWAP Internal Audit – Progress Report 2016/17 Grant Certification Report 6-Month Review of Treasury Management Activity Corporate Risk Management Update GDPR Action Plan Update Forward Plan	Sarah Crouch Alastair Woodland Andrew Stark Steve Plenty Richard Doyle Richard Doyle
18 March 2019 <u>Deadline:</u> 7 March 2019	Grant Thornton External Audit – Audit Update Grant Thornton External Audit – Audit Plan SWAP Internal Audit – Progress Report 2018/19 Corporate Risk Management Update Corporate Governance Action Plan Summary of Overdue Level 4/5 Actions Forward Plan	Sarah Crouch Sarah Crouch Alastair Woodland Richard Doyle Richard Doyle Richard Doyle

Report Number: WSC 72/18

West Somerset Council

Audit Committee – 17 September 2018

External Audit – Annual Audit Letter

This matter is the responsibility of Councillor Martin Dewdney

Report Author: Andy Stark, Interim Finance Manager (Deputy S151 Officer)

1 Executive Summary

- 1.1 To summarise the key findings from the external audit work carried out in respect of the 2017/18 financial year and details the actual audit fees charged.
- 1.2 The Annual Audit Letter for 2017/18 confirms that:
 - The Auditors have issued an unqualified opinion in respect of the accounts for 2017/18
 - The Auditors 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 2018;
 - The fees charged for 2017/18 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 2017/18, which means that no material errors were found and the accounts were produced to a good standard.
- 6.2 The auditors have also confirmed that they were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources.

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

Contact Officers

Name	Andy Stark
Direct Dial	01823 219490
Email	a.stark@tauntondeane.gov.uk



Annual Audit Letter

Year ending 31 March 2018

West Somerset District Council

August 2018



Contents



**Your key Grant Thornton
team members are:**

Peter Barber

Director

T: 0117 305 7897

E: peter.a.barber@uk.gt.com

Sarah Crouch

Assistant Manager

T: 0117 305 7881

E: sarah.crouch@uk.gt.com

Section	Page
1. Executive Summary	3
2. Audit of the Accounts	5
3. Results of interim audit work	7
4. Audit of the Accounts	8
5. Value for Money conclusion	9
 Appendix A. Reports issued and fees	 11

Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at West Somerset District Council (the Council) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Council and 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 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 23 July 2018.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £354,000, which is 1.8% of the Council's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 31 July 2018.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Respective 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) (ISAs) and other guidance issued by the NAO.

Executive Summary

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 23 July 2018.
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 not yet complete and will be finalised by 30 November 2018. We will report the results of this work to the Audit Committee in our Annual Certification Letter.
Certificate	We certify that we have completed the audit of the accounts of West Somerset District Council in accordance with the requirements of the Code of Audit Practice.

Working with the Council

During the year we have delivered a number of successful outcomes with you:

- An efficient audit – we delivered an efficient audit with you, delivering the accounts by the 31 July deadline, releasing your finance team for other work
- Discussions around future challenges with the management
- Sharing our insight – we provided regular corporate governance committee updates covering best practice. We also shared our thought leadership reports.
- Providing training – we provide your teams with training on financial accounts and annual reporting during the year.

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
August 2018

Audit of the Accounts

Our audit approach

Materiality

In our audit of the Council's financial statements, 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 the audit of the Council's accounts to be £354,000, which is 1.8% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We set a lower threshold of £18,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient 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 accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the 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 remainder of the Statement of Accounts, the narrative report and the annual governance published alongside the Statement of Accounts to check they are consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

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

Our audit approach is 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

Significant Audit Risks

These are the significant 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	Findings and conclusions
<p>Improper revenue recognition Under ISA (UK) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • There is little incentive to manipulate revenue recognition • Opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including West Somerset District Council, mean that all forms of fraud are seen as unacceptable 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
<p>Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • Gained an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness; • Obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness; • Evaluate the rationale for any changes in accounting policies or significant unusual transactions • Carried out a review of accounting estimates, judgements and decisions made by management • Reviewed any unusual significant transactions 	<p>One recommendation was identified with respect to journals, which was that one member of staff self-authorised some journals. It was recommended that the Council review this area. Management responded that this was reviewed and access was restricted.</p>

Significant Audit Risks continued

These are the significant 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	Findings and conclusions
<p>Valuation of property, plant and equipment (PPE)</p> <p>The Council revalues its land and buildings on a rolling basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • Reviewed management's processes and assumptions for the calculation of the estimate. • Reviewed the competence, expertise and objectivity of any management experts used. • Reviewed the instructions issued to valuation experts and the scope of their work • Held discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions. • Reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding. • Tested revaluations made during the year to ensure they were input correctly into the Council's asset register 	<p>One audit adjustment was identified with the revaluations. The Council had split the surplus/deficit on revaluation across two lines on the Comprehensive Income and Expenditure Statement labelled as Impairment Losses. The figures should be netted off and included on the Surplus and Deficit on Revaluation line.</p> <p>With the exception of this issue, our audit work has not identified any issues in respect of the valuation of property, plant and equipment.</p>
<p>Valuation of pension fund net liability.</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • Identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. • Reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. • Gained an understanding of the basis on which the IAS19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made. • 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. 	<p>Our audit work has not identified any issues in respect of the valuation of pension fund net liability.</p>

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 31 July 2018, in advance of the earlier national deadline.

