



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

Our Ref Democratic Services
Contact Emma Hill e.hill@tauntondeane.gov.uk

Date 14 June 2016

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

Dear Councillor

I hereby give you notice to attend the following meeting:

AUDIT COMMITTEE

Date: Tuesday 21 June 2016
Time: 2.00 pm
Venue: Dunkery Room, Council Offices, Williton

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

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

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

Yours sincerely

BRUCE LANG
Proper Officer

RISK SCORING MATRIX

Report writers score risks in reports uses the scoring matrix below

Risk Scoring Matrix

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.

The Council's Vision:

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

AUDIT COMMITTEE - AGENDA

21 June 2016 at 2.00 pm

Dunkery Room, West Somerset House, Williton

1. **Apologies for Absence**

2. **Minutes**

Minutes of the Meeting of the Committee held on 21 March 2016 – **SEE ATTACHED** – to be confirmed.

3. **Declarations of Interest**

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

4. **Public Participation**

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

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

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

5. **Audit Committee 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 2015 – **SEE ATTACHED**.

7. **Grant Thornton External Audit – Audit Fees Report**

To consider Report No WSC 73/16 to be presented by Peter Barber, Appointed Auditor and Kevin Henderson, Audit Manager from Grant Thornton – **SEE ATTACHED**.

The purpose of the report is to provide details of the fee forecast for external audit services in 2016/17.

8. Grant Thornton External Audit – Audit Update

To consider Report No WSC 74/16 to be presented by Peter Barber, Appointed Auditor and Kevin Henderson, Audit Manager from Grant Thornton – **SEE ATTACHED.**

The purpose of the report is to provide was a regular update for Members by our external auditors, Grant Thornton. Specifically the report provides an update in relation to their work for the 2016/17 financial year and also provides an update in relation to emerging national issues.

9. SWAP Internal Audit – Annual Opinion Report

To consider Report No WSC 75/16 to be presented by Alastair Woodland, Audit Manager, SWAP – **SEE ATTACHED.**

The purpose of the report is to inform the Audit Committee of the Annual Opinion Report 2015-16 from Internal Audit.

10. SWAP Internal Audit – Audit Plan 2016/17 Outturn

To consider Report No WSC 76/16 to be presented by Alastair Woodland, Audit Manager – **SEE ATTACHED**

The purpose of the report is to update members on the Internal Audit Plan 2015-16 progress and bring to their attention any significant findings identified through our work.

11. Review of Effectiveness of Internal Audit

To consider Report No WSC 77/16 to be presented by Jo Nacey, Senior Accountant and Deputy s151 Officer – **SEE ATTACHED.**

The purpose of the report is to inform the Audit Committee of the recent review of the effectiveness of the delivery of Internal Audit through SWAP (South West Audit Partnership) during 2015/16.

12. Treasury Management Outturn Report 2015/16

To consider Report No WSC 78/16 to be presented by James Howells, Corporate Strategy and Performance Manager – **SEE ATTACHED**

The purpose of the report is to review the treasury management activity and the performance against the Prudential Indicators for the 2015/16 financial year as prescribed by the revised CIPFA Code of Practice and in accordance with the Council's Treasury Management Strategy and Annual Investment Policy.

13. Draft Annual Governance Statement 2015/16

To consider Report No WSC 79/16 to be presented by Paul Harding, Senior Accountant – **SEE ATTACHED.**

The purpose of the report is to provide information on the Council's requirement to conduct, at least once a year, and a review of the effectiveness of its systems of internal control and governance arrangements and to produce an Annual Governance Statement (AGS) on behalf of the Leader of the Council and the Chief Executive, providing an assessment of these arrangements.

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 21 March 2016 at 2.00 pm in the Council Chamber, Williton

Present

Councillor R Lillis.....Chairman
Councillor T Venner.....Vice Chairman
Councillor N Thwaites
Councillor R Thomas
Councillor R Woods

Members In Attendance

Councillor M Chilcott

Officers In Attendance

Director of Operations, s151 Officer and Deputy CEO (S Adam)
Corporate Strategy and Performance Manager (P Harding)
Revenues and Benefits Manager (H Tiso)
Democratic Services Officer (E Hill)

Also In Attendance

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

A.38 Apologies for Absence

Apologies were received from Councillor H Davies

A.39 Minutes

(Minutes of the Meeting of the Audit Committee held on 1 December 2015, circulated with the Agenda)

RESOLVED that the Minutes of the Audit Committee held on 16 December 2015, be confirmed as a correct record.

A.40 Declarations of Interest

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

A.41 Public Participation

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

A.42 Audit Committee Action Plan

There were no recorded actions from the last meeting on 1 December 2015.

A.43 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.44 Grant Thornton External Audit – Audit Plan

(Report No. WSC 43/16, circulated with the Agenda)

The purpose of this report was to introduce the External Audit Plan for 2015/16. This was prepared by our external auditors, Grant Thornton, and was detailed in the attached appendix to the covering report.

The Audit Manager for Grant Thornton outlined the report which contained their approach to the 2015/16 audit programme, providing information on the work already undertaken, the tasks yet to be completed, the timescales and the auditors view on risk.

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

- There had been a change to the way surplus assets were valued in comparison to used assets and investment in property. The Council held 150 premises currently and a piece of work was ongoing assessing those assets and any associated risks, which was being feed into a work plan.
- Auditors planned timetable of work was scheduled for completion in May but this was affected by the Council's timetable of work also. . An interim feedback report on the position would be available in June for Members.
- The Value for Money (VfM) position given in September was based on past performance but took into account the position going forward and any associated risks. The position for the Council's VfM for next year would be similar to the position of the previous year, although without the Strategic Financial Planning, which allowed the Council to balance their budgets at the end of this financial year.
- The Council's timetabled report concerning the Joint Management and Shared Service would be regarding the Business Cases including viability, and would come before Members sometime in June/July. This would be reviewed and taken into account prior to Auditors final position being given.

RESOLVED that Grant Thornton's External Audit Plan for 2015/16 be noted.

A.45 Grant Thornton External Audit – Audit Update

(Report No. WSC 44/16, circulated with the Agenda).

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

The Audit Manager for Grant Thornton outlined the external auditor's progress as at 31 March 2016.

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

- Concerns were expressed that bringing forward the deadline for the Statement of Accounts would apply more pressure to the service team. Was this move necessary? This was a national incentive from the Government requiring Local Authorities to have their Accounts prepared by 31 May instead of the 31 July and this was to be in place in the 2017/18 financial year. The deadline was being moved in small increments each year, rather than wholesale change.
- Members were informed that this change would allow the Government to report on public spending much earlier and then set the budget following this report.
- Concerns were raised that other areas of the service would suffer as a consequence of these new arrangements for the deadline of the Statement of Accounts.

RESOLVED that the Auditor's update report be noted.

A. 46 SWAP Internal Audit – Progress Update 2015/2016

(Report No. WSC 45/16, circulated with the Agenda).

The purpose of the report was to update the Audit Committee on the Internal Audit Plan 2015-16 progress and bring to their attention any significant findings identified through our work.

The Audit Manager from SWAP outlined and updated the Audit Committee on the schedule of the planned audits for 2015/2016 and also provided a progress update on current audits and their findings, which included any new significant weaknesses identified.

Members were also provided with a schedule of audits completed during the period, detailing their respective assurance opinion rating, the number of recommendations and the respective priority rankings of these.

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

- Concerns were expressed about the lack of records and data held by the Council on Assets. An ongoing piece of work, which included a stock condition survey was being undertaken to assess and record the condition of Council's assets and stock. This would lead to a plan of works to bring assets up to date as well as a

schedule of maintenance required if the Council were to keep those assets.

- Discussion was had on how the Council was going to move forward with identified weakness within Asset Management and how these would be followed up.
- Members requested an update on the progress of the identified weaknesses. Auditors would complete an additional review of this area but until this was completed, the lead Assistant Director would provide an interim update at the next meeting.

RESOLVED that the progress made in delivery of the 2015/16 Internal Audit Plan and any significant findings be noted.

A.47 SWAP Internal Audit – Audit Plan 2016/17 and Audit Charter

(Report No. WSC 46/15, circulated with the Agenda).

The purpose of the report was to inform the Audit Committee of the proposed work to be undertaken by South West Audit Partnership during 2016- 17 and to seek approval of the Internal Audit Charter which set out the nature, role, responsibility, status and authority of internal auditing within West Somerset Council and to outline the scope of the internal audit work.

The Audit Manager from SWAP outlined West Somerset's audit plan for 2016-17 and that it was broken down into five audit categories. Full details of the Annual Internal Audit Plan 2016-17 were provided to the Committee within an attached appendix.

Also summarised for the Committee were minor changes to the Internal Audit Charter, which reflected changes in roles and responsibilities, job titles, and to address some of the minor requirements of the Public Sector Internal Audit Standards.

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

- Discussion surrounding the length of time allocated for individual internal audits with specific concern over the length of time for Members Expenses compared with Council Tax.
- The allocated time was an indication as there was a specific procedure, set framework and process that auditors adhered to, which also included benchmarking and comparison. This process had to be complete before the auditors issued their final opinion.

RESOLVED that:-

1. The 2016-17 internal audit plan be noted and approved.
2. The Internal Audit Charter be noted and approved.

A.48 Refresh of Anti-Fraud Policy – Council Tax Penalties

(Report No. WSC 47/16, circulated with the Agenda).

The purpose of the report was to provide the Audit Committee with an update on

the refresh of the Anti-Fraud and Corruption Policy and Strategy to recognise South West Counter Fraud Partnership (SWCFP's) anti-fraud activities, as well as updating for procedural changes.

The Revenues and Benefits Manager outlined the changes to the refreshed Strategy, which included procedural changes as well as now providing guidance on the options available to deal with those committing Council Tax or Council Tax Rebate fraud or those who negligently make incorrect statements, or fail to notify a change affecting their entitlement to a Council Tax discount, exemption or reduction.

Provided for the Committee's attention and information was a copy of the revised policy and strategy as appendix to the covering report.

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

- Discussion concerning prosecution of offenders and the circumstances that would warrant the Council proceeding with it, as the cost of prosecution could outweigh the amount of fraudulently monies gained.
- In response to a question on the scale of Council Tax Fraud effecting the Council, the Committee was informed that the partnership arrangement with South West Counter Fraud Partnership (SWCFP) went beyond just detecting and investigating Council Tax Fraud. The Council's contribution per year was £5000.
- Concerns were expressed that with the current cost to the Council maintaining our position within the SWCF partnership, Members would want to see results and recovery of fraudulently gained monies. SWCFP had several active cases, that were being investigated and these were ongoing. SWAP would provide an update on the progress of the SWCF Partnership to the Committee.
- Concerns that the SWCFP was currently majority funded by the Government and with the cuts to budgets, would the Council and the Service team have the capacity to continue with the work. This function was already completed by the Revenues and Benefits department with the completion of successful cases, the partnership aimed to be self-funding.
- Discussion on the ways and means by which SWCFP and the Council detected and investigated fraud effecting the Council.
- Concerns were expressed over the effect of the incompatible IT systems between, TDBC, WSC and SWAP and how this might affect the detection and investigation of fraud. Currently, both WSC and TDBC Revenue and Benefits service used the same IT software.

RESOLVED that:-

1. The Officer's report be noted.
2. The draft revised Anti-Fraud and Corruption Policy and Strategy for consideration should be approved by Cabinet.
3. Cabinet be recommended to approve the introduction of penalty charges to assist in the prompt and accurate assessment of Council Tax liability.

A.49 Corporate Risk Management Update

(Report No. WSC 48/16, circulated with the Agenda).

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

The Corporate Strategy and Performance Manager summarised the current strategic risks identified and approved by JMT as well as any mitigating actions that had continued to be delivered in respect of the various risks, which were set out in the risk register.

An extract of the corporate risk register was provided as an appendix with the covering report.

RESOLVED that the current position in relation to corporate risk be noted.

A.50 Corporate Annual Governance Action Plan

(Report No. WSC 49/16, circulated with the Agenda).

The purpose of the report was to provide the Audit Committee with a position statement regarding the 2015/16 Annual Governance Statement Action Plan.

The Corporate Strategy and Performance Manager summarised the contents of the Annual Governance Action Plan, which consisted of two parts. The first part identified new actions within the most recent Annual Governance Statement (2015/16) and the second part identified those actions, which had been carried over from 2014/15.

For the Committee's information a section of the Annual Governance Action Plan had been provided with the covering report.

RESOLVED that the current progress in relation to completing the actions identified within the 2015/16 Annual Governance Statement be noted.

A.51 SWAP Audit Actions – Summary of Overdue Level 4/5.

(Report No. WSC 50/16, circulated with the Agenda).

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

The Corporate Strategy and Performance Manager summarised the Priority Four and Five audit actions that affected West Somerset Council, where the agreed remedial action was overdue.

For the Committee's information a summary of the overdue actions had been provided with the covering report.

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

- Members requested the inclusion of an additional column detailing whether or not the action had been carried forward or completed.
- In response to a question about the use of outside resources, members were informed that the Council would first look to our internal expertise, which would include Shape, then only going externally for specific paid services when necessary.
- Discussion concerning the training of staff and the avenues for this such as service specific or corporate training programme.

RESOLVED that the Officer's Summary Report on Overdue Level 4/5 Audit Actions be noted.

The meeting closed at 4.05 pm.

Audit Committee – Action Plan

Date/Minute Number	Action Required	Action Taken
<p>21 March 2016</p> <p>A48 – Refresh of Anti-Fraud Policy – Council Tax Penalties</p>	<p><u>RESOLVED:-</u></p> <ol style="list-style-type: none"> 1. The draft revised Anti-Fraud and Corruption Policy and Strategy for consideration should be approved by Cabinet. 2. Cabinet be recommended to approve the introduction of penalty charges to assist in the prompt and accurate assessment of Council Tax liability. 	<p>Following the meeting of the Audit Committee, decisions were held with the Portfolio Holder, Chair of Scrutiny Committee and the Leader Officer it was decided that the Report should progress to Full Council for approval.</p>
<p>1 December 2015</p> <p>A35 - Treasury Management Strategy Report</p>	<p><u>RESOLVED:-</u></p> <ol style="list-style-type: none"> 1. To support and provide comments for consideration in developing in the final strategies of the draft Treasury Management Strategy Statement (TMSS) and Annual Investment Strategy for review and approval by Full Council. 2. That the Minimum Revenue Provision Policy was under review and any revisions would be incorporated with the final TMSS and Investment Strategies be noted. 3. That the draft Prudential Indicators contained within the TMSS be noted. 	<p>Following the meeting of the Audit Committee, Full Council approved:-</p> <ol style="list-style-type: none"> 1. The Treasury Management Strategy Statement (TMSS), Annual Investment Strategy and Minimum Revenue Provision Policy for 2016/17 as included with this report. 2. The Prudential Indicators included within the TMSS which include limits for borrowing and investment. 3. The change to the Council's Minimum Revenue Provision (MRP) Policy.
<p>28 September 2015</p>	<p>No Actions</p>	

<p>6 July 2015</p> <p>A11 – Draft Annual Governance Statement 2014/15</p>	<p><u>RESOLVED</u> that the contents of the Draft Annual Governance Statement be noted and that the Leader of the Council and the Chief Executive be recommended to adopt the document</p>	<p>Following the meeting of the Audit Committee, the Leader of the Council and Chief Executive signed off the contents of the Draft Annual Governance Statement to adopt the document.</p> <p>This was not completed at any formal Committee Meeting.</p>
---	---	---

