

Members of the Audit Committee:
(Councillors S Y Goss (Chairman), E May (Vice Chairman),
M J Chilcott, M O A Dewdney, R P Lillis and D D Ross, D Sanders)

Our Ref SC/HD
Contact Helen Dobson hdobson@westsomerset.gov.uk
Extension 01984 635288
Date 14 March

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

Dear Councillor

I hereby give you notice to attend the following meeting:

AUDIT COMMITTEE

Date: Monday 24 March 2014
Time 4.30 pm
Venue: Council Chamber, Council Offices, Williton

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

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

Therefore unless you advise otherwise, by entering the Council Chamber and speaking during Public Participation you are consenting to being recorded and to the possible use of the sound recording for access via the website or for training purposes. If you have any queries regarding this please contact Committee Services on 01984 635263.

Yours sincerely

BRUCE LANG
Proper Officer

AUDIT COMMITTEE

AGENDA

24 March 2014 at 4.30 pm

Council Chamber, Williton

1. **Apologies for Absence**

2. **Minutes**

Minutes of the Meeting of the Committee held on 3 December 2014 – **SEE ATTACHED**
– to be confirmed.

3. **Declarations of Interest**

To receive and record any declarations of interest in respect of any matters included on 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 by the Chair is not open to discussion. If a response is needed it will be given either orally 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 2013/14 – **SEE ATTACHED.**

7. **Risk Management Update**

To consider Report No. WSC 63/14, to be presented by Councillor K V Kravis, Lead Member for Resources and Central Support – **SEE ATTACHED.**

The purpose of the report is to provide an update on progress with the Council's approach to Risk Management. Further, the new Joint Management Team (JMT) has

recently undertaken a fundamental review and refresh of the Corporate Risk Register which has been created as a joint risk register for West Somerset and Taunton Deane Borough Council. This will enable JMT to manage strategic risks for both councils across the 'One Team' organisation.

8. Certification Report 2012/13 for West Somerset Council

To consider Report No. WSC 54/14, to be presented by Peter Barber, Associate Director, Grant Thornton – [SEE ATTACHED.](#)

The purpose of the report is to summarise their overall assessment of the Council's management arrangements in respect of the certification process and draws attention to significant matters in relation to individual claims.

9. West Somerset District Council Audit Plan 2013/14

To consider Report No. WSC 55/14, to be presented by Peter Barber, Associate Director, Grant Thornton – [SEE ATTACHED.](#)

The purpose of the report is to enable Grant Thornton to set out the audit plan for West Somerset District Council in respect of the 2013/14 financial year.

10. Audit Committee Update for West Somerset Council

To consider Report No. WSC 56/14, to be presented by Peter Barber, Associate Director, Grant Thornton – [SEE ATTACHED.](#)

The purpose of the report is to update the Committee on the work of the external auditor, Grant