Preparation of the accounts

The Council presented us with draft accounts in accordance with the national deadline of 31 May 2018.

Issues arising from the audit of the accounts

We reported the key issues from our audit to the Council's Audit Committee on 23 July 2018 and supplemented this with addendums circulated to members of the committee.

Annual Governance Statement and Narrative Report

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

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Other statutory powers

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.

No powers have been exercised during the course of this audit.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of West Somerset District Council in accordance with the requirements of the Code of Audit Practice

We certified that we had completed the audit of the accounts for the Council in accordance with the Code on 31 July 2018.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 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 risk we identified and the work we performed are set out overleaf.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.

Value for Money conclusion

Key Value for Money Risk

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Medium term financial position, including the Transformation Programme and proposal for a new Council</p> <p>It was noted the Council had a balanced financial plan for 2018/19 and an indicative surplus for 2019/20. However, there was a forecast budget gap by 2022/23 of £0.178m, which would increase by circa £0.441m if the savings identified via the transformation programme were not achieved over the next five years.</p> <p>The transformation culminated in the creation of the new Council from April 2019.</p>	<p>As part of our work we have:</p> <ul style="list-style-type: none"> • Reviewed the 2017/18 Budget Setting process and outcomes. • Reviewed the in-year Budget Monitoring to the Joint Management Team and to Corporate Scrutiny. • Reviewed the 2017/18 Outturn position • Reviewed the 2018/19 Budget Setting process and outcomes. • Reviewed arrangements for the new 'Somerset West and Taunton Council'. 	<p>Whilst significant pressures remain, we conclude that, overall, the Council has demonstrated it has appropriate arrangements in place for sustainable resource deployment.</p>

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	March 2018
Audit Findings Report	July 2018
Annual Audit Letter	August 2018

Fees for non-audit services

Service	Fees £
Audit related services	Nil
- None	
Non-Audit related services	Nil
- None	

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Council audit	42,525	42,525	42,525
Housing Benefit Grant Certification	6,996	TBC	8,963
Total fees	49,521	TBC	51,488

The planned fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)



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Report Number: WSC 73/18

West Somerset Council

Audit Committee – 17 September 2018

External Audit – Progress Report and Update

This matter is the responsibility of Councillor Martin Dewdney

Report Author: Paul Carter, Assistant Director – Resources and Support

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.

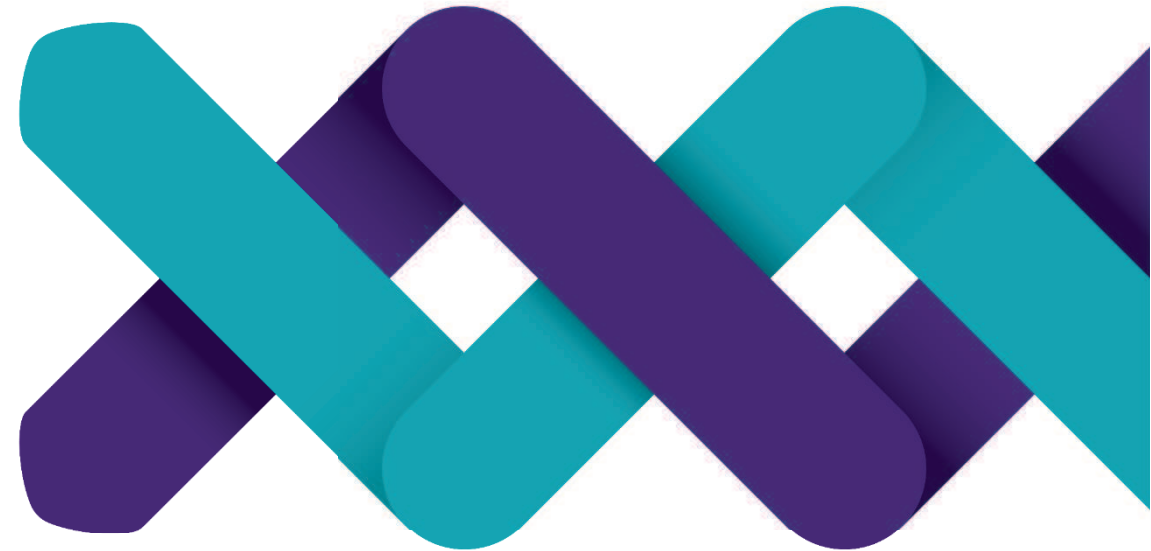
7 Legal Implications

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

Audit Progress Report and Sector Update

West Somerset District Council

September 2018



Contents

Section	Page
Introduction	3
Progress at September 2018	4
Audit Deliverables	5
Sector Update	6
Links	11

Introduction



Peter Barber

Engagement Lead

T 0117 305 7897
M 07880 456 122
E peter.a.barber@uk.gt.com



Sarah Crouch

Engagement Manager

T 0117 305 7881
M 07467 357 042
E sarah.crouch@uk.gt.com

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

The paper also includes:

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

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications. Click on the link to be directed to the website www.grant-thornton.co.uk/en/industries-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 September 2018

2017/18 Audit

We have completed our audit of the Council's 2017/18 financial statements.

We reported the key issues from our audit to the Council's Audit Committee on 23 July 2018 and supplemented this with an addendum circulated to members of the committee.