West Somerset Council - Audit Committee – Forward Plan 2016

Meeting	DRAFT AGENDA ITEMS	LEAD OFFICER
21 March 2016	Grant Thornton – Audit Plan Grant Thornton – Audit Update SWAP Internal Audit – Progress Report 2015/16 SWAP Internal Audit - Audit Plan 2016/17 Refresh of Anti-Fraud Policy - Council Tax Penalties Corporate Risk Management Update Corporate Governance Action Plan Summary of Overdue Level 4/5 Actions Forward Plan	Peter Barber Kevin Henderson Peter Barber Kevin Henderson Alastair Woodland Alastair Woodland Heather Tiso Paul Harding Paul Harding Paul Harding Richard Sealy
21 June 2016	Grant Thornton External Audit - Audit Fees Grant Thornton External Audit - Audit Update SWAP Internal Audit – Annual Report SWAP Internal Audit – Audit Plan 2015/16 Outturn Review of Effectiveness of Internal Audit 2015/16 Treasury Management Outturn Report Annual Governance Statement 2015/16 Forward Plan	Peter Barber Kevin Henderson Peter Barber Kevin Henderson Alastair Woodland Alastair Woodland Jo Nacey James Howells Paul Harding
19 Sept 2016	Grant Thornton – External Audit Findings Approval of the Statement of Accounts SWAP Internal Audit – Progress Update 2016/17 Summary of Overdue Level 4/5 Actions Corporate Governance Action Plan Update Corporate Risk Management Update Forward Plan	Peter Barber Kevin Henderson Paul Fitzgerald Alastair Woodland Paul Harding Paul Harding Paul Harding
6 Dec 2016	Grant Thornton External Audit – Annual Audit Letter 2015/16 Grant Thornton External Audit Update SWAP Internal Audit – Progress Report 2015/16 SWAP Committee Report Redesign – discussion item 6-Month Review of Treasury Management Activity Forward Plan	Peter Barber Kevin Henderson Peter Barber Kevin Henderson Alastair Woodland Alastair Woodland James Howells

Report Number: WSC 73/16

West Somerset Council

Audit Committee 21 June 2016

External Audit Fees 2016/17

Cabinet Member: Councillor Mandy Chilcott, Deputy Leader & Resources

Report Author: Jo Nacey Senior Accountant and Deputy S151 Officer

1 Purpose of the Report

1.1 This report details the fee forecast for external audit services in 2016/17.

2 Recommendations

2.1 Members are requested to note the Report.

3 Background and Full details of the Report

3.1 Each year our external auditors, Grant Thornton, provide details of the forecast fees to be charged for the main audit and the grant certification work relating to the current year.

3.2 The attached letter provides details of the fees and the schedule of payments. Grant Thornton have also provided an outline audit timetable to show the phasing of their work.

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

4 Links to Corporate Aims / Priorities

4.1 There are no direct implications.

5 Finance / Resource Implications

5.1 The total indicative audit fee is £51,488. This amount is split between the fee for the main audit of £42,525 (which is the same as the previous year) and the grant certification work of £8,963 (which represents an increase of £1,967 from the previous year).

6 Legal Implications

6.1 There are no legal implications from this report.

7 Environmental Impact Implications

7.1 There are no direct implications.

8 Community Safety Implications

8.1 There are no direct implications.

9 Equality and Diversity Implications

9.1 There are no direct implications.

10 Social Value Implications

10.1 There are no direct implications.

11 Partnership Implications

11.1 There are no direct implications.

12 Health and Wellbeing Implications

12.1 There are no direct implications.

13 Asset Management Implications

13.1 There are no direct implications.

14 Consultation Implications

14.1 There are no direct implications.

List of Appendices

Appendix A	Grant Thornton – Audit Fee Letter for 2016/17 dated 6 April 2016
------------	--

Contact Officers

Name	Jo Nacey	Name	Richard Sealey
Direct Dial	01823 358678	Direct Dial	01823 358690

Email	j.nacey@tauntondeane.gov.uk	Email	r.sealy@tauntondeane.gov.uk
-------	-----------------------------	-------	-----------------------------

Shirlene Adam
Director Operations and Deputy Chief Executive
Taunton Deane Borough Council
The Deane House
Belvedere Road
Taunton
TA1 1HE

Grant Thornton UK LLP
Hartwell House
55-61 Victoria Street
Bristol BS1 6FT

T +44 (0)117 305 7600
F +44 (0)117 305 7784
granithornton.co.uk

6 April 2016

Dear Shirlene

Planned audit fee for 2016/17 – West Somerset District Council

The Local Audit and Accountability Act 2014 provides for the introduction of a new framework for local public audit. Under these provisions, the Audit Commission closed in March 2015 and the Secretary of State for Communities and Local Government delegated some statutory functions from the Audit Commission Act 1998 to Public Sector Audit Appointments Limited (PSAA) on a transitional basis.

PSAA will oversee the Commission's audit contracts for local government bodies until they end in 2018, following the announcement by the Department for Communities and Local Government (DCLG) that it will extend transitional arrangements until 2017/18. PSAA's responsibilities include setting fees, appointing auditors and monitoring the quality of auditors' work. Further information on PSAA and its responsibilities are available on the [PSAA website](#).

Scale fee

PSAA prescribes that 'scale fees are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timescales'.

There are no planned changes to the overall work programme for local government audited bodies for 2016/17, bar the adoption of new measurement requirements for the Highways Network Asset. As West Somerset District Council do not have a Highways Network Asset, this does not apply.

PSAA have proposed that 2016/17 scale audit fees are set at the same level as the scale fees applicable for 2015/16. The Council's scale fee for 2016/17 has been set by PSAA at £42,525.

The audit planning process for 2016/17, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

Scope of the audit fee

Under the provisions of the Local Audit and Accountability Act 2014, the National Audit Office (NAO) is responsible for publishing the statutory Code of Audit Practice and guidance for auditors from April 2015. Audits of the accounts for 2016/17 will be undertaken under this Code, on the basis of the work programme and scale fees set out on the [PSAA website](#). Further information on the NAO Code and guidance is available on the [NAO website](#).

The scale fee covers:

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

PSAA will agree fees for considering objections from the point at which auditors accept an objection as valid, or any special investigations, as a variation to the scale fee.

Value for Money conclusion

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

The NAO issued its guidance for auditors on value for money work in November 2015. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

The NAO guidance identifies one single 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.

Certification of grant claims and returns

The Council's indicative grant certification fee has been set by PSAA at £8,963. This fee covers the cost of certifying the housing benefit subsidy claim only and is based on final 2014/15 certification fees.

The indicative fee for certification work is based on the expectation that you provide the auditor with complete and materially accurate claims and returns, with supporting working papers, within agreed timeframes.

Assurance engagements for other schemes will be subject to separate arrangements and fees agreed between the grant-paying body, the Council and ourselves.

Billing schedule

Fees will be billed as follows:

Main Audit fee	£
September 2016	10,631.25
December 2016	10,631.25
March 2017	10,631.25
June 2017	10,631.25
Total	42,525.00

Grant Certification	
December 2017	8,963.00

Outline audit timetable

We will undertake our audit planning and interim audit procedures in November 2016 to March 2017. Upon completion of this phase of our work we will issue a detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit and work on the VfM conclusion will be completed in June – August 2017.

Phase of work	Timing	Outputs	Comments
Audit planning and interim audit	November 2016 – March 2017	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of the Council's accounts and VfM.
Final accounts audit	June – August 2017	Audit Findings (Report to those charged with governance)	This report sets out the findings of our accounts audit and VfM work for the consideration of those charged with governance.
VfM conclusion	January – August 2017	Audit Findings (Report to those charged with governance)	As above
Annual audit letter	October 2017	Annual audit letter to the Council	The letter will summarise the findings of all aspects of our work.
Grant certification	June – October 2017	Grant certification letter	A letter summarising the findings of our grant certification work

Our team

The key members of the audit team for 2016/17 are:

	Name	Phone Number	E-mail
Engagement Lead	Peter Barber	0117 305 7897 07880 456122	peter.a.barber@uk.gt.com
Audit Manager	Kevin Henderson	0117 305 7873 07880 456132	kevin.j.henderson@uk.gt.com
In Charge Auditor	Stephen Clarke	0117 305 7884	stephen.t.clarke@uk.gt.com

Additional work

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

Quality assurance

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact Jon Roberts, our Public Sector Assurance regional lead partner, via jon.roberts@uk.gt.com.

Yours sincerely



Peter Barber
Engagement Lead

For Grant Thornton UK LLP

Report Number: WSC 74/16

West Somerset Council

Audit Committee 21 June 2016

External Audit (Grant Thornton) Update Report

This is the responsibility of Cabinet Member Councillor Mandy Chilcott

Report Author: Jo Nacey Senior Accountant and Deputy S151 Officer

1 Purpose of the Report

- 1.1 This is a regular update report for Members by our external auditors, Grant Thornton. Specifically the report provides an update in relation to their work for the 2016/17 financial year and also provides an update in relation to emerging national issues.

2 Recommendations

- 2.1 Members are requested to note the update report.

3 Risk Assessment

Risk Matrix

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

4 Background and Full details of the Report

- 4.1 Each year our external auditors, Grant Thornton, are required to carry out prescribed audit work and this report provides a useful progress update on the work undertaken to date.
- 4.2 Additionally, the report shares headlines on some national issues that may have an impact upon the Council.

5 Links to Corporate Aims / Priorities

- 5.1 There are no direct implications.

6 Finance / Resource Implications

6.1 There are no direct implications.

7 Legal Implications

7.1 There are no legal implications from this report.

8 Environmental Impact Implications

8.1 There are no direct implications.

9 Community Safety Implications

9.1 There are no direct implications.

10 Equality and Diversity Implications

10.1 There are no direct implications.

11 Social Value Implications

11.1 There are no direct implications.

12 Partnership Implications

12.1 There are no direct implications.

13 Health and Wellbeing Implications

13.1 There are no direct implications.

14 Asset Management Implications

14.1 There are no direct implications.

15 Consultation Implications

15.1 There are no direct implications.

List of Appendices

Appendix A	Grant Thornton – Audit Update
------------	-------------------------------

Contact Officers

Name	Jo Nacey	Name	Richard Sealey
Direct Dial	01823 358678	Direct Dial	01823 358690
Email	j.nacey@tauntondeane.gov.uk	Email	r.sealy@tauntondeane.gov.uk

Audit Committee
West Somerset District Council
Progress Report and Update
Year ended 31 March 2016

June 2016

Peter Barber

Associate Director

T 0117 305 7708

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

Kevin Henderson

Manager

T 0117 305 7873

E kevin.j.henderson@uk.gt.com

Stephen Clarke

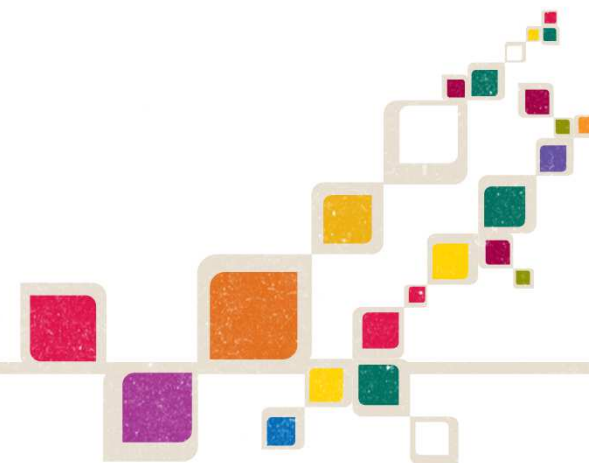
Executive

T 0117 305 7884

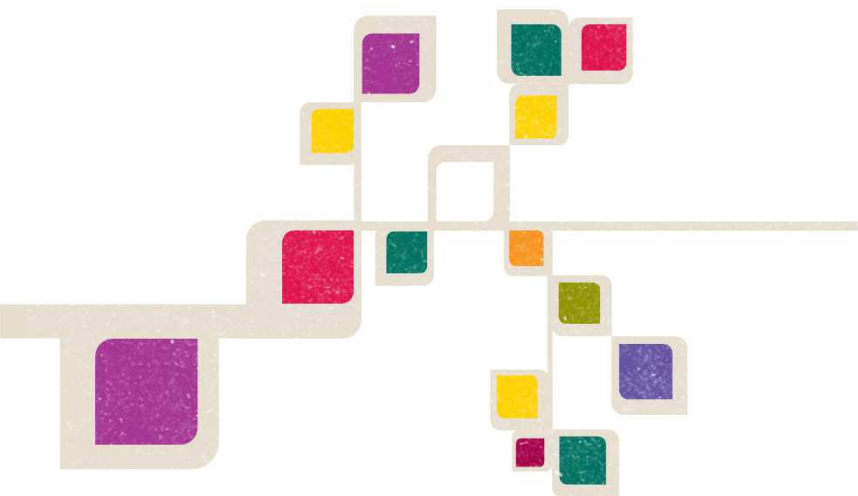
E stephen.t.clarke@uk.gt.com



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



Contents



Contents	Page
Introduction	4
Progress at 13 June 2016	5
Local Government accounting and other issues	7
Grant Thornton publications	9

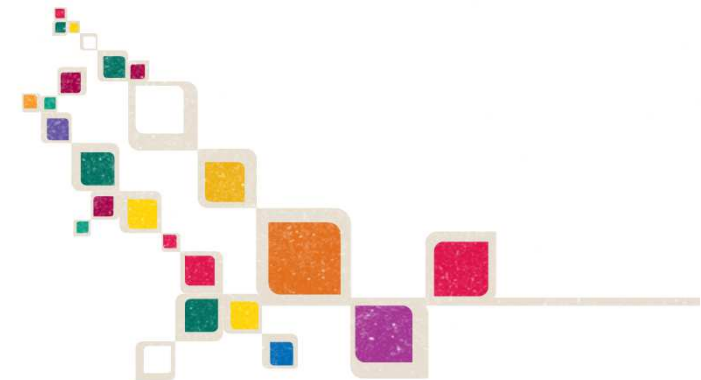
Introduction

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

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

- Innovation in public financial management (December 2015); www.grantthornton.global/en/insights/articles/innovation-in-public-financial-management/
- Building a successful joint venture company (April 2016) <http://www.grantthornton.co.uk/en/insights/building-a-successful-joint-venture-company/>

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



Progress at 13 June 2016



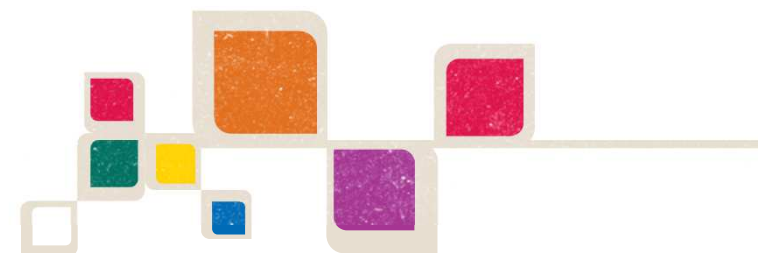
 **Progress against plan**
On track

 **Opinion and VfM conclusion**
Plan to give before deadline of 30 September 2016

 **Outputs delivered**
Fee letter, Progress Reports, delivered to plan

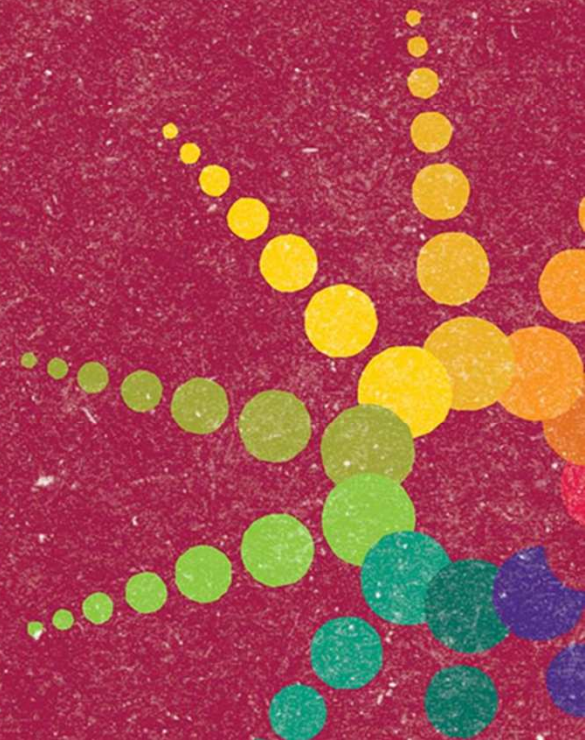
2015/16 work	Planned Date	Complete?	Comments
Fee letter	April 2015	Yes	The fee letter was presented at the June 2015 meeting
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2015-16 financial statements.	January – February 2016	Yes	The Audit Plan was presented at the March 2016 meeting.
Interim accounts audit Our interim fieldwork visit plan included: <ul style="list-style-type: none"> • updated review of the Council's control environment • updated understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed Value for Money conclusion. 	January- February 2016	Yes	As reported at the March meeting, there are no issues to bring to the Committee's attention.
Final accounts audit Including: <ul style="list-style-type: none"> • audit of the 2015-16 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion • review of the Council's disclosures in the consolidated accounts against the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 	July - August	Not started	We will complete the accounts audit in line with the statutory deadline, but it is our intention to complete our audit by 31 August. as part of the transition to the earlier closedown and audit cycle from 2018. Our audit will start on 18 July 2016.

Progress at 13 June 2016



2015/16 work	Planned Date	Complete?	Comments
<p>Value for Money (VfM) conclusion</p> <p>The scope of our work has changed and is set out in the final guidance issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".</p> <p>The guidance confirmed the overall criterion as; "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".</p> <p>The three sub criteria for assessment to be able to give a conclusion overall are:</p> <ul style="list-style-type: none"> • Informed decision making • Sustainable resource deployment • Working with partners and other third parties 	March - July	In progress	<p>An initial risk assessment has been undertaken, the results of which are reflected in the Audit Plan.</p> <p>The results of our detailed work will be reported in the Audit Findings Report presented to the September meeting of the Audit Committee.</p>
<p>Other areas of work</p> <p>Housing benefit certification</p>	September – October 2016	Not yet due	<p>The deadline for certification of the housing benefit return is 30 November 2016. We have undertaken some early work, but we will not conclude our work until September/October 2016.</p>

Local Government accounting and other issues



Fighting Fraud and Corruption Locally

CIPFA publication

Fighting Fraud and Corruption Locally is a strategy for English local authorities that is the result of collaboration by local authorities and key stakeholders from across the counter fraud landscape .

This strategy is the result of an intensive period of research, surveys, face-to-face meetings and workshops. Local authorities have spoken openly about risks, barriers and what they feel is required to help them improve and continue the fight against fraud and to tackle corruption locally.

Local authorities face a significant fraud challenge. Fraud costs local authorities an estimated £2.1bn a year. In addition to the scale of losses, there are further challenges arising from changes in the wider public sector landscape including budget reductions, service remodelling and integration, and government policy changes. Local authorities will need to work with new agencies in a new national counter fraud landscape.

The strategy:

- calls upon local authorities to continue to tackle fraud with the dedication they have shown so far and to step up the fight against fraud in a challenging and rapidly changing environment
- illustrates the financial benefits that can accrue from fighting fraud more effectively
- calls upon central government to promote counter fraud activity in local authorities by ensuring the right further financial incentives are in place and helping them break down barriers to improvement
- updates and builds upon Fighting Fraud Locally 2011 in the light of developments such as The Serious and Organised Crime Strategy and the first UK Anti-Corruption Plan
- sets out a new strategic approach that is designed to feed into other areas of counter fraud and corruption work and support and strengthen the ability of the wider public sector to protect itself from the harm that fraud can cause.

The strategy can be downloaded from

<http://www.cipfa.org/services/counter-fraud-centre/fighting-fraud-and-corruption-locally>



Grant Thornton Publications



Better together

Building a successful joint venture company

Grant Thornton market insight

Local government is continuing to innovate as it looks for ways to protect front line services. The changes are picking up pace as more local government bodies introduce alternative delivery models to generate additional income and savings. While these new models are not a solution by themselves, they do add to the wider solutions being explored by local government such as devolution, collaboration and integration.

Joint Ventures (JVs) have been in use for many years in local government and remain a common means of delivering services differently. This report, *Better Together: Building a successful joint venture company*, draws on our research across a range of JVs to provide inspiring ideas from those that have been a success and the lessons learnt from those that have encountered challenges. The report also provides advice and information about the key areas to consider when deciding to set up a JV, setting it up and making it successful.

Key findings from the report:

- **JVs continue to be a viable option** – Where they have been successful they have supported councils to improve service delivery, reduce costs, bring investment and expertise and generate income
- **There is reason to be cautious** – Our research found a number of JVs between public and private bodies had mixed success in achieving outcomes for councils
- **There is a new breed of JVs between public sector bodies** – These JVs can be more successful at working and staying together. There are an increasing number being set up between councils and wholly-owned commercial subsidiaries that can provide both the commercialism required and the understanding of the public sector culture





© 2016 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

grantthornton.co.uk

GRT102468

Report Number: WSC 75/16
Presented by: Alastair Woodland, Assistant Director
Author of the Report: Alastair Woodland, Assistant Director
Contact Details:
Tel. No. Direct Line 01823 356160
Email: Alastair.woodland@southwestaudit.co.uk

Report to a Meeting of: Audit Committee
To be Held on: 21 June 2016
Date Entered on Executive Forward Plan Or Agreement for Urgency Granted: [\[Click here and type Date\]](#)

INTERNAL AUDIT ANNUAL OPINION REPORT FOR 2015-16

1. PURPOSE OF REPORT

1.1 To inform the Audit Committee of the Annual Opinion Report 2015-16 from Internal Audit.

2. CONTRIBUTION TO CORPORATE PRIORITIES

2.1 Delivery of the corporate objectives requires strong governance, risk management and internal controls. The attached report provides a summary on internal audit's view on the effectiveness of internal controls, risk management and governance based on the work completed during 2015-16.

3. RECOMMENDATIONS

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

4. RISK ASSESSMENT (IF APPLICABLE)

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

5. BACKGROUND INFORMATION

5.1 The Accounts and Audit Regulations (England) 2011 requires public authorities to publish an Annual Governance Statement (AGS). The Statement is an annual review of the Systems of Internal Control and gathers assurance from various sources to support it. One such source is Internal Audit. The Head of Internal Audit should provide a written annual report to those charged with governance to support the AGS. This report provides that opinion based on the work undertaken during 2015-16.

6. FINANCIAL/RESOURCE IMPLICATIONS

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

7. COMMENTS ON BEHALF OF SECTION 151 OFFICER

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

8. EQUALITY & DIVERSITY IMPLICATIONS

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

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

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

8.1 There are no direct implications from this report.

9. CRIME AND DISORDER IMPLICATIONS

9.1 There are no direct implications from this report.

10. CONSULTATION IMPLICATIONS

10.1 There are no direct implications from this report.

11. ASSET MANAGEMENT IMPLICATIONS

11.1 There are no direct implications from this report.

12. ENVIRONMENTAL IMPACT IMPLICATIONS

12.1 There are no direct implications from this report.

13. HEALTH & WELLBEING

13.1 There are no direct implications from this report.

14. LEGAL IMPLICATIONS

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

West Somerset Council

Report of Internal Audit Activity

Annual Opinion Report 2015/16

Contents

The contacts at SWAP in connection with this report are:

Gerry Cox

Chief Executive

Tel: 01935 385906

gerry.cox@southwestaudit.co.uk

Ian Baker

Director of Quality

Tel: 07917628774

ian.baker@southwestaudit.co.uk

Alastair Woodland

Assistant Director

Tel: 07872500675

Alastair.woodland@southwestaudit.co.uk



Summary:

Purpose & Background

Page 1-2

Annual Opinion

Page 3-4



Summary of Audit Work:

Internal Audit Work Programme

Page 5

Significant Corporate Risks

Page 6

Summary of Audit Opinions 2015-16

Page 7

Yearly Comparison of Priority Actions

Page 8



Plan Performance:

Added Value

Page 9

SWAP Performance

Page 10-11



Appendices:

Appendix A – Audit Framework Definitions

Page 12-13

Appendix B – Summary of Work Plan

Page 14-15

Summary

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



Purpose

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

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

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

Summary

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



Background

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

Internal Audit Annual Opinion 2015/16

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



Annual Opinion

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

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

Of the reviews at final report stage that have an Assurance Opinion, and those at draft that include an indicative assessment, no reviews were given 'No Assurance'. The majority of reviews have returned a favourable opinion (Reasonable Assurance or Substantial Assurance), and in fact for the 2015-16 plan no reviews returned a Partial Assurance Opinion, although there are two reviews outstanding (Homelessness and Hinkley).

However, there were also three reviews from 2014-15 that were reported during 2015-16, these being Private Water Supplies, Choice Based Lettings and Asset Management. Two of these audits (Private Water Supplies and Asset Management) did return a Partial Assurance Opinion and have been taken into consideration when forming my opinion on the internal control environment for 2015-16.

Internal Audit Annual Opinion 2015/16

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

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

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

Summary of Audit Work 2015/16

Our audit activity is split between:

- Operational Audits
- Key Control Audits
- Governance, Fraud & Corruption Audits
- IT Audits
- Special Reviews
- Follow-up



Internal Audit Work Programme

The schedule provided at **Appendix B** contains a list of all audits agreed for inclusion in the Annual Audit Plan 2015-16 and the final outturn for the financial year. In total, 17 will be delivered. It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

Of the 17 reviews in the revised 2015-16 audit plan, they are broken down as follows:

Type of audit	2015-16 original plan	2015-16 revised plan
• Operational Audits	3	4
• Information Systems	1	1
• Key Control	6	6
• Governance, Fraud & Corruption	5	4
• Grants	0	1
• Special Reviews	0	0
• Follow-up	1	1
• TOTAL	16	17

Summary of Audit Work 2015/16

Significant Corporate Risks

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



Significant Corporate Risks

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

We can report that our work in 2015-16 has not identified any risks that have been assessed as High or Very High after we have tested the controls in place.



Summary of Audit Work 2015/16

SWAP Performance - Summary of Audit Opinions

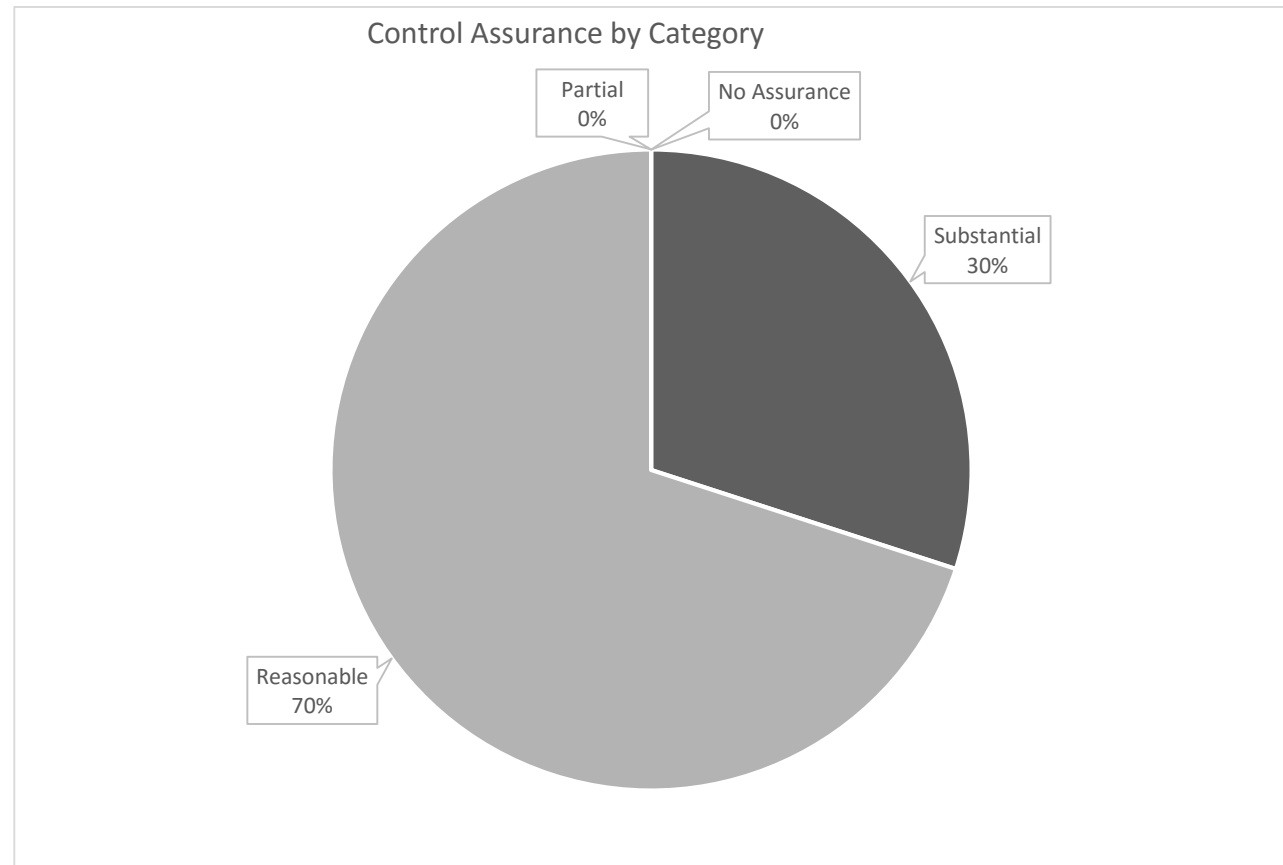
At the conclusion of audit assignment work each review is awarded a "Control Assurance Definition";

- Substantial
- Reasonable
- Partial
- No Assurance



Summary of Audit Opinion

Out of the 17 reviews, of those at Final or Draft where there is an opinion (10 reviews), the breakdown is as follows:



Summary of Audit Work 2015/16

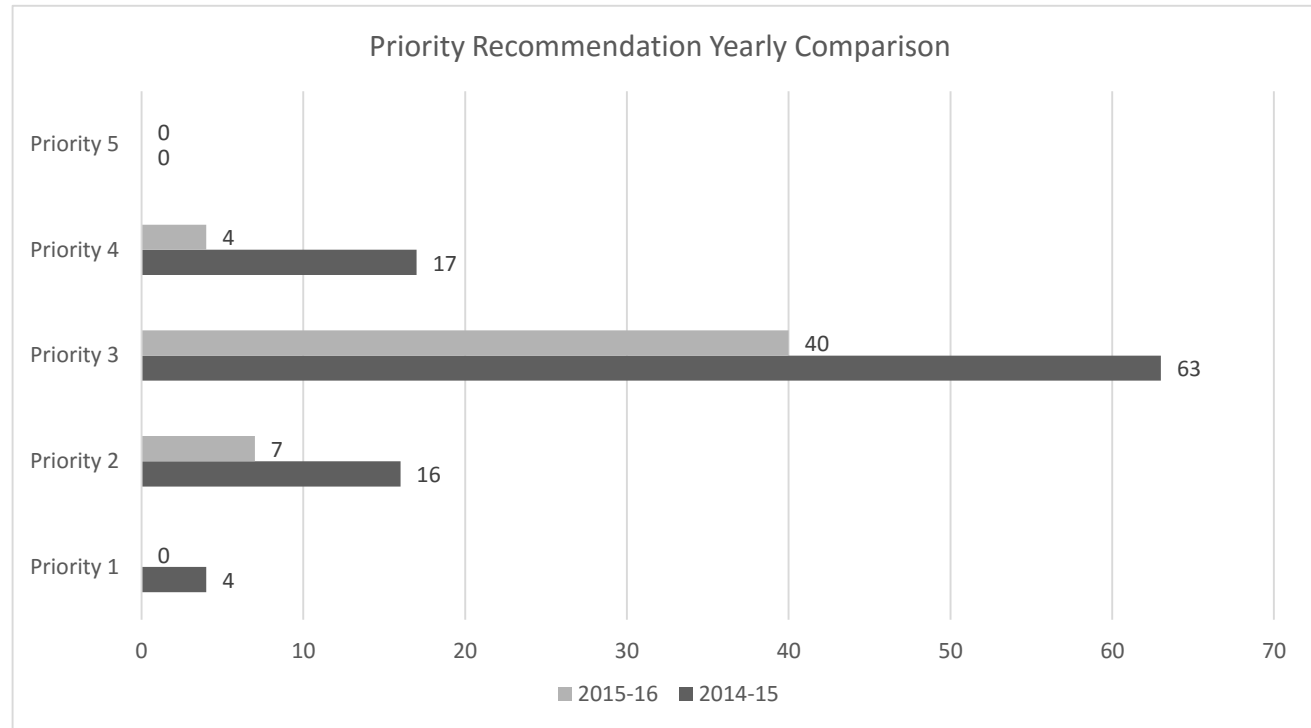
SWAP Performance - Summary of Audit Recommendations by Priority



We rank our recommendations on a scale of 1 to 5, with 1 being minor or administrative concerns to 5 being areas of major concern requiring immediate corrective action

Priority Actions

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. Therefore recommendations are assessed as to how important they are to the scope of the area audited. Priority 5 recommendations being more important than priority 1. All recommendations as currently contained in **Appendix B** are summarised below and compared to the previous year. Note there are two review not complete that will increase the figures for 2015-16.