Our audit opinion, including our value for money conclusion and certificate of audit closure was issued on the 31 July 2018.

We issued:

- An unqualified opinion on the Council's financial statements; and
- An unqualified value for money conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources.

We have issued all our deliverables for 2017/18 and have concluded our work on the 2017/18 financial year. Our Annual Audit Letter, summarising the outcomes of our audit is included as a separate agenda item.

2018/19 Audit

We have begun our planning processes for the 2018/19 financial year audit.

Our detailed work and audit visits will begin later in the year and we will discuss the timing of these visits with management. In the meantime we will:

- continue to hold regular discussions with management to inform our risk assessment for the 2018/19 financial statements and value for money audits;
- review minutes and papers from key meetings; and
- continue to review relevant sector updates to ensure that we capture any emerging issues and consider these as part of audit plans.

Other areas

Certification of claims and returns

We are required to certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. This certification work for the 2018/19 claim will be concluded by November 2018.

The results of the certification work will be reported to you in our certification letter.

Meetings

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

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Deliverables

2017/18 Deliverables	Planned Date	Status
<p>Fee Letter Confirming audit fee for 2017/18.</p>	April 2018	Complete
<p>Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2018-19 financial statements.</p>	March 2019	Not yet due
<p>Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.</p>	March 2019	Not yet due
<p>Audit Findings Report The Audit Findings Report will be reported to the July Audit Committee.</p>	July 2019	Not yet due
<p>Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.</p>	July 2019	Not yet due
<p>Annual Audit Letter This letter communicates the key issues arising from our work.</p>	August 2019	Not yet due
<p>Annual Certification Letter This letter reports any matters arising from our certification work carried out under the PSAA contract.</p>	December 2019	Not yet due

Sector Update

Local government finances are at a tipping point. Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

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

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

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website

CIPFA consultation – Financial Resilience Index

The Chartered Institute of Public Finance and Accountancy (CIPFA) has consulted on its plans to provide an authoritative measure of local authority financial resilience via a new index. The index, based on publically available information, will provide an assessment of the relative financial health of each English council.

CIPFA has designed the index to provide reassurance to councils who are financially stable and prompt challenge where it may be needed. To understand the sector's views, CIPFA invited all interested parties to respond to questions it has put forward in the consultation by the 24 August.

The decision to develop an index is driven by CIPFA's desire to support the local government sector as it faces a continued financial challenge. The index will not be a predictive model but a diagnostic tool – designed to identify those councils displaying consistent and comparable features that will highlight good practice, but crucially, also point to areas which are associated with financial failure. The information for each council will show their relative position to other councils of the same type. Use of the index will support councils in identifying areas of weakness and enable them to take action to reduce the risk of financial failure. The index will also provide a transparent and independent analysis based on a sound evidence base.

The proposed approach draws on CIPFA's evidence of the factors associated with financial stress, including:

- running down reserves
- failure to plan and deliver savings in service provision
- shortening medium-term financial planning horizons.
- gaps in saving plans
- departments having unplanned overspends and/or undelivered savings.

Conversations with senior practitioners and sector experts have elicited a number of additional potential factors, including:

- the dependency on external central financing
- the proportion of non-discretionary spending – e.g. social care and capital financing - as a proportion of total expenditure
- an adverse (inadequate) judgement by Ofsted on Children's services
- changes in accounting policies (including a change by the council of their minimum revenue provision)
- poor returns on investments
- low level of confidence in financial management.

The consultation document proposes scoring six key indicators:

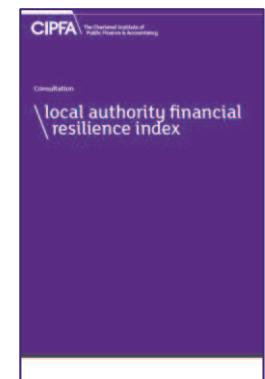
1. The level of total reserves excluding schools and public health as a proportion of net revenue expenditure.
2. The percentage change in reserves, excluding schools and public health, over the past three years.
3. The ratio of government grants to net revenue expenditure.
4. Proportion of net revenue expenditure accounted for by children's social care, adult social care and debt interest payments.
5. Ofsted overall rating for children's social care.
6. Auditor's VFM judgement.



CIPFA Consultation

Challenge question:

Has your Director of Finance briefed members on the Council's response to the Financial Resilience Index consultation?



MHCLG – Social Housing Green Paper

The Ministry of Housing, Communities and Local Government (MHCLG) published the Social Housing Green Paper, which seeks views on government's new vision for social housing providing safe, secure homes that help people get on with their lives.

With 4 million households living in social housing and projections for this to rise annually, it is crucial that MHCLG tackle the issues facing both residents and landlords in social housing.

The Green Paper aims to rebalance the relationship between residents and landlords, tackle stigma and ensure that social housing can be both a stable base that supports people when they need it and also support social mobility. The paper proposes fundamental reform to ensure social homes provide an essential, safe, well managed service for all those who need it.

To shape this Green Paper, residents across the country were asked for their views on social housing. Almost 1,000 tenants shared their views with ministers at 14 events across the country, and over 7,000 people contributed their opinions, issues and concerns online; sharing their thoughts and ideas about social housing,

The Green Paper outlines five principles which will underpin a new, fairer deal for social housing residents:

- Tackling stigma and celebrating thriving communities
- Expanding supply and supporting home ownership
- Effective resolution of complaints
- Empowering residents and strengthening the regulator
- Ensuring homes are safe and decent

Consultation on the Green Paper is now underway, which seeks to provide everyone with an opportunity to submit views on proposals for the future of social housing and will run until 6 November 2018.

The Green Paper presents the opportunity to look afresh at the regulatory framework (which was last reviewed nearly eight years ago). Alongside this, MHCLG have published a Call for Evidence which seeks views on how the current regulatory framework is operating and will inform what regulatory changes are required to deliver regulation that is fit for purpose.

The Green Paper acknowledges that to deliver the social homes required, local authorities will need support to build by:

- allowing them to borrow
- exploring new flexibilities over how to spend Right to Buy receipts
- not requiring them to make a payment in respect of their vacant higher value council homes

As a result of concerns raised by residents, MHCLG has decided not to implement at this time the provisions in the Housing and Planning Act to make fixed term tenancies mandatory for local authority tenants.

The Green Paper is available on the MHCLG's website at:

<https://www.gov.uk/government/consultations/a-new-deal-for-social-housing>

Social Housing Green Paper Consultation



Challenge question:

What does the Social Housing Green Paper mean for your local authority?



MHCLG – Business rate pilots

The Secretary of State has invited more councils to apply for powers to retain the growth in their business rates under the new pilots. The pilots will see councils rewarded for supporting local firms and local jobs and ensure they benefit directly from the proceeds of economic growth.

From April 2019, selected pilot areas will be able to retain 75% of the growth in income raised through business rates, incentivising councils to encourage growth in business and on the high street in their areas. This will allow money to stay in communities and be spent on local priorities - including more funding to support frontline services.

This follows the success of previous waves of business rates retention pilots, launched in a wide range of areas across country in 2017 and 2018.

The current 50% business rates retention scheme is yielding strong results and in 2018 to 2019 it is estimated that local authorities will keep around £2.4 billion in business rates growth.

Findings from the new round of pilots will help the government understand how local authorities can smoothly transition into the proposed system in 2020.

Proposals will need to show how local authorities would 'pool' their business rates and work collaboratively to promote financial sustainability, growth or a combination of these.

Alongside the pilots, the government will continue to work with local authorities, the Local Government Association, and others on reform options that give local authorities more control over the money they raise and are sustainable in the long term.

The invitation is addressed to all authorities in England, excluding those with ongoing business rates retention pilots in devolution areas and London. Due to affordability constraints, it may be necessary to assess applications against selection criteria, which will include:

- Proposed pooling arrangements operate across a functional economic area
- Proposal demonstrates how pooled income from growth will be used across the pilot area to either boost further growth, promote financial sustainability or a combination of these
- Proposal sets out robust governance arrangements for strategic decision-making around management of risk and reward and outlines how these support the participating authorities' proposed pooling arrangements

Any proposals will need to show that all participating authorities have agreed to become part of the suggested pool and share additional growth as outlined in the bid. The Section 151 officer of each authority will need to sign off the proposal before submission.

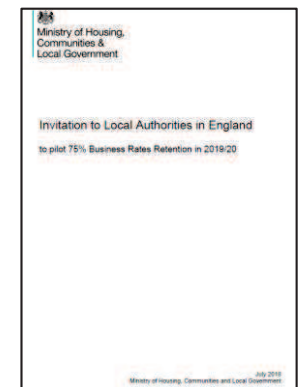
Proposal for new pilots must be received the MHCLG by midnight on Tuesday 25th September 2018.

Business Rates pilots 2019/20



Challenge question:

Have your authority considered applying to be a Business Rates pilot?



Institute of Fiscal Studies: Impact of ‘Fair Funding Review’

The IFS has published a paper that focuses on the issues arising in assessing the spending needs of different councils. The government’s ‘Fair Funding Review’ is aimed at designing a new system for allocating funding between councils. It will update and improve methods for estimating councils’ differing abilities to raise revenues and their differing spending needs. The government is looking for the new system to be simple and transparent, but at the same time robust and evidence based.

Accounting for councils’ spending needs

The IFS note that the Review is seeking a less subjective and more transparent approach which is focused on the relationship between spending and needs indicators. However, like any funding system, there will be limitations, for example, any attempt to assess needs will be affected by the MHCLG’s funding policies adopted in the year of data used to estimate the spending needs formula. A key consideration will be the inherently subjective nature of ‘spending needs’ and ‘needs indicators’, and how this will be dealt with under any new funding approach. Whilst no assessment of spending needs can be truly objective, the IFS state it can and should be evidence based.

The IFS also note that transparency will be critical, particularly in relation to the impact that different choices will have for different councils, such as the year of data used and the needs indicators selected. These differentiating factors and their consequences will need to be understood and debated.

Accounting for councils’ revenues

The biggest source of locally-raised revenue for councils is and will continue to be council tax. However, there is significant variation between councils in the amount of council tax raised per person. The IFS identify that a key decision for the Fair Funding Review is the extent to which tax bases or actual revenues should be used for determining funding levels going forward.

Councils also raise significant sums of money from levying fees and charges, although this varies dramatically across the country. The IFS note that it is difficult to take account of these differences in a new funding system as there is no well-defined measure of revenue raising capacity from sales, fees and charges, unlike council tax where the tax base can be used.