Added Value

Extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something more while adding little or nothing to its cost.



Added Value

Primarily Internal Audit is an assurance function and will remain as such. However as we complete our audit reviews and through our governance audit programmes across SWAP we seek to bring information and best practice to managers to help support their systems of risk management and control. The SWAP definition of “added value” is; “it refers to extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something "more" while adding little or nothing to its cost”.

The following have provided added value for the Council.

- Regular fraud bulletins highlighting where there are attempted frauds and what officers need to be on the lookout for.
- Planning Guarantee - Highlighting the risks of not meeting the timeframes of the Planning Guarantee and comparison of procedures with other Councils
- Performance Management – At Mendip District Council a Performance Management benchmarking exercise was carried out that included information from West Somerset Council. A summary benchmarking report was produced and circulated to all authorities that submitted information.
- Business Continuity - This audit has been performed at five authorities and an overarching report was issued which summarised and compared findings; gives examples of good practice; and includes a section on Landlord responsibilities.



Plan Performance 2015/16

The Assistant Director for SWAP reports performance on a regular basis to the SWAP Management and Partnership Boards.



SWAP Performance

SWAP now provides the Internal Audit service for 14 Councils and also many subsidiary bodies. SWAP performance is subject to regular monitoring review by both the Board and the Member Meetings. The respective outturn performance results for West Somerset Council for the 2015-16 year (as at 8 June 2016) are as follows;

Performance Target	Average Performance
<p><u>Audit Plan – Percentage Progress</u></p> <p>Final, Draft and Discussion 88%</p> <p>Fieldwork Completed awaiting report 6%</p> <p>In progress 6%</p>	
<p><u>Draft Reports</u></p> <p>Issued within 5 working days 78%</p>	
<p><u>Final Reports</u></p> <p>Issued within 10 working days of draft report 70%</p>	
<p><u>*Quality of Audit Work</u></p> <p>Customer Satisfaction Questionnaire 88%</p>	

*At the close of each audit review a Customer Satisfaction Questionnaire is sent out to the Service Manager or nominated officer. The aim of the questionnaires is to gauge satisfaction against timeliness, quality and professionalism. A score of 80% would reflect the fact that the client agreed that the review was delivered to a good standard of quality.

The Assistant Director for SWAP reports performance on a regular basis to the SWAP Management and Partnership Boards.



SWAP Performance

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

SWAP carried out such an assessment in 2012 and at that time agreed that it would be best practice to complete such a review every three years and therefore we commissioned our next review to take place in September 2015. This review has now been completed and again confirmed SWAP to be in full conformance to the International Professional Practices Framework and the PSIAS. As a result of the quality review, a Quality Assessment Improvement Plan (QAIP) is produced. This document is a live document, reviewed regularly by the SWAP Board to ensure continuous improvement.

And finally, just like any other Company and Taunton Deane Borough Council itself, our accounts are subject to both Internal and External Audit Review. The auditor confirmed that the audit did not find any areas of concern and the auditor was confident that the processes in place are adequate to support SWAP's annual report and financial statements.

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

- Substantial
- Reasonable
- Partial
- No Assurance



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.

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



Audit Framework Definitions

Categorisation of Recommendations

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

- Priority 5: Findings that are fundamental to the integrity of the unit’s business processes and require the immediate attention of management.
- Priority 4: Important findings that need to be resolved by management.
- Priority 3: The accuracy of records is at risk and requires attention.
- Priority 2: Minor control issues have been identified which nevertheless need to be addressed.
- Priority 1: Administrative errors identified that should be corrected. Simple, no-cost measures would serve to enhance an existing control.

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

Definitions of Risk

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

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ← 5 = Major				
						Recommendation				
						1	2	3	4	5
Follow Up	Data Transparency	Q1	Final	Follow Up	3	0	2	1	0	0
Governance, Fraud & Corruption, Cross Cutting	Business Continuity	Q1	Final	Reasonable	4	0	0	4	0	0
ICT Audit	Data Migration from Northgate to Civica OpenRevenues	Q1	Final	Non Opinion	3	0	0	2	1	0
Governance, Fraud & Corruption, Cross Cutting	Declaration of Interests, Gifts and Hospitality & Ethical Standards	Q2	Final	Reasonable	5	0	1	4	0	0
Governance, Fraud & Corruption, Cross Cutting	Cash & Banking	Q2	Final	Reasonable	10	0	0	9	1	0
Operational Audit	Food Safety	Q2	Final	Substantial	7	0	0	7	0	0
Key Control	Council Tax & NNDR	Q3	Final	Substantial	0	0	0	0	0	0
Key Control	Main Accounting	Q3	Final	Reasonable	3	0	2	1	0	0
Key Control	Debtors	Q3	Final	Reasonable	4	0	0	4	0	0
Grant	Repair & Renewal Grant (New)	Q3	Final	Non Opinion	0	0	0	0	0	0
Key Control	Treasury Management	Q3	Final	Reasonable	3	0	0	3	0	0
Key Control	Creditors	Q3	Final	Reasonable	4	0	1	3	0	0
Operational Audit	Land Charges (NEW)	Q4	Discussion Document	Non-Opinion	5	0	1	2	2	0
Key Control	Housing Benefits	Q4	Final	Substantial	0	0	0	0	0	0

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor \longleftrightarrow 5 = Major				
						Recommendation				
						1	2	3	4	5
Operational Audit	Homelessness	Q4	Review	-	-	-	-	-	-	-
Operational Audit	Waterways/Beach safety	Q4	Final – Interim	Non-Opinion	0	0	0	0	0	0
Governance, Fraud & Corruption, Cross Cutting	Hinkley	Q4	In Progress	-	-	-	-	-	-	-
Governance, Fraud & Corruption, Cross Cutting	Transformation Programme	Q3	Dropped	-	-	-	-	-	-	-

Report Number: WSC 76/16
Presented by: Alastair Woodland, Assistant Director
Author of the Report: Alastair Woodland, Assistant Director
Contact Details:
Tel. No. Direct Line 01823 356160
Email: Alastair.woodland@southwestaudit.co.uk

Report to a Meeting of: Audit Committee
To be Held on: 21 June 2016
Date Entered on Executive Forward Plan Or Agreement for Urgency Granted: [\[Click here and type Date\]](#)

INTERNAL AUDIT PLAN 2015-16 OUTTURN REPORT

1. PURPOSE OF REPORT

- 1.1 To update members on the Internal Audit Plan 2015-16 progress and bring to their attention any significant findings identified through our work.

2. CONTRIBUTION TO CORPORATE PRIORITIES

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

3. RECOMMENDATIONS

- 3.1 Members are asked to note progress made in delivery of the 2015/16 internal audit plan and note the significant findings since previous update in March 2016.

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 March 2016.

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

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 2015/16 Outturn

Contents

The contacts at SWAP in connection with this report are:

Gerry Cox

Chief Executive

Tel: 01935 385906

gerry.cox@southwestaudit.co.uk

Ian Baker

Director of Quality

Tel: 07917628774

ian.baker@southwestaudit.co.uk

Alastair Woodland

Assistant Director

Tel: 07872500675

Alastair.woodland@southwestaudit.co.uk

➡	Role of Internal Audit	Page 1
➡	Internal Audit Work	Page 2 - 3
➡	Approved Changes to the Audit Plan	Page 4
➡	Appendices:	
	Appendix A – Internal Audit Definitions	Page 5 - 6
	Appendix B – Internal Audit Work Plan	Page 7 – 8
	Appendix C – Significant Risks & Partial Opinions	Page 9

Internal Audit Plan Progress 2015/2016 Outturn

Our audit activity is split between:

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



Role of Internal Audit

The Internal Audit service for the West Somerset Council is provided by South West Audit Partnership Limited (SWAP). SWAP is a Local Authority controlled Company. SWAP has adopted and works to the Standards of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS), and also follows the CIPFA Code of Practice for Internal Audit. The Partnership is also guided by the Internal Audit Charter approved by the Audit and Governance Committee at its meeting in March 2015.

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

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

Internal Audit work is largely driven by an Annual Audit Plan. This is approved by the Section 151 Officer, following consultation with the Corporate Management Team and External Auditors. This year's Audit Plan was reported to this Committee and approved by this committee at its meeting in March 2015.

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

Internal Audit Plan Progress 2015/2016 Outturn

Outturn to Date:

We rank our recommendations on a scale of 1 to 5, with 1 being minor or administrative concerns to 5 being areas of major concern requiring immediate corrective action



Internal Audit Work

The schedule provided at **Appendix B** contains a list of all audits as agreed in the Annual Audit Plan 2015/16. It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

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

As 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 last update in March 2016, eight reviews have been finalised. I am pleased to report that none of these reviews returned an adverse opinion. Therefore there are no significant weaknesses that I need to bring to your attention at this time in **Appendix C**.

Of the work completed I would draw your attention to Waterways work. A report presented to Full Council on 16th September 2015 included a risk matrix that ‘.....accident or serious injury as a result of the failure to adequately control the harbour operation.....’ was assessed as MEDIUM. The matrix also considered compliance with Harbour Safety Codes – failure to do so assessed as HIGH, not least because the current code was out of date and had not been reviewed for a number of years. At the Full Council it was agreed that his meeting it was agreed that, *“an external company to deliver the off-site technical Harbour Master functions with support from an internal employee to deliver the day to day operations on site with a cost of £38k per year. “*

Internal Audit Plan Progress 2015/2016 Outturn

A harbour master has now been appointed and WSC are in negotiation with a Company who provide international marine consultancy services. A contract is currently being agreed for the company to review and update the Council's Harbour Safety Code and a high level review to identify where resources need to be invested to ensure compliance with regulations. In addition, the company will provide off-site technical Harbour Master functions in support of the Assistant Harbour Master.

It was agreed that an audit at the current time would add little value, other than to identify matters that are likely to be identified by the company and for which the Council is already going to pay for. We do however, recognise that Members will require assurance that necessary action has taken place to mitigate or manage the risks identified in the September report to Full Council.

Whilst some audit resource has already been put into preparing for the review, we propose to defer the audit until such time the contracted company have completed their work and any resulting actions have had time to embed. The audit days will not be lost but carried forward into the 2016/17 plan. Towards the end of the calendar year, we will carry out the audit against any report produced by the company with a view to providing the necessary assurance.

Internal Audit Plan Progress 2015/2016 Outturn

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



Approved Changes to the Audit Plan

The audit plan for 2015/16 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.

Since the March 2016 committee report update there is one agreed change to the audit plan. The Waterways Audit will be rescheduled to late Autumn 2016 as mentioned above. This will be added as a project line for the 2016-17 Audit Plan for this Committee to monitor progress.

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

- Substantial
- Reasonable
- Partial
- No Assurance



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.

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



Audit Framework Definitions

Categorisation of Recommendations

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

- Priority 5: Findings that are fundamental to the integrity of the unit’s business processes and require the immediate attention of management.
- Priority 4: Important findings that need to be resolved by management.
- Priority 3: The accuracy of records is at risk and requires attention.
- Priority 2: Minor control issues have been identified which nevertheless need to be addressed.
- Priority 1: Administrative errors identified that should be corrected. Simple, no-cost measures would serve to enhance an existing control.

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

Definitions of Risk

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

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ← → 5 = Major					Comments
						Recommendation					
						1	2	3	4	5	
FINAL											
Follow Up	Data Transparency	Q1	Final	Follow up	3	0	2	1	0	0	
Governance, Fraud & Corruption, Cross Cutting	Business Continuity	Q1	Final	Reasonable	4	0	0	4	0	0	
ICT Audit	Data Migration from Northgate to Civica OpenRevenues	Q1	Final	Non Opinion	3	0	0	2	1	0	
Governance, Fraud & Corruption, Cross Cutting	Declaration of Interests, Gifts and Hospitality & Ethical Standards	Q2	Final	Reasonable	5	0	1	4	0	0	
Governance, Fraud & Corruption, Cross Cutting	Cash & Banking	Q2	Final	Reasonable	10	0	0	9	1	0	
Operational Audit	Food safety	Q2	Final	Substantial	7	0	0	7	0	0	
Key Control	Council Tax & NNDR	Q3	Final	Substantial	0	0	0	0	0	0	
Key Control	Main Accounting	Q3	Final	Substantial	3	0	2	1	0	0	
Key Control	Debtors	Q3	Final	Reasonable	4	0	0	4	0	0	
Operational Audit - Grant	Repair & Renewal Grant (New)	Q3	Final	Non Opinion	0	0	0	0	0	0	
Key Control	Treasury Management	Q3	Final	Reasonable	3	0	0	3	0	0	

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 = Minor ← → 5 = Major					Comments
						Recommendation					
						1	2	3	4	5	
Key Control	Creditors	Q3	Final	Reasonable	4	0	1	3	0	0	
Operational Audit	Waterways/Beach safety	Q4	Interim	Non Opinion	0	0	0	0	0	0	
Key Control	Housing Benefits	Q4	Final	Substantial	0	0	0	0	0	0	
DRAFT											
Operational Audit	Land Charges (NEW)	Q4	Discussion Document	Non Opinion	5	0	1	2	2	0	
Operational Audit	Homelessness	Q4	Review								
IN PROGRESS											
Governance, Fraud & Corruption, Cross Cutting	Hinkley	Q4	In Progress								
DROPPED											
Governance, Fraud & Corruption, Cross Cutting	Transformation Programme	Q3	Replaced with Land Charges review - to tie in With TDBC.								

Schedule of potential significant risks identified from Internal Audit work in the period March to June 2016

Ref	No	Name of Audit	Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action	Agreed Date of Action	Manager's Update (Date)
There are no significant findings to bring to the attention of the Audit Committee in this period.								

Report Number: WSC 77/16

West Somerset Council

Audit Committee – 21 June 2016

Review of Effectiveness of Internal Audit

Report Author: Jo Nacey, Deputy Section 151 Officer

1 Purpose of the Report

- 1.1 To inform the Audit Committee of the recent review of the effectiveness of the delivery of Internal Audit through SWAP (South West Audit Partnership) during 2015/16.

2 Recommendations

- 2.1 The Audit Committee is requested to note the findings of the review of effectiveness of internal audit for 2015/16.

3 Risk Assessment

Risk Matrix

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

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%

4 Background and Full Details of the Report

- 4.1 The South West Audit Partnership (SWAP) is a partnership that provides the Internal Audit service to all of the six Somerset authorities, Dorset County Council, Weymouth and Portland Borough Council, West Dorset District Council, Forest of Dean District Council, East Devon District Council, Wiltshire Council and Herefordshire Council as well as a number of related bodies such as the Somerset Waste Partnership.
- 4.2 The Partnership undertook a significant staff restructure over the last year and have been settling into the new structure with new staff to train. It is fair to say that this has taken a while and we have seen a few new starters leave after a short time and this has led to some disruption of continuity in the service we have received.
- 4.3 Internal audit forms a part of the corporate governance and internal control framework that provides accountability to stakeholders on all areas of the Council Plan. Their opinion on the adequacy and effectiveness of the Council's internal control framework forms a part of the evidence used in preparing the corporate Annual Governance Statement (AGS) for 2015/16, which will be published alongside the Council's Statement of Accounts in September 2016.

4.4 There are several statutory requirements regarding Internal Audit:

- The Accounts and Audit (England) Regulations 2011 require authorities to review the effectiveness of the system of Internal Audit. They also state “A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.” Section 151 of the Local Government Act 1972 states that every local authority in England and Wales should “make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs.” CIPFA has defined “proper administration” as including “compliance with the statutory requirements for accounting and internal audit”.
- The CIPFA Statement on the Role of the Chief Finance Officer in Local Government states that the Chief Finance Officer (CFO) must:
 - Ensure an effective internal audit function is resourced and maintained;
 - Ensure that the authority has put in place effective arrangements for internal audit of the control environment;
 - Support the authority’s internal audit arrangements: and;
 - Ensure that the Audit Committee receives the necessary advice and information, so that both functions can operate effectively.

4.5 Therefore it is important that the findings of the review of the effectiveness of the system of Internal Audit are considered by a committee such as the Audit Committee as a part of the consideration of the system of internal control. This review has to be carried out by someone independent of SWAP.

5. Compliance with PSIAS and Local Government Application Note

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

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

6. The Review of Internal Audit (SWAP)

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

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

6.2 The table below shows some of the overall performance of the service during the year compared to the previous three years:

Performance Measure	2012/13	2013/14	2014/15	2015/16
Levels of satisfaction from feedback questionnaires	83%	86%	83% (Issued 6 Returned 4)	80% (Issued 5 Returned 2)
Audits and reviews completed in year compared to the plan (all at least at final draft stage)	97%	88% + 2 audits deferred by client	58% + 2 audits dropped (11 out of 19 audits completed)	59% End of March (100% for year)
Key Controls audits completed in year compared to plan	100%	100%	80%	50% end of March (100% for year)
Total completed audits and reviews		15 (2 deferred)	11 (+ 7 draft & 1 in progress)	11 (+ 5 draft & 1 in progress)
Cost of audit service to WSC	£68,490	£56,780	£56,780	£56,780
Number of actions for improvements agreed by managers.	87	48	100	42*
No of audit recommendations considered High Risk (Priority 5)	0	0	0	0
Value for Money – average cost of audit day compared to private sector (benchmarking)	SWAP = £280 Private Sector = £320	SWAP = £280 Private Sector = £320	SWAP = £280 Private Sector = Not Benchmarked	SWAP = £280 Private Sector = Not benchmarked

SWAP A/Cs outturn on spend compared to budget – (brackets indicate net income)	Budget (£4,540) Actual (£58,584)	Budget (£0) Actual (£97,840)	Budget (£73,890) Actual (£120,900)	Budget (£85,812) Surplus Actual (projected) (£44,600) Surplus

* Only in relation to assignments at final report stage.

- 6.3 The table shows that the satisfaction from client feedback questionnaires for the audits carried out at WSC is broadly consistent with previous years.
- 6.4 The average cost of an 'audit day' for SWAP remains unchanged at £280.
- 6.5 In total 59% of the audit plan for 2015/16 has been delivered by 31 March 2016. SWAP are committed to completing the plan but there have been several delays which are concerning. We have sought and received assurances from SWAP that this reduction in completion rates is a temporary issue and that they intend to return to 100% delivery of the plan in year from 2016/17 onwards. This is an unfortunate situation as we had received assurance that the 2015/2016 Audit Plan would be 95% completed by year end but the new structure has taken longer than anticipated to stabilise and the completion rate has again slipped.
- 6.6 There were no new high priority recommendations (service level priority 5) in 2015/16.
- 6.7 The outturn position for SWAP is likely to show that, as in previous years, the partnership makes a surplus from operations. Resources have already been assigned to increase capacity at WSC and TDBC.
- 6.8 As SWAP is a company limited by guarantee the Directors of the company will be required to act in the interests of the company. As Section 151 Officer, I have access to the SWAP Management Team to influence service delivery and priorities from a customer's perspective. Additionally, the 'Members Board', which is comprised of Elected Member representatives from each partner authority, meets quarterly to review the performance of the company.

7. Service Standards

- 7.1 In assessing SWAP's performance it is important to review the standards of service to ensure that each authority is afforded the same standards and also senior officer time. The following table outlines the minimum standards to be introduced and whether they would have been delivered for West Somerset Council had they been in place:

Service Standard	Expected Standard	Delivery of Standard
Attendance by SWAP Chief Executive / Director of Quality at Audit Committee.	At least 1 times per annum	1 time in 2015/16
Attendance by Audit Assistant Director at Audit Committee.	At least 4 times per annum	3 times in 2015/16 (Director of Quality attended the other)
Attendance by SWAP Chief Executive at Corporate Governance Officer Group	4 times per annum	0 times (Was Attended by Assistant Director SWAP)
Liaison meetings with S151 Officer and Audit Assistant Director.	6 times per annum	Monthly meetings were held with the Audit Manager during 2015/16, which were attended by the AD Corp Services and Corp Strategy & Performance Manager. The S151 Officer attended quarterly.
Agreement of Audit Plan: Prepared for Management Board/S151 Prepared for Audit Committee Audit Plan monitoring reports	By mid January each year By end January each year 4 times per annum including Annual Report	Delivered Prepared by end February and presented to March 2015 meeting 4 times (quarterly report) per annum
Agreement of Audit Charter: Prepared for Management Board/S151 Prepared for Audit Committee	By mid January each year By end January each year	Delivered. Presented to Audit Committee in March 2015.
To assist with member/officer training in audit and governance	As necessary	

8. Review of SWAP

- 8.1 In February of this year we took part in a survey undertaken on behalf of SWAP to collect feedback on SWAP's performance. This was a useful exercise and we received a follow-up call to discuss our responses. We gave a fair assessment of some of the issues we had experienced and also fed back on the areas e.g. communication that SWAP do well.

9. 2015/16 Action Plan

- 9.1 The following shows progress against the actions to be completed in 2015/16:

- SWAP to work with WSC to ensure that the percentage of audits completed in year for 2015/16 increases to 95% of the audit plan delivered (with the remaining 5% delivered in the first 2 months of the following year).

CURRENT STATUS: At the time of writing this report this has not been achieved. SWAP have given a commitment to work towards this in 16/17.

- Improving engagement with WSC as a customer of SWAP so as to ensure WSC are aware at an early point of known changes to service delivery, changes to key personnel or other relevant matters affecting the delivery of audit services to the Council.

CURRENT STATUS: In progress. We have regular meetings with the Assistant Director SWAP to discuss the status of the Audit Plan and any new developments re new staff, findings, etc. We have also met with the Chief Executive and Executive Director SWAP this year to discuss our concerns regarding the progress against the plan and to hear their assurances about the structure and the year to come.

The Executive Director SWAP also gives a very useful quarterly update to the Senior Finance Officers Group which brings together the s151s across the county.

- SWAP to undertake a review of the current report template structure in order to identify improvements in clarity and content, in consultation with client officers.

CURRENT STATUS: This has been completed and we now have consistent reports across the two councils in a useful and easy to read format

- Current Key Performance Indicators (KPIs) will be reviewed and where necessary new ones will be introduced in consultation with client officers.

CURRENT STATUS: Ongoing

10. Actions to be Completed in 2016/17

- 10.1 The following new actions are to be progressed during 2016/17:-

- SWAP to work with WSC to ensure that the percentage of audits completed **in year** for 2016/17 increases to 95% of the audit plan delivered (with the remaining 5% delivered in the first 2 months of the following year).
- Improving engagement with WSC as a customer of SWAP so as to ensure WSC are aware at an early point of known changes to service delivery, changes to key personnel or other relevant matters affecting the delivery of audit services to the Council.
- Current Key Performance Indicators (KPIs) will be reviewed and where necessary new ones will be introduced in consultation with client officers.

11 Looking Forward: The South West Counter Fraud Partnership

- 11.1 During 2015/16 the South West Counter Fraud Partnership was established, with a new team set up within SWAP providing fraud and corruption prevention and investigation services to West Somerset plus Taunton Deane and South Somerset district councils. The Partnership is funded through to March 2017 by a combination of a successful bid to Government for grant funding, plus contributions from the three councils.
- 11.2 The services provided by the partnership are separate to the Internal Audit Plan and therefore enhance the control environment rather than replace or duplicate the work of the internal audit function. A specific set of priorities is agreed for the SWCFP, focussing on: awareness raising/training, using data analytics to identify possible fraud cases, targeted reviews in specific areas such as right to buy, council house tenancy, council tax discount claims etc.
- 11.3 The aim of the partnership is to prevent and recover losses to fraud, corruption and bribery, thus deliver savings to the Councils initially to fund the service and moreover to better protect to the 'public purse'

12 Links to Corporate Aims / Priorities

- 12.1 It is the responsibility of the S151 Officer to ensure the Authority has put in place effective arrangements for internal audit of the control environment and systems of internal control as required by professional standards and in line with CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom.

13 Finance / Resource Implications

- 13.1 There are no financial implications arising from this report.

14 Legal Implications

- 14.1 There are no direct legal implications within this report although poor governance arrangements, leading to unmitigated risks could expose the Council to unanticipated claims / litigation. An effective internal audit function helps mitigate these risks.

15 Environmental Impact Implications

15.1 There are no implications in respect of this report.

16 Safeguarding and/or Community Safety Implications

16.1 There are no implications in respect of this report.

17 Equality and Diversity Implications

17.1 There are no implications in respect of this report.

18 Social Value Implications

18.1 There are no implications in respect of this report.

19 Partnership Implications

19.1 There are no implications in respect of this report.

20 Health and Wellbeing Implications

20.1 There are no implications in respect of this report.

21 Asset Management Implications

21.1 There are no implications in respect of this report.

22 Consultation Implications

22.1 There are no implications in respect of this report.

Democratic Path:

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

Reporting Frequency: Annually

Contact Officers

Name	Jo Nacey
Direct Dial	01823 358678
Email	j.nacey@tauntondeane.gov.uk

Report Number: WSC 78/16

West Somerset Council

Audit Committee – 21 June 2016

Annual Treasury Management Review 2015/16

This matter is the responsibility of Councillor Mandy Chilcott

Report Author: James Howells, Senior Corporate Accountant

1. Executive Summary

- 1.1 To review the treasury management activity and the performance against the Prudential Indicators for the 2015/16 financial year as prescribed by the revised CIPFA Code of Practice and in accordance with the Council's Treasury Management Strategy and Annual Investment Policy.

2. Recommendations

- 2.1 To note the Treasury Management activity for the 2015/16 financial year (Appendix A).

3. Risk Assessment (if appropriate)

Risk Matrix

Description	Likelihood	Impact	Overall
The Council fails to maintain an adequate system of internal control	2	4	8
The Council has in place suitable arrangements	1	4	4

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%

4. Background and Full details of the Report

- 4.1 The Council's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("the Code"), which requires local authorities to produce annual Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also recommends that members are informed of treasury management activities at least twice a year.
- 4.2 The scrutiny of treasury management policy, strategy and activity is delegated to the Audit Committee.
- 4.3 Treasury management in this context is defined as:
- "The management of the local authority's cash flows, its borrowings and its investments, the management of the associated risks, and the pursuit of the optimum performance or return consistent with those risks".
- 4.4 Overall responsibility for treasury management remains with the Council. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives.

5. Links to Corporate Aims/Priorities

- 5.1 None for the purpose of this report.

6. Finance/Resource Implications

- 6.1 The treasury management function has been well-managed during the year in compliance with the Treasury Management Strategy Statement. As interest rates remain low the opportunities to generate significant income through investments is limited.
- 6.2 The full details of the Treasury Management activity during the year are provided within Appendix A. Summary of the key points as:-
- As at 31 March 2016, WSC's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £5,490,000, while usable reserves and working capital which were the underlying resources available for investment were £10,328,000.

- As at 31 March 2016, WSC had no external borrowing and £12,795,000 of investments, of which £10,160,000 are Hinkley S106 funds managed by the Council.
- The Authority's current strategy was to maintain borrowing and investments below their underlying levels, referred to as internal borrowing.

7. Legal Implications

7.1 None for the purpose of this report.

8. Environmental Impact Implications

8.1 None for the purpose of this report.

9. Safeguarding and/or Community Safety Implications

9.1 None for the purpose of this report.

10. Equality and Diversity Implications

10.1 None for the purpose of this report.

11. Social Value Implications

11.1 None for the purpose of this report.

12. Partnership Implications

12.1 None for the purpose of this report.

13. Health and Wellbeing Implications

13.1 None for the purpose of this report.

14. Asset Management Implications

14.1 None for the purpose of this report.

15. Consultation Implications

15.1 None for the purpose of this report.

16. Scrutiny Comments/Recommendation(s)

16.1 None for the purpose of this report.

Democratic Path:

- **Audit Committee – Yes 21 June 2016**
- **Cabinet/Executive – No**
- **Full Council – Yes 20 July 2016**

Reporting Frequency: Once only Ad-hoc Quarterly

Twice-yearly

Annually

List of Appendices

Appendix A	Annual Treasury Outturn Report 2015/16
------------	--

Contact Officers

Name	James Howells	Name	
Direct Dial	01984 635209	Direct Dial	
Email	jhowells@westsomerset.gov.uk	Email	

Name	Steve Plenty	Name	
Direct Dial	01984 635217	Direct Dial	
Email	splenty@westsomerset.gov.uk	Email	

Annual Treasury Outturn Report 2015/16

Introduction

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

The Authority's Treasury Management Strategy for 2015/16 was approved by Full Council on the 18th March 2015.

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

External Context

Growth, Inflation, Employment: The UK economy slowed in 2015 with GDP growth falling to 2.3% from a robust 3.0% the year before. CPI inflation hovered around 0.0% through 2015 with deflationary spells in April, September and October. The prolonged spell of low inflation was attributed to the continued collapse in the price of oil from \$67 a barrel in May 2015 to just under \$28 a barrel in January 2016, the appreciation of sterling since 2013 pushing down import prices and weaker than anticipated wage growth resulting in subdued unit labour costs. CPI picked up to 0.3% year/year in February, but this was still well below the Bank of England's 2% inflation target. The labour market continued to improve through 2015 and in Q1 2016, the latest figures (Jan 2016) showing the employment rate at 74.1% (the highest rate since comparable records began in 1971) and the unemployment rate at a 12 year low of 5.1%. Wage growth has however remained modest at around 2.2% excluding bonuses, but after a long period of negative real wage growth (i.e. after inflation) real earnings were positive and growing at their fastest rate in eight years, boosting consumers' spending power.