The overall system: redistribution, incentives and transparency

The IFS also identify that an important policy decision for the new system is the extent to which it prioritises redistribution between councils, compared to financial incentives for councils to improve their own socio-economic lot. A system that fully and immediately equalises for differences in assessed spending needs and revenue-raising capacity will help ensure different councils can provide similar standards of public services. However, it would provide little financial incentive for councils to tackle the drivers of spending needs and boost local economics and tax bases.

Further detail on the impact of the fair funding review can be found in the full report <https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>.



Links

Grant Thornton website links

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

Ministry of Housing, Communities and Local Government links

<https://www.gov.uk/government/news/social-housing-green-paper-a-new-deal-for-social-housing>

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/728722/BRR_Pilots_19-20_Prospectus.pdf

Institute for Fiscal Studies

<https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>

Report Number: WSC 74/18

Presented by: Alastair Woodland, Assistant Director
Author of the Report: Alastair Woodland, Assistant Director

Contact Details:
Tel. No. Direct Line: 07720 312467
Email: alastair.woodland@swapaudit.co.uk

Report to a Meeting of: Audit Committee
To be Held on: 17 September 2018

INTERNAL AUDIT PLAN 2018-19 PROGRESS REPORT

1. PURPOSE OF REPORT

- 1.1 To update members on the Internal Audit Plan 2018-19 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, SWAP Internal Audit Services.

3. RECOMMENDATIONS

- 3.1 Members are asked to note progress made in delivery of the 2018/19 internal audit plan and 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 June 2018.
- 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 2018/19 September 2018

Contents

The contacts at SWAP in connection with this report are:

Gerry Cox

Chief Executive

Tel: 01935 848540

gerry.cox@swapaudit.co.uk

Ian Baker

Director of Quality

Tel: 07917628774

ian.baker@swapaudit.co.uk

Alastair Woodland

Assistant Director

Tel: 07872500675

alastair.woodland@swapaudit.co.uk

➡	Role of Internal Audit	Page 1
➡	Internal Audit Work	Page 2
➡	Approved Changes to the Audit Plan	Page 3
➡	Appendices:	
	Appendix A – Internal Audit Definitions	Page 4 - 5
	Appendix B – Internal Audit Work Plan	Page 6 – 7
	Appendix C – Summary of key audit findings	Page 8 - 9

Internal Audit Plan Progress 2018/19

Our audit activity is split between:

- **Operational Audit**
- **Governance Audit**
- **Key Control Audit**
- **IT Audit**
- **Grants**
- **Follow Up**
- **Non-Opinion / Advisory Reviews**



Role of Internal Audit

The Internal Audit service for West Somerset Council is provided by SWAP Internal Audit Services (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 Audit Committee at its meeting in March 2018.

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
- Follow Up
- Non-Opinion / Advisory Reviews

Internal Audit work is largely driven by an Annual Audit Plan. This is approved by the Section 151 Officer, following consultation with the Corporate Management Team. This year's Audit Plan was reported to this Committee and approved by this Committee at its meeting in March 2018.

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

Internal Audit Plan Progress 2018/19

Outturn to Date:

We rank our recommendations on a scale of 1 to 3, with 1 being a fundamental concern to the services/area being reviewed and 3 being a minor concern that requires management attention.



Internal Audit Work

The schedule provided at **Appendix B** contains a list of all audits as agreed in the Annual Audit Plan 2018/19. 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.

Since the June 2018 update the following audits have been finalised.

Audit Area	Quarter	Status	Opinion
2018/19			
GDPR - Members Awareness Training	1	Final	Advisory
Parking Maintenance	1	Final	Follow Up
2017/18			
IT Backup Arrangements	4	Final	Reasonable

Overall good progress is being made on the Audit Plan 2018-19. Current progress as at September can be seen from **Appendix B**.

As agreed with this Committee where a review has a status of ‘Final’ and has been assessed as ‘Partial’ or ‘No Assurance’, I will provide further detail to inform Members of the key issues identified. Since the June 2018 update, there are no Partial Assurance reviews I need to bring to your attention. I have provided further details on the follow up audit, so Members are aware of progress made against previously reported partial and no assurance audits. Further details can be found within **Appendix C**.

Internal Audit Plan Progress 2018/19

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



Approved Changes to the Audit Plan

The audit plan for 2018/19 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 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.

There have not been any changes to the Internal Audit Plan 2018-19 since the previous update.

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

- Substantial
- Reasonable
- Partial
- No Assurance
- Non-Opinion / Advisory



Audit Framework Definitions

Control Assurance Definitions

Substantial	▲ ★ ★ ★	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.
Reasonable	▲ ★ ★ ★	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.
Partial	▲ ★ ★ ★	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.
No Assurance	▲ ★ ★ ★	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/Advice – 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.

We keep our audit plans under regular review, so as to ensure we are auditing the right things at the right time. Recommendations are prioritised from 1 to 3 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 1: Findings that are fundamental to the integrity of the service's business processes and require the immediate attention of management.
- Priority 2: Important findings that need to be resolved by management.
- Priority 3: Finding that requires attention.

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.

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.

Internal Audit Work Plan

APPENDIX B

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ← → 5 = Minor			Comments
						Recommendation			
						1	2	3	
FINAL									
Governance, Fraud & Corruption	GDPR - Members Awareness Training	1	Final	Non-Opinion	-	-	-	-	
Follow-up audit	Parking Maintenance	1	Final	Non-Opinion	3	0	0	3	
DRAFT									
Governance, Fraud & Corruption	Supplier Resilience	1	Draft						
Governance, Fraud & Corruption	Insurance Arrangements	2	Review						
Governance, Fraud & Corruption	GDPR	2	Review						
IN PROGRESS									
Governance, Fraud & Corruption	Healthy Organisation	2-3	In Progress						
Transformation	New Council Governance	1-4	In Progress						
Transformation	Business Process Re-engineering	1-4	In Progress	Advisory					
Transformation	Benefits Realisation Management	1-4	In Progress	Advisory					
Information and Communication Technology	New Universal Transaction Portal	1-3	In Progress						
Information and Communication Technology	Programme of Consolidation	2-4	In Progress						

Internal Audit Work Plan

APPENDIX B

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ↔ 5 = Minor			Comments
						Recommendation			
						1	2	3	
Information and Communication Technology	Refresh of Network Security Infrastructure	2-3	In Progress						
Not Started									
Transformation	Strategic Framework	1-4	Not Started						
Key Control Audit	Creditors	3 – 4	Not Started						
Key Control Audit	Debtors	3 – 4	Not Started						
Key Control Audit	Treasury Management	3 – 4	Not Started						
Key Control Audit	Main Accounting	3 – 4	Not Started						
Key Control Audit	System Parameter Testing	4	Not Started						
Operational audit	Homelessness Reduction	4	Not Started						

Outstanding 2017/18

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Major ↔ 5 = Minor			Comments
						Recommendation			
						1	2	3	
Information and Communication Technology	Back Ups	4	Final	Reasonable	1	-	-	1	
Information and Communication Technology	Cyber Security	4	Discussion Document	Reasonable	3	-	-	3	

Audit Assignments completed since the June 2018 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

The following information provides a brief summary of each audit review finalised since the last Committee update in June 2018. Each audit review is displayed under the relevant audit type, i.e. Operational; Key Control; Governance; Fraud & Corruption; ICT and Special Review.

Since the June 2018 update there is one Audit I need to bring to your attention, this being in relation to a follow up audit on Parking Maintenance audit.

Follow Up Audits

Follow up reviews are undertaken where a previous audit has returned a 'Partial Assurance' or 'No Assurance'. This is to provide assurance to the Audit Committee that areas of weakness have been addressed. Follow up reviews will only focus on the areas of weakness identified in the original review and are usually undertaken 6 months after the original review to allow time for recommendations to be implemented.

Parking Maintenance – Follow Up

In the Parking Maintenance audit report issued in October 2017 we offered partial assurance. Six recommendations were raised, three were given a priority score 4 and the remainder allocated a priority score 3. Whilst carrying out this follow-up audit, management were asked to feedback what progress they had made against the recommendations raised. The table below summarises the progress made:

	Complete	In Progress	Not Started	Not Due
Priority 4	Three	-	-	-
Priority 3	-	Three	-	-
Total	Three	Three	-	-

Audit Assignments completed since the March 2018 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.

Follow Up Audits Continued

It is pleasing to note that the three priority 4 recommendations have been addressed. These were in relation to clarity around the WSC maintenance budget and improvements in the risk management process for assessing car parking risks to inform the maintenance budget spend areas.

Of the three priority 3 recommendations outstanding, two related to both TDBC and WSC and one to just TDBC around the Multi-Story Car park. The two outstanding recommendations relating to both TDBC and WSC are:

- developing of the Car Parking Strategy across Taunton Deane and West Somerset (superseded by the need of a new single authority car parking strategy);
- Updating the Parking Maintenance Plans with the findings from the technical surveyors.

Whilst these two actions are more detailed and work is in progress, they need to be driven forward where possible to minimise the risk of health and safety to the general public and the Council suffering legal recourse and increased budgetary pressure.

Report Number: WSC 75/18

West Somerset Council

Audit Committee – 17th September 2018

Overdue high priority SWAP Audit Recommendations

This matter is the responsibility of Cllr Martin Dewdney, Portfolio Holder for Resources and Central Support

Report Author: Richard Doyle, Corporate Strategy & Performance Officer

1 Purpose of the Report

- 1.1 This report provides Members with a position statement on the SWAP audit recommendations for West Somerset Council, which were assessed as high and very high priority, where the agreed remedial action is overdue.

2 Recommendations

- 2.1 It is recommended that:-
- The committee review the overdue actions.

3 Risk Assessment

Risk Matrix

Description	Likelihood	Impact	Overall
The Council is exposed to risk through inadequate systems and processes identified through SWAP audits.	Likely (4)	Major (4)	High (16)
The mitigation for this is the timely completion of agreed remedial actions,	Unlikely (2)	Major (4)	Medium (8)

4 Background and Full details of the Report

- 4.1 West Somerset Council engage the South West Audit Partnership (SWAP) to carry out internal audit functions; checking the adequacy of controls and procedures across the whole range of Council services.
- 4.2 At the start of each financial year an audit plan is agreed between SWAP and the Council which identifies the areas of highest potential organisational and operational risk within the Council.

- 4.3 When an audit takes place a report is provided to the service manager concerned which gives an audit conclusion and opinion.
- 4.4 Any control or procedural weaknesses are identified within an action plan appended to the audit report.
- 4.5 All findings will be allocated one of 5 priority ratings. With priority 5 carrying the most significant risk to the service (not necessarily to the wider Council) and priority 1 the least significant risk.