Global influences: The slowdown in the Chinese economy became the largest threat to the South East Asian region, particularly on economies with a large trade dependency on China and also to prospects for global growth as a whole. The effect of the Chinese authorities' intervention in their currency and equity markets was temporary and led to high market volatility as a consequence. There were falls in prices of equities and risky assets and a widening in corporate credit spreads. As the global economy entered 2016 there was high uncertainty about growth, the outcome of the US presidential election and the consequences of June's referendum on whether the UK is to remain in the EU. Between February and March 2016 sterling had depreciated by around 3%, a significant proportion of the decline reflecting the uncertainty surrounding the referendum result.

UK Monetary Policy: The Bank of England's MPC (Monetary Policy Committee) made no change to policy, maintaining the Bank Rate at 0.5% (in March it entered its eighth year at 0.5%) and asset purchases (Quantitative Easing) at £375bn. In its *Inflation Reports* and monthly monetary policy meeting minutes, the Bank was at pains to stress and reiterate that when interest rates do begin to rise they were expected to do so more gradually and to a lower level than in recent cycles.

Improvement in household spending, business fixed investment, a strong housing sector and solid employment gains in the US allowed the Federal Reserve to raise rates in December 2015 for the first time in nine years to take the new Federal funds range to 0.25%-0.50%. Despite signalling

four further rate hikes in 2016, the Fed chose not to increase rates further in Q1 and markets pared back expectations to no more than two further hikes this year.

However central bankers in the Eurozone, Switzerland, Sweden and Japan were forced to take policy rates into negative territory. The European Central Bank also announced a range of measures to inject sustained economic recovery and boost domestic inflation which included an increase in asset purchases (Quantitative Easing).

Market reaction: From June 2015 gilt yields were driven lower by the a weakening in Chinese growth, the knock-on effects of the fall in its stock market, the continuing fall in the price of oil and commodities and acceptance of diminishing effectiveness of central bankers' unconventional policy actions. Added to this was the heightened uncertainty surrounding the outcome of the UK referendum on its continued membership of the EU as well as the US presidential elections which culminated in a significant volatility and in equities and corporate bond yields.

10-year gilt yields moved from 1.58% on 31/03/2015 to a high of 2.19% in June before falling back and ending the financial year at 1.42%. The pattern for 20-year gilts was similar, the yield rose from 2.15% in March 2015 to a high of 2.71% in June before falling back to 2.14% in March 2016. The FTSE All Share Index fell 7.3% from 3664 to 3395 and the MSCI World Index fell 5.3% from 1741 to 1648 over the 12 months to 31 March 2016.

Local Context

At 31/03/2016 the Authority's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £5.490m, while usable reserves and working capital which are the underlying resources available for investment were £10.328m.

At 31/03/2016, the Authority had no external borrowing and £12.795m (£10.160m S106 Hinkley Funds) of investments. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, referred to as internal borrowing.

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

Borrowing Strategy

At 31/03/2016 the Authority had no external loans, (a decrease of £1m on 31/03/2015) as part of its strategy for funding previous years' capital programmes.

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

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

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

Temporary and short-dated loans borrowed from the markets, predominantly from other local authorities, also remained affordable and attractive.

Borrowing Activity in 2015/16

	Balance on 01/04/2015 £000	Maturing Debt £000	Debt Prematurely Repaid £000	New Borrowing £000	Balance on 31/03/2016 £000	Avg Rate % and Avg Life (yrs)
Capital Financing Requirement (CFR)	5,633				5,490	
Short Term Borrowing ¹	1,000	(1,000)	0	0	0	
TOTAL BORROWING	1,000	(1,000)	0	0	0	
Other Long Term Liabilities	0	0	0	0	0	
TOTAL EXTERNAL DEBT	1,000	(1,000)	0	0	0	
Increase/ (Decrease) in Borrowing £m					(1,000)	
INTERNAL BORROWING	4,633				5,490	
TOTAL BORROWING	5,633				5,490	

LGA Bond Agency: UK Municipal Bonds Agency (MBA) plc was established in 2014 by the Local Government Association as an alternative to the PWLB with plans to issue bonds on the capital markets and lend the proceeds to local authorities. In early 2016 the Agency declared itself open for business, initially only to English local authorities. The Authority has yet to analyse the potential rewards and risks of borrowing from the MBA but in consultation with Arlingclose a decision will be made on this issue during 2016/17.

Investment Activity

The Authority has held significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2015/16 the Authority's investment balances have ranged between £12.166 (£9.362 S106 Hinkley Funds) and £16.063 (£10.347 S106 Hinkley Funds) million.

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

¹ Loans with maturities less than 1 year.

Investment Activity in 2015/16

Investments	Balance on 01/04/2015 £000	Investments Made £000	Maturities/ Investments Sold £000	Balance on 31/03/2016 £000	Avg Rate/Yield (%)
Short term Investments (call accounts, deposits) - Banks and Building Societies with ratings of A- or higher	7,656	32,468	39,926	198	0.52
Short term Investments (deposits) - Local Authorities	0	9,000	3,000	6,000	0.50
Long term Investments - Banks and Building Societies with ratings of A- or higher	0	3,000	0	3,000	0.84
Money Market Funds	4,510	28,118	29,031	3,597	0.48
TOTAL INVESTMENTS	12,166	72,586	71,957	12,795	0.51
Increase/ (Decrease) in Investments £m				629	

Security of capital has remained the Authority's main investment objective. This has been maintained by following the Authority's counterparty policy as set out in its Treasury Management Strategy Statement for 2015/16.

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

The authority will also consider the use of secured investments products that provide collateral in the event that the counterparty cannot meet its obligations for repayment.

Credit Risk

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

Date	Value Weighted Average - Credit Risk Score	Value Weighted Average - Credit Rating	Time Weighted Average - Credit Risk Score	Time Weighted Average - Credit Rating
31/03/2015	4.93	A+	4.25	AA-
30/06/2015	4.24	AA-	2.99	AA
30/09/2015	3.98	AA-	2.79	AA
31/12/2015	4.05	AA-	2.83	AA
31/03/2016	2.74	AA	1.50	AAA

Scoring:

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

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

-AAA = highest credit quality = 1

-D = lowest credit quality = 26

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

Counterparty Update

The transposition of two European Union directives into UK legislation placed the burden of rescuing failing EU banks disproportionately onto unsecured institutional investors which include local authorities and pension funds. During the year, all three credit ratings agencies reviewed their ratings to reflect the loss of government support for most financial institutions and the potential for loss given default as a result of new bail-in regimes in many countries. Despite reductions in government support many institutions saw upgrades due to an improvement in their underlying strength and an assessment that the level of loss given default is low.

Fitch reviewed the credit ratings of multiple institutions in May. Most UK banks had their support rating revised from 1 (denoting an extremely high probability of support) to 5 (denoting external support cannot be relied upon). This resulted in the downgrade of the long-term ratings of Royal Bank of Scotland (RBS), Deutsche Bank, Bank Nederlandse Gemeeten and ING. JP Morgan Chase and the Lloyds Banking Group however both received one notch upgrades.

Moody's concluded its review in June and upgraded the long-term ratings of Close Brothers, Standard Chartered Bank, ING Bank, Goldman Sachs International, HSBC, RBS, Coventry Building Society, Leeds Building Society, Nationwide Building Society, Svenska Handelsbanken and Landesbank Hessen-Thuringen.

S&P reviewed UK and German banks in June, downgrading the long-term ratings of Barclays, RBS and Deutsche Bank. As a result of this the Authority made the decision to suspend Deutsche Bank as a counterparty for new unsecured investments. S&P also revised the outlook of the UK as a whole to negative from stable, citing concerns around the referendum on EU membership and its effect on the economy.

National Australia Bank (NAB) announced its plans to divest Clydesdale Bank, its UK subsidiary. NAB listed Clydesdale on the London Stock Exchange and transferred ownership to NAB's

shareholders. Following the demerger, Fitch and Moody's downgraded the long and short-term ratings of the bank.

At the end of July 2015, Arlingclose advised an extension of recommended durations for unsecured investments in certain UK and European institutions following improvements in the global economic situation and the receding threat of another Eurozone crisis. A similar extension was advised for some non-European banks in September, with the Danish Danske Bank being added as a new recommended counterparty and certain non-rated UK building societies also being extended.

In December the Bank of England released the results of its latest stress tests on the seven largest UK banks and building societies which showed that the Royal Bank of Scotland and Standard Chartered Bank were the weakest performers. However, the regulator did not require either bank to submit revised capital plans, since both firms had already improved their ratios over the year.

In January 2016, Arlingclose supplemented its existing investment advice with a counterparty list of high quality bond issuers, including recommended cash and duration limits. As part of this, Bank Nederlandse Gemeeten was moved to the list of bond issuers from the unsecured bank lending list and assigned an increased recommended duration limit of 5 years. Interest rates are likely to stay low for longer making long-term bonds an increasingly attractive option. The Council did not make use of these long-term investment options during 2015/16.

The first quarter of 2016 was characterised by financial market volatility and a weakening outlook for global economic growth. In March 2016, following the publication of many banks' 2015 full-year results, Arlingclose advised the suspension of Deutsche Bank and Standard Chartered Bank from the counterparty list for unsecured investments. Both banks recorded large losses and despite improving capital adequacy this will call 2016 performance into question, especially if market volatility continues. Standard Chartered had seen various rating actions taken against it by the rating agencies and a rising CDS level throughout the year. Arlingclose will continue to monitor both banks.

The end of bank bail-outs, the introduction of bail-ins, and the preference being given to large numbers of depositors other than local authorities means that the risks of making unsecured deposits continues to be elevated relative to other investment options. The Authority therefore increasingly favoured secured investment options or diversified alternatives such as covered bonds, non-bank investments and pooled funds over unsecured bank and building society deposits.

Budgeted Income and Outturn

The average cash balances were £15.544m during the year including S106 Hinkley funds. The UK Bank Rate has been maintained at 0.5% since March 2009. Short-term money market rates have remained at relatively low levels (see Table 1 in Appendix 2). New deposits were made at an average rate of 0.52%. Investments in Money Market Funds generated an average rate of 0.48%.

The Authority's General Fund budgeted investment income for the year was £0.015m. The Authority's investment outturn for the year was £0.024m. NB additionally £0.055m of investment income has been achieved during the year and allocated to the Hinkley S106 funds.

Compliance with Prudential Indicators

The Authority confirms compliance with its Prudential Indicators for 2015/16, which were set in March 2015 as part of the Authority's Treasury Management Strategy Statement.

Treasury Management Indicators

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

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

	2015/16	2016/17	2017/18
Upper limit on fixed interest rate exposure	100%	100%	100%
Actual	100%		
Upper limit on variable interest rate exposure	100%	100%	100%
Actual	0%		

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

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

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

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

	2015/16	2016/17	2017/18
Limit on principal invested beyond year end	£10m	£10m	£10m
Actual	£3m		

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

	Target	Actual
Portfolio average credit rating	A-	AA

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

	Target	Actual
Total cash available within 3 months	£3.5m	£4.8m

Investment Training

During 2015/16 staff attended seminars and conferences provided by Arlingclose Ltd.

Prudential Indicators 2015/16

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

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

Capital Expenditure and Financing	2015/16 Actual £000	2016/17 Estimate £000	2017/18 Estimate £000
General Fund	2,507	376	0
Total Expenditure	2,507	376	0
Capital Receipts	1,262	18	0
Grants	1,194	358	0
Reserves	0	0	0
Revenue	51	0	0
Borrowing	0	0	0
Total Financing	2,507	376	0

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

Capital Financing Requirement	31.03.16 Actual £000	31.03.17 Estimate £000	31.03.18 Estimate £000
General Fund	5,490	5,347	5,204
Total CFR	5,490	5,347	5,204

The CFR is forecast to fall by £0.286m over the next three years as capital expenditure financed by debt is outweighed by resources put aside for debt repayment.

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

Debt	31.03.16 Actual £000	31.03.17 Estimate £000	31.03.18 Estimate £000
Borrowing	0	2,000	2,000
Total Debt	0	2,000	2,000

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

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

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

Operational Boundary	2015/16 £000	2016/17 £000	2017/18 £000
Borrowing	7,700	7,700	7,700
Total Debt	7,700	7,700	7,700

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

Authorised Limit	2015/16 £000	2016/17 £000	2017/18 £000
Borrowing	10,000	10,000	10,000
Total Debt	10,000	10,000	10,000

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

Ratio of Financing Costs to Net Revenue Stream	2015/16 Actual %	2016/17 Estimate %	2017/18 Estimate %
General Fund	-0.32	0.00	0.00

The 2015/16 actual percentage was a minus value because the investment income was greater than the borrowing costs.

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

Incremental Impact of Capital Investment Decisions	2015/16 Estimate £	2016/17 Estimate £	2017/18 Estimate £
General Fund - increase in annual Band D Council Tax	0.00	0.00	0.00

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

Appendix 2

Money Market Data and PWLB Rates

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

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

Table 1: Bank Rate, Money Market Rates

Date	Bank Rate	O/N LIBID	7-day LIBID	1-month LIBID	3-month LIBID	6-month LIBID	12-month LIBID	2-yr SWAP Bid	3-yr SWAP Bid	5-yr SWAP Bid
01/04/2015	0.50	0.35	0.46	0.43	0.51	0.76	0.97	0.87	1.05	1.32
30/04/2015	0.50	0.35	0.48	0.43	0.52	0.74	0.98	1.00	1.21	1.51
31/05/2015	0.50	0.43	0.50	0.43	0.52	0.75	0.98	0.97	1.18	1.49
30/06/2015	0.50	0.35	0.45	0.43	0.52	0.79	0.99	1.09	1.35	1.68
31/07/2015	0.50	0.32	0.43	0.43	0.53	0.79	1.01	1.10	1.33	1.66
31/08/2015	0.50	0.42	0.40	0.43	0.54	0.82	1.02	1.03	1.24	1.61
30/09/2015	0.50	0.37	0.41	0.43	0.54	0.74	1.00	0.93	1.11	1.41
31/10/2015	0.50	0.36	0.41	0.43	0.54	0.77	1.00	0.97	1.16	1.49
30/11/2015	0.50	0.30	0.42	0.43	0.54	0.88	1.00	0.93	1.10	1.39
31/12/2015	0.50	0.43	0.35	0.43	0.54	0.76	1.01	1.09	1.30	1.58
31/01/2016	0.50	0.43	0.42	0.43	0.54	0.71	0.99	0.77	0.89	1.14
29/02/2016	0.50	0.25	0.43	0.43	0.54	0.73	0.99	0.71	0.74	0.85
31/03/2016	0.50	0.30	0.44	0.52	0.62	0.71	0.93	0.79	0.84	1.00
Average	0.50	0.38	0.45	0.43	0.54	0.76	0.99	0.96	1.14	1.43
Maximum	0.50	0.48	0.58	0.57	0.66	0.92	1.02	1.17	1.44	1.81
Minimum	0.50	0.17	0.35	0.43	0.51	0.55	0.84	0.68	0.73	0.85
Spread	--	0.31	0.23	0.14	0.15	0.37	0.18	0.49	0.71	0.96