The definitions used are provided below:

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.

- 4.6 Each finding within the action plan contains a target implementation date which has been agreed between SWAP and the service manager concerned.
- 4.7 All priority 4 and 5 recommendations are captured in a register to ensure progress against the recommendations can be tracked and progress reported to JMT and the Audit/Corporate Governance Committees at Taunton Deane and West Somerset Councils.
- 4.8 This report highlights the Priority 4 and 5 audit actions affecting West Somerset Council, where the agreed remedial action is overdue. On this occasion there are **3 priority 4** actions which are overdue but **zero overdue priority 5** recommendations for West Somerset Council.
- 4.9 A summary of the overdue actions is provided in Appendix A.

5 Links to Corporate Aims / Priorities

- 5.1 There are no direct links to corporate aims/priorities although good governance and robust controls and processes underpin good performance.

6 Finance / Resource Implications

- 6.1 Unmitigated risks identified by SWAP could expose the Council to unanticipated claims, expenditure or exposure to fraud.

7 Legal Implications

- 7.1 There are no direct legal implications within this report although unmitigated risks could expose the Council to unanticipated claims.

8 Environmental Impact Implications

- 8.1 There are no direct environmental impact implications associated with this report.

9 Safeguarding and/or Community Safety Implications

- 9.1 There are no safeguarding implications associated with this report. There are Community safety implications in relation to public safety risks associated with tree surveys.

10 Equality and Diversity Implications

- 10.1 There are no equality and diversity implications associated with this report.

11 Social Value Implications

- 11.1 There are no Social Value implications associated with this report.

12 Partnership Implications

- 12.1 The majority of Council services are delivered through shared services arrangements with Taunton Deane Borough Council.

13 Health and Wellbeing Implications

- 13.1 There are no direct health and wellbeing implications associated with this report.

14 Asset Management Implications

- 14.1 There are asset management implications associated with this report.

15 Consultation Implications

- 15.1 There are no Consultation implications associated with this report.

Democratic Path:

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

Reporting Frequency: Twice yearly

List of Appendices (delete if not applicable)

Appendix A	Summary of overdue priority 4 and 5 SWAP audit recommendations
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Contact Officers

Name	Richard Doyle
Direct Dial	01823 218743
Email	r.doyle@tauntondeane.gov.uk

Audit Report	Finding	Priority	Recommendation	Management Response	Original Implementation Date	Progress Update	AD Responsible	Org
TDBC WSC Discretionary Housing Payments_Final_2017-18	All TDBC and WSC applications for DHP are processed by the Discretionary Payments and Welfare Reform Officer. Cover is not provided by another officer when the Discretionary Payments and Welfare Reform Officer is on leave. The Council aims to process applications for Discretionary Housing Payments and notify applicants in writing of the decision made within fourteen days of receipt of the application being received. This is not an official target and is therefore not monitored. If the unofficial target of processing, deciding upon and notifying the applicant of a Discretionary Housing Payment within fourteen days is not made official and monitored there will be no measure of success. It will also be more difficult to identify peaks, troughs and anomalies related to processing. Out of the sample of twenty applications reviewed (ten each for TDBC and WSC) nine applications (45%) took longer than fourteen days to decide upon. When analysed further by each Council out of the ten applications tested for TDBC, six (60%) took longer than fourteen days to decide upon, the shortest of these took 25 days and the longest 54 days. At WSC three applications (30%) took longer than fourteen days to decide upon, the shortest of these took 24 days and the longest 47 days. The reason for the delays in deciding upon these applications were looked into and it was established that these include but are not restricted to in April 2017 the Discretionary Payments and Welfare Reform Officer took two weeks annual leave. With the addition of bank holidays this extended her absence from work. It took three months to catch-up with all outstanding applications. While it is acknowledged that having one officer deal with Discretionary Housing Payments can ensure a consistent approach is applied it creates backlogs during times of absence. It is also appreciated that all awards are 'discretionary', however if the Council takes, what could potentially be viewed as an unreasonable length of time to decide upon an application, this could place the applicant in financial hardship to the extent that they cannot meet their rent payments, which in turn may affect their emotional and physical wellbeing. As a consequence, customer expectations are not met which impacts on the Council's reputation.	4 - High	We recommend that the Principal Benefits Officer ensures that: The 14 days notification period includes a statement, 'or as soon as reasonably practicable thereafter'.	On review of future policy we may need to look at what is a reasonable timescale for dealing with a DHP. I recognise the balance between a timely award and the vulnerability of the customer. However the nature of our customer has changed. All universal credit customers making their initial claim will have a wait of more than 1 month. For these claims where we receive a discretionary application we are not legally bound to make a decision even if it meant overrunning the 14 day timescales. For renewals of a DHP again many of these are submitted well ahead of time – the DHP and Welfare Reform Officer will monitor and manage the prioritisation of these. One recommendation I will make to the Discretionary Payments and Welfare Reform Officer is to consider the award period and to ensure the review period is spread throughout the year – this will minimise peaks and troughs. Each case is treated individually and as far as I am aware we have received no complaints from our customers due to delays in making an award. I recognise we have only 1 officer responsible for the administration of DHP's and this will have an impact when she is taking leave – this is not ideal but the structure determines she is the responsible officer. I may discuss if there are opportunities outside of the structure to support an officer to carry out these duties. This may be more pertinent as we look to maximise our spending through proactive review activity.	31/3/18	August 2018 - Following the audit recommendation we established the 14 day response was unachievable and not warranted. We changed our policy that went to members to give us more flexibility in our response times aligned to benefits processing performance targets. Due to the demands of the DHP scheme we are still faced with peaks through the year which we are trying to manage. The new policies with the new performance times are included in the new DHP policies for TDBC/WSC. We are conscious we will need to align both policies for the NEW Council setting realistic targets. The new policy will be in place by 1/4/19.	Paul Carter	BOTH
WSC - Contract Management Bribery - 23.07.2015	3.1a The procurement function is not limited enough to ensure each Officer involved has an appropriate level of knowledge and training.	4 - High	I recommend the Assistant Director - Resources ensures the ability to carry out procurement is suitably limited and staff have received appropriate training.	Agreed	December 2015	August 2018 - ongoing - no cases of bribery through procurement processes have been identified	Paul Carter	WSC
WSC - Contract Management Bribery - 23.07.2015	3.4a There is currently no assurance that the contract standing orders and the anti-bribery policy is embedded within the Council.	4 - High	I recommend the Corporate Strategy and Performance Manager raise awareness of these rules and policies at the appropriate level within the Council.	Agreed – once action 1.1a is complete and a single, refreshed anti-bribery policy is in place this will be an agenda item for the Tier 4 Managers meeting.	January 2016	August 2018 : - new money laundering policy to be developed as part of new council implementation activity	Paul Carter	WSC

Report Number: WSC 76/18

West Somerset Council

Audit Committee – 17th September 2018

Audit Action Plan Update

This matter is the responsibility of Cllr Martin Dewdney Portfolio Holder for Resources and Central Support

Report Author: Richard Doyle, Corporate Strategy & Performance Officer

1 Purpose of the Report

- 1.1 This report provides an update of progress against the Annual Governance Statement Action Plan for 2018/19.

2 Recommendations

- 2.1 It is recommended that:-

- The committee Members are asked to note current progress in relation to completing the actions identified within the Annual Governance Statement.

3 Risk Assessment

Risk Matrix

Description	Likelihood	Impact	Overall
There is the general risk that if the Council fails to keep its controls and governance arrangements under review they could cease to be appropriate and lead to uncontrolled exposure to high level strategic and operational risks.	Feasible (3)	Major (4)	Medium (12)
<i>The mitigation for this will be for the Council to formally review the internal controls for governance of its affairs, identify opportunities for improvement and implement these.</i>	Unlikely (2)	Significant (3)	Low (6)

4 Background and Full details of the Report

- 4.1 The Annual Governance Statement (AGS) is a statutory document which provides assurance on the governance arrangements in place within the Council. The statement is produced following a review of the council's governance arrangements.

- 4.2 The AGS includes an action plan to address any new governance issues identified by the Corporate Governance Officers Group; relying on reports from internal and external audit as well as their own understanding of the organisation.

5 The Action Plan

- 5.1 The action plan is set out in Appendix A.

6 Links to Corporate Aims / Priorities

- 6.1 There are no direct links to corporate aims/priorities although good governance (of which risk management is a part) underpins good performance.

6 Finance / Resource Implications

- 6.1 None – this is a governance matter.

7 Legal Implications

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

8 Environmental Impact Implications

- 8.1 There are no direct environmental risks within this report.

9 Safeguarding and/or Community Safety Implications

- 9.1 There are no safeguarding and /or community safety implications associated with this report.

10 Equality and Diversity Implications

- 10.1 There are no equality and diversity implications associated with this report.

11 Social Value Implications

- 11.1 There are no Social Value risks associated with this report.

12 Partnership Implications

- 12.1 There are no direct partnership implications associated with this report.

13 Health and Wellbeing Implications

- 13.1 There are no direct health and wellbeing risk associated with this report.

14 Asset Management Implications

- 14.1 Risk 5 identifies a risk in relation to asset management.

15 Consultation Implications

15.1 There are no Consultation implications associated with this report.

Democratic Path:

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

Reporting Frequency: Twice yearly

List of Appendices

Appendix A	AGS Action Plan 2018/19
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Contact Officers

Name	Richard Doyle
Direct Dial	01823 218743
Email	r.doyle@tauntondeane.gov.uk

Annual Governance Statement - Action Plan for 2018/19

	Action now planned for 2018/19	Timescale for Completion	Responsible Officer	Monitoring Body	Progress
1	To implement and develop our new Risk management culture	March 2019	Head of Performance and Governance	Corporate Governance Officer Group	This has not yet started formally but will be taken forward when the new Head of Performance and Governance is appointed in October.
2	To implement the Corporate Governance process for the Shadow Council and the new transformed Council.	March 2019	S151 Officer & Assistant Chief Executive	Corporate Governance Officer Group	This is in progress and on track. At the inaugural meeting of the Shadow Council held on 7 June 2018 an Interim Constitution was adopted to provide a Corporate Governance Framework for the Shadow Council. Further elements to this framework will need to be added in relation to Finance, Contract and Employment issues. A Constitution and Governance Sub-group of the Shadow Council's New Council Working Group has been established to lead on work developing draft Corporate Governance and Constitutional arrangements for the new Council which are to be considered formally by the Shadow Council in late 2018 or early 2019.