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

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2015	127/15	1.33	2.10	2.69	3.24	3.37	3.32	3.31
30/04/2015	166/15	1.41	2.27	2.90	3.44	3.55	3.50	3.48
31/05/2015	204/15	1.44	2.26	2.90	3.44	3.54	3.48	3.45
30/06/2015	248/15	1.48	2.44	3.13	3.65	3.72	3.64	3.60
31/07/2015	294/15	1.54	2.45	3.07	3.56	3.62	3.54	3.49
31/08/2015	334/15	1.47	2.30	2.92	3.47	3.54	3.44	3.40
30/09/2015	379/15	1.44	2.19	2.79	3.42	3.50	3.42	3.39
31/10/2015	423/15	1.44	2.38	2.93	3.56	3.65	3.56	3.53
30/11/2015	465/15	1.42	2.23	2.85	3.48	3.54	3.42	3.39
31/12/2015	505/15	1.41	2.38	3.01	3.61	3.68	3.56	3.53
31/01/2016	040/16	1.24	1.96	2.62	3.28	3.37	3.23	3.20
29/02/2016	082/16	1.27	1.73	2.43	3.23	3.36	3.24	3.19
31/03/2016	124/16	1.33	1.81	2.48	3.21	3.30	3.16	3.12
	Low	1.21	1.67	2.30	3.06	3.17	3.05	3.01
	Average	1.41	2.20	2.85	3.46	3.54	3.45	3.42
	High	1.55	2.55	3.26	3.79	3.87	3.80	3.78

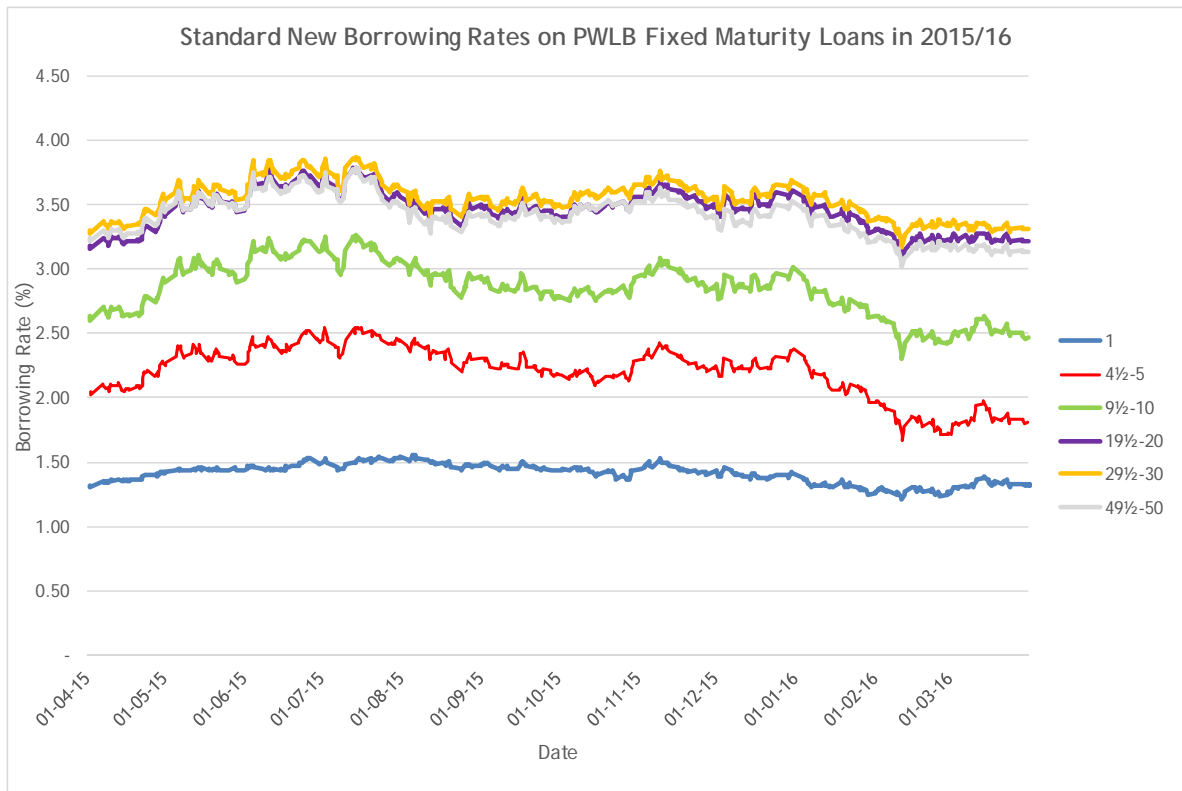


Table 3: PWLB Borrowing Rates - Fixed Rate, Equal Instalment of Principal (EIP) Loans

Change Date	Notice No	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2015	127/15	1.66	2.14	2.71	3.03	3.24	3.35
30/04/2015	166/15	1.79	2.31	2.92	3.24	3.45	3.54
31/05/2015	204/15	1.78	2.30	2.93	3.26	3.45	3.53
30/06/2015	248/15	1.90	2.49	3.15	3.47	3.65	3.72
31/07/2015	294/15	1.96	2.50	3.09	3.39	3.57	3.63
31/08/2015	334/15	1.83	2.34	2.94	3.27	3.48	3.55
30/09/2015	379/15	1.76	2.23	2.82	3.19	3.43	3.51
31/10/2015	423/15	1.81	2.32	2.96	3.33	3.57	3.66
30/11/2015	465/15	1.79	2.27	2.87	3.25	3.49	3.56
31/12/2015	505/15	1.89	2.42	3.03	3.39	3.62	3.70
31/01/2016	040/15	1.54	2.00	2.65	3.04	3.29	3.38
29/02/2016	082/16	1.42	1.77	2.46	2.95	3.24	3.36
31/03/2016	124/16	1.50	1.85	2.51	2.96	3.22	3.31
	Low	1.36	1.70	2.33	2.78	3.07	3.18
	Average	1.76	2.25	2.88	3.24	3.47	3.55
	High	1.99	2.60	3.28	3.61	3.79	3.87

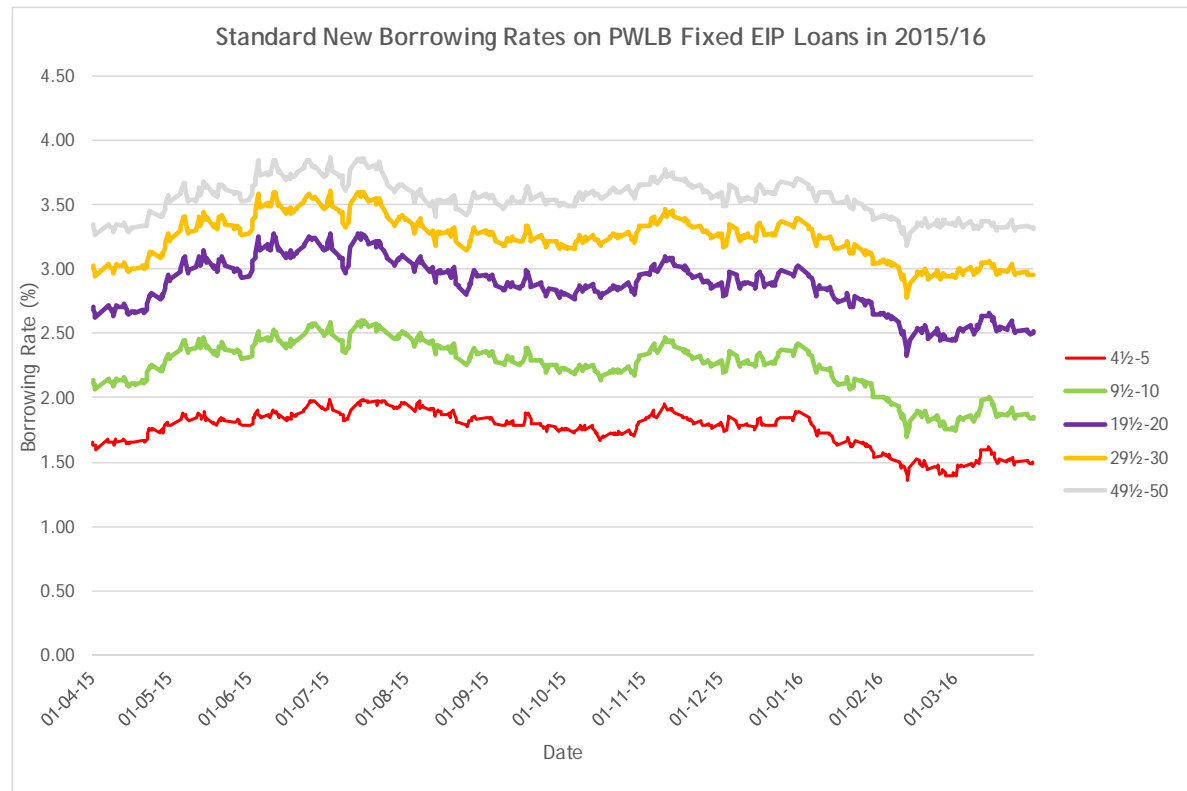


Table 4: PWLB Variable Rates

		1-M Rate	3-M Rate	6-M Rate	1-M Rate	3-M Rate	6-M Rate
		Pre-CSR	Pre-CSR	Pre-CSR	Post-CSR	Post-CSR	Post-CSR
01/04/2015		0.62	0.63	0.66	1.52	1.53	1.56
30/04/2015		0.62	0.64	0.67	1.52	1.54	1.57
31/05/2015		0.62	0.65	0.68	1.52	1.55	1.58
30/06/2015		0.62	0.66	0.70	1.52	1.56	1.60
31/07/2015		0.62	0.66	0.72	1.52	1.56	1.62
31/08/2015		0.62	0.66	0.70	1.52	1.56	1.60
30/09/2015		0.66	0.67	0.76	1.56	1.57	1.66
31/10/2015		0.66	0.67	0.76	1.46	1.56	1.57
30/11/2015		0.64	0.67	0.72	1.54	1.57	1.62
31/12/2015		0.63	0.65	0.72	1.53	1.55	1.62
31/01/2016		0.64	0.66	0.69	1.54	1.56	1.59
29/02/2016		0.63	0.65	0.68	1.53	1.55	1.58
31/03/2016		0.61	0.65	0.67	1.51	1.55	1.57
Low		0.61	0.61	0.66	1.51	1.51	1.56
Average		0.63	0.66	0.71	1.53	1.56	1.61
High		0.67	0.69	0.78	1.57	1.59	1.68

Report No: WSC 79/16

West Somerset District Council

Audit Committee – 21 June 2016

Draft Annual Governance Statement 2015/16

Report Author: Paul Harding, Corporate Strategy & Performance Manager

1 Purpose of the Report

- 1.1 The Council is required to conduct, at least once a year, a review of the effectiveness of its systems of internal control and governance arrangements and to produce an Annual Governance Statement (AGS) on behalf of the Leader of the Council and the Chief Executive, providing an assessment of these arrangements.

2 Recommendations

- 2.1 It is recommended that:-

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

3 Risk Assessment

Risk Matrix

Description	Likelihood	Impact	Overall
None in respect of this report			

4 Background and full details of the report

- 4.1 West Somerset Council has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and the management of risk.
- 4.2 West Somerset Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) Framework “*Delivering Good Governance in Local Government*”.

- 4.3 The Annual Governance Statement explains how West Somerset Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2011 in relation to the requirement to prepare an annual governance statement which must accompany the Statement of Accounts.
- 4.4 The Corporate Governance Officers Group has led the 2015/16 review of the governance framework. The group includes the Monitoring Officer (Assistant Chief Executive), the deputy s151 Officer the internal Audit Manager, the Assistant Director Corporate Services and the Corporate Strategy & Performance Manager
- 4.5 The conclusions from this review is that overall, the council's governance framework is reasonable and fit for purpose. This is further endorsed by the Group Auditor's annual opinion report 2015/16, which offers 'reasonable assurance' in respect of the areas reviewed during the year.
- 4.6 The AGS describes how the council complies with each of the six core principles of the Code of Corporate Governance, and additionally identifies governance issues identified and the steps to be taken during to address these matters
- 4.7 The draft Annual Governance Statement is appended to this report.

5 Links to Corporate Aims / Priorities

- 5.1 This report includes highlights of progress against delivery of the corporate priorities.

6 Finance / Resource Implications

- 6.1 None in respect of this report.

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 None in respect of this report.

9 Safeguarding and/or Community Safety Implications

- 9.1 None in respect of 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 implications associated with this report.

12 Partnership Implications

12.1 None associated with this report.

13 Health and Wellbeing Implications

13.1 None associated with this report.

14 Asset Management Implications

14.1 None associated with this report.

15 Consultation Implications

15.1 The Annual Governance Statement has been developed by the Corporate Governance Officers Group which includes the deputy S151 officer. The draft AGS has been shared with the Joint Management Team and the

Democratic Path:

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

Reporting Frequency: Annually

List of Appendices (delete if not applicable)

Appendix A	Draft Annual Governance Statement 2015/16
------------	---

Contact Officers

Name	Paul Harding
Direct Dial	01823 356309
Email	p.harding@tauntondeane.gov.uk



Annual Governance Statement

2015/16 v1.2

THIS PAGE IS LEFT INTENTIONALLY BLANK

Introduction

This document relates to the 2015/16 financial year which started on 1st April 2015 and ended 31st March 2016.

This was a period of consolidation after the significant challenge and change for the Council following the introduction of a joint management and officer structure between West Somerset Council and Taunton Deane Borough Council during the previous financial year.

Despite the scale and pace of the changes from the earlier financial year no new corporate risks, associated with this undertaking, have been identified by the Council's auditors (South West Audit Partnership) during 2015/16.

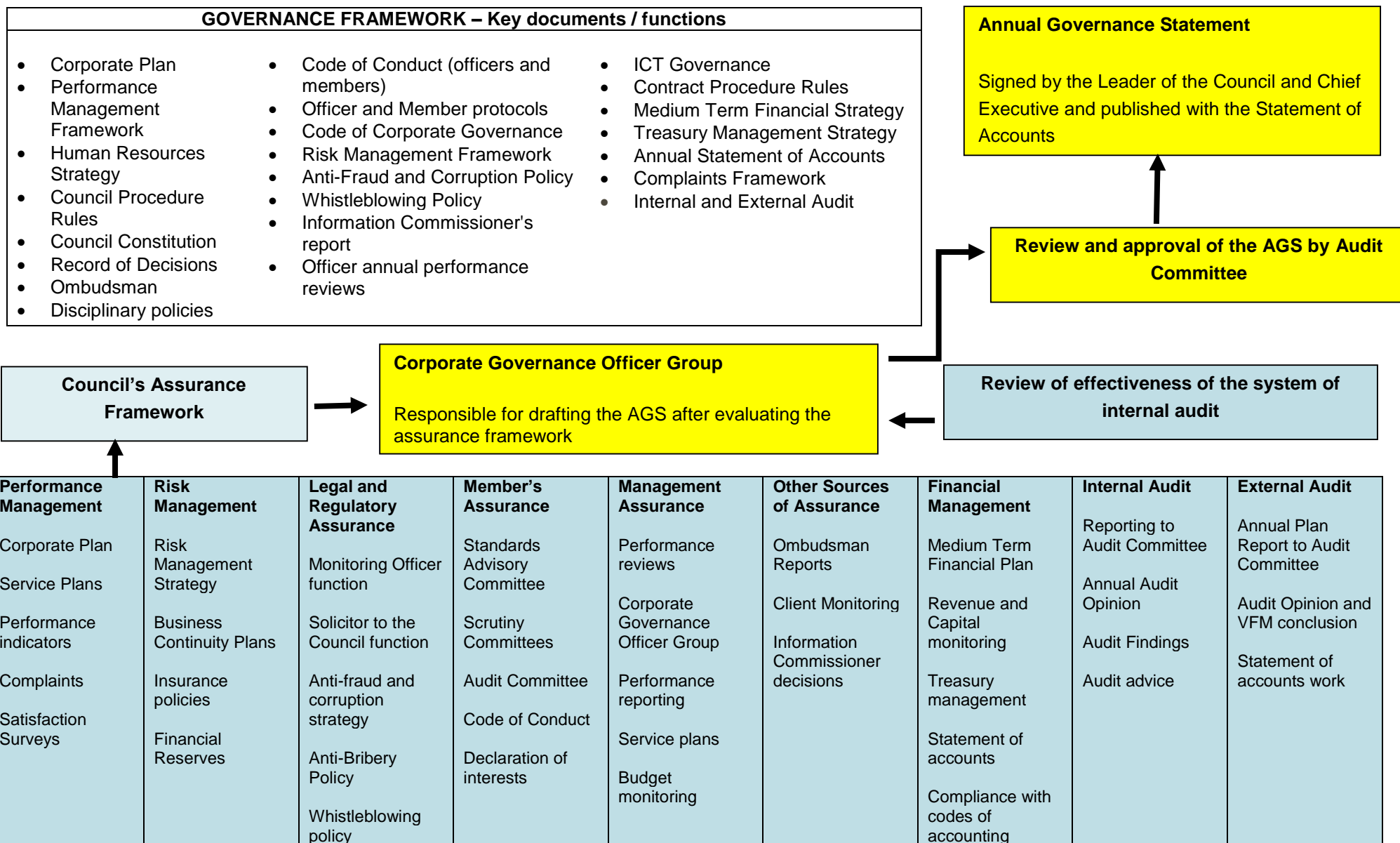
The various sources of assurance and the process leading to the creation of the Annual Governance Statement is illustrated on page 3 of this document.

This Annual Governance Statement provides an account of the processes, systems and records in place during 2015/16 which demonstrate assurance for the effectiveness of the framework of governance of the District Council to discharge its responsibilities.

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

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

AGS Process and Sources of Assurance Overview



Scope of Responsibility

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

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

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

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

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

The Governance Framework

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

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



The Purpose of the Governance Framework

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

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

The governance framework has been in place at West Somerset District Council for the year ended 31 March 2016 and up to the date of approval of the Statement of Accounts.

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

How we have set out our vision and the outcomes we wish to achieve	Assurances Received
<ul style="list-style-type: none"> • Members, working with officers, have developed a <u>four year Corporate Strategy (2016-20)</u> which describes the Council's priorities, key activities and intended outcomes for citizens and service users, our vision and our core values. This feeds into a corporate plan, Service plans, team plans and personal plans. • Joint Management and Shared Service Business Plan created jointly between West Somerset Council and Taunton Deane Borough Council setting out how one team of officers would be created to support the two sovereign Councils and deliver significant savings to each. 	<ul style="list-style-type: none"> • Performance Management Framework – the Council uses different performance measures (quality, outputs, value for money, customer satisfaction) to give an overview of Council performance and stimulate improvement. Information is published quarterly on our website in the form of reports and minutes against the corporate priorities and targets and reported to the Council's leadership team, Scrutiny Committee and Cabinet for review and challenge; • Updates on progress against the Joint Management and Shared Service Business Plan provided to the project board and the Joint Partnership Advisory Panel (JPAG). • Externally reported data: Government Single Data List; • Internal Audit reports; • External Audit reports; • Employee annual review process linked to the Council's objectives.

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

Source of assurance

The Council's Constitution defines and documents the roles and responsibilities of member and officer functions, with clear published delegation arrangements and protocols for decision making and communication.

The constitution is kept under review. During 2015/16 the Constitution was updated, mostly in regard to inserting new officer designations, the Scheme of Delegations and the inclusion of new elements, such as the social media guidelines that have been recently approved by full council.

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

There is a member/officer protocol that sets out the standards of behaviour expected to ensure an appropriate working relationship between members and officers.

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

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

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

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

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

A Member induction programme is in place for new Members.

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

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

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

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

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

Register of Member Interests - Councillors are required to register their pecuniary and other interests. They are also required to register disclosable pecuniary interests of their spouse or live-in partner, if applicable.	Published on the Council's website and available as a pdf to download.
Register of Officer Interests – includes details of financial, contractual or business interests, whether remunerated or not (including those of close family) which have or could have any connection with the work of or provision of services by the Council or by any of its direct suppliers contractors or partners.	This is held in paper format and retained by Democratic Services.
Corporate Complaints and Feedback	Website
Investigation and disciplinary procedures – During 2015/16 there were 8 disciplinary cases which resulted in: 2 written warnings, 1 final written warnings, 1 dismissal, 1 no further action, 2 resignations during disciplinary investigation and 1 disciplinary investigation ongoing.	Taunton Deane Borough Council Intranet – (HR pages) and the West Somerset shared W:Drive (with effect from 1 st February 2015 West Somerset Employees have become employed by Taunton Deane Borough Council)
Local Government Ombudsman Annual Review Letter 2015	Available from the link on the performance page of the Council's website.
Whistleblowing Policy - The Council has in place arrangements for individuals to raise concerns where they believe that staff do not demonstrate the expected core values and behaviour.	On our website
The Council set values for the organisation and publish these within our Corporate Strategy	Corporate Strategy on our website
The Register of Gifts and Hospitality records all gifts, gratuities, facilities, entertainment, tickets to events, meals and benefits in kind from whatever source given or received by Council officers or close family as a result of or in connection with a relationship formed through Council business unless the actual or estimated value is negligible.	Public documents and can be viewed at the Council Offices

<p>The Standards Advisory Committee promotes high standards of behaviour by members, reviewing policies and law as relating to members behaviour. The committee consists of three WSC Councillors, three town/parish Councillors and three independent members, one of whom is chairman to demonstrate independence and objectivity.</p> <p>The full role and functions of the Committee are set out within the Council's Constitution.</p> <p>During 2015/16 there was one complaint about members, which related to a town councillor; there were no complaints received in respect of WSC councillors</p>	<p>Constitution & Our Website</p>
--	---

4. Taking informed and transparent decisions which are subject to effective scrutiny and risk management arrangements

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

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

The Council operates an Audit Committee which is independent of the Executive and Scrutiny functions of the Council. The committee provides independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance, to the extent that it affects the Authority's exposure to risk and weakens the control environment and to oversee the financial reporting process.	Constitution & Our website
Monthly Budget monitoring by budget holders and quarterly finance reporting to Members helps ensure an accurate position of the Council's finances is available when financial decisions are made.	Reports available via our website
Open data information required under the Transparency Code, as well as additional data sets which we proactively publish, is available on the Council's website including spend over £500, senior officer pay etc to aid transparency of the operation and conduct of the Council.	Our website
Freedom of Information / Environmental Information Regulations permitting scrutiny of information held by the Council of any matter (subject to exceptions and exemptions)	Our website

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

Source of assurance

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

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

A corporate e-learning system has been purchased and rolled out to staff during 2015/16 covering a very broad range of topics including governance issues such as Data Protection, Freedom of Information, and Appraisals etc.

West Somerset Council held extensive Member induction programmes following the May 2015 local elections.

As part of ongoing Member Development the Council has appointed a member champion. The role of the member champion is to encourage and facilitate the participation of members across all political groups to work together for the benefit of the council and the communities they serve. This is based on a recognition that any change in respect of the council going forward, be it called 'transformation' or whatever, will only be successful with the full engagement and leadership from its elected members.

The member champion is therefore keen to ensure that any events put on are relevant to this process and that members must feel engaged and empowered – hence their banner of 'Making a Difference'! The principles they want to follow are to develop a series of events, to which all members of TDBC and WSC are invited.

Within this context, the first event was held on 27th October 2015 and focussed on a greater understanding of statutory and non-statutory duties that councils undertake to reveal just how complex the picture is.

Members present then held table discussions to reflect on what they had heard and to draw out views how members wanted to be involved going forward and how to progress ideas for future joint member workshops.

The next stage is to work with the member champion to develop the programme of events referred to above.

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

Source of assurance	Where found (if applicable)
Greater corporate use of Social Media – a WSC Twitter account has been created and has shown a significant increases in 'followers' during the year and an approved Social Media Policy is in place.	Twitter: @wsomerset

<p>The Council produces an Annual Statement of Accounts and publishes these on its website.</p>	<p>Statement of accounts page on Council website</p>
<p>The Corporate Plan (2012-2016) which describes the Council's priorities, key activities and intended outcomes for citizens and service users, our vision and our core values.</p>	<p>See our priorities and corporate plan on our website</p>
<p>Performance Management Framework – the Council uses different performance measures (quality, outputs, value for money, customer satisfaction) to give an overview of Council performance and stimulate improvement; information is published quarterly on our website in the form of reports and minutes against the corporate priorities and targets and reported to the Council's leadership team, Scrutiny Committee and Cabinet for review and challenge. Local people can use performance information, to hold the council to account and have a bigger say on what happens in their communities.</p>	<p>See performance page on our website</p>
<p>The Your Guide booklet shares details on the Council's financial position (i.e. a summary of the Statement of Accounts), priorities, and other useful information and is available on line and also available in paper format on request.</p>	<p>Your Guide booklet available on our website</p>
<p>The Council encourages all types of feedback (complaints, compliments, comments & suggestions) from a number of channels (website, telephone, e-mail/letter, face-to-face), and these are logged on a central database for analysis and review.</p>	<p>Complaints and comments page of our website</p>
<p>The Local Government Ombudsman produces an Annual Review Letter 2015 setting out the number of complaints against the Council made to the Ombudsman in the previous year together with the outcome of those complaints.</p>	<p>Available from a link published on the Performance page of our website.</p>
<p>An annual satisfaction survey has been undertaken during 2015/16 and results fed back to Cabinet as part of Quarter Four performance monitoring.</p>	<p>See quarter four performance report on our website</p>
<p>The Council produces several e-newsletters to which stakeholders can subscribe. These include business newsletter, community matters newsletter and employment & skills newsletter.</p>	<p>Subscription available from our website.</p>
<p>Public Consultation – throughout the 2015/16 year officers continued to attend and deliver input into a wide range of community and business based groups. Key groups include EDF Energy's Community Forum, Main Site Forum, Transport Forum, Stogursey Parish Council, WSC Area Panels, Hinkley Strategic Delivery Forum (and theme groupings within that for Skills and Employment & training / Supply Chain development / Housing), the Somerset Nuclear Energy Group, Delivery Steering Group, Planning Obligations Board, Transport Steering Group, Emergency Services and Local Authority Group, Health</p>	

<p>Task and Finish Group, EDF Employment & Skills Operational Group, Education Inspire Group, Local Supply Chain Engagement Forum and Hinkley Tourism Action Partnership. There has also been public consultation on three key policies areas: Community Asset Transfer Policy, the Council Tax Support Scheme for 2016/17 and the Equalities Plan.</p>	
<p>Regular News articles are placed on the home page of the WSC Website promoting emerging issues and decisions and press releases given to the West Somerset Free Press newspaper.</p>	<p>News and Press Releases page of our website</p>
<p>Council meetings are open to the public (with the exception of items that are exempt under the Access to Information Act). The Council advertises meetings, communicates decisions and minutes to ensure they are publicly available in a timely manner.</p>	<p>Constitution & Our Website</p>
<p>Area panels – these are meetings set up to engage with discreet communities to invite people to raise any issues that affect their community or quality of life so that we can work together to tackle them. Panels meet quarterly and membership includes, the Police, Highways, County, District and Parish Councillors, together with other local organisations. Area panels have been created in Dunster, Minehead , Exmoor and Watchet, Williton & Quantocks</p>	<p>Council Meeting pages of our website</p>
<p>The New Nuclear Programme Team officers continue to attend and deliver input into a wide range of community and business based groups. Key groups include EDF Energy’s Community Forum, Main Site Forum, Transport Forum, Stogursey Parish Council, WSC Area Panels, Hinkley Strategic Delivery Forum (and theme groupings within that for Skills and Employment & training / Supply Chain development / Housing), the Somerset Nuclear Energy Group, Delivery Steering Group, Planning Obligations Board, Transport Steering Group, Emergency Services and Local Authority Group, Health Task and Finish Group, EDF Employment & Skills Operational Group, Education Inspire Group, Local Supply Chain Engagement Forum and Hinkley Tourism Action Partnership.</p>	

The Authority’s financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government.

Review of Effectiveness

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

The review for the 2015/16 statement was carried out on 26th April 2016 by officers of the Corporate Officers Governance Group, made up of the Internal Audit Manager, Deputy Section 151 Officer, Monitoring Officer and the Corporate Strategy & Performance Manager.

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

The opinion of the Internal Auditors was that overall the control environment was reasonable in 2015/16 (the opinion was also "reasonable" in 2014/15).

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

Some areas where further improvements could be made have been identified and these have been included within the Action Plan (Appendix A) which we will seek to address during the 2016/17 financial year.

Certification

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

On behalf of West Somerset Council:

Signed:
Anthony Trollope-Bellew
Leader of the Council

Signed:.....
Penny James
Chief Executive

The review of our governance framework identified some areas where further improvements could be made. These are shown below. We will seek to address these during the 2016/17 financial year (April 2016 to March 2017).

Ref	Action
1	Introduce a corporate process for reviewing and documenting decisions regarding the prioritisation of internal audit recommendations.
2	Facilitate a self-assessment of the effectiveness of the Audit Committee (based upon CIPFA guidance 2013) and identify training needs flowing from this.
3	Undertake a review of the Scrutiny/ Decision-Making Processes within the Council to ensure it is efficient and effective in terms or both officer and Member involvement.

Action Plan 2014/15 Appendix B

The following actions were identified within the 2014/15 Annual Governance Statement as matters which the Council sought to progress during 2015/16. Below is an update on progress against these matters:

Ref	Action	Progress
1	Refresh the Council's Corporate Priorities and Corporate Plan, re-focusing on the purpose of the Council and on outcomes for the community. Take through the democratic process and publicise through traditional and social media.	Complete - The Corporate Strategy has been through the Democratic Process and was formally approved at Full Council. The Corporate Strategy has been uploaded onto the Taunton Deane website and publicised via social media.
2	Add further open data to the Council's website to meet the requirements of the Transparency Code 2015. To meet the Government's desire to place more power into citizens' hands to increase democratic accountability and make it easier for local people to contribute to the local decision, making process and help shape public services	Complete - A significant piece of work has been undertaken to make sure the WSC website now meets all the requirements of the Transparency Code 2015. To increase the Councils Transparency additional information has been added to our "Open Data" webpages. This information covers: <ul style="list-style-type: none"> • Business Rates Accounts • Business Rates Accounts in Credit • Public Health Funeral's
3	Develop a new staff Intranet, so there is a single repository of up to date policy and procedures which staff can easily access irrespective of their location.	Complete – The new Intranet will go live in early May 2016
4	Develop a robust staff induction process for all staff in the One Team ways of working and behaviour.	Complete.
5	Deploy eLearning solution in order to deliver refresher training in DPA, FOI, Health and safety etc and have a real-time record of who has undertaken the training.	Complete. Following a pilot in October, the One Team Learning Management System was launched to all staff in November 2015. There are currently 43 modules available for staff to access for their

		personal development with new modules being added on a weekly basis.
6	Update the WSC ICT Security Policy and provide awareness of new policy to all staff.	Not Complete. The WSC ICT Security Policy is being reviewed along with the equivalent TDBC Policy to create a single ICT Security Policy for both organisations. The work is underway and the policy will be implemented in Q1 2016/17.
7	SWAP identified health and safety risks in relation to parks and open spaces that require mitigation.	Not Complete. Action well under way. The risk assessment for Blenheim Gardens has been undertaken. Tenders have been returned, interviews held and a preferred contractor selected in relation to tree safety. Funds now need to be identified and the survey will begin.
8	Initiate a process of assurance that the basics are in place across the One Team– for example regular team meetings, risk registers, appraisals etc	Not Complete. This will carry over to 2016/17. Discussions to be held within the management team of what the ‘basics’ will consist of and the process for gaining assurance these are in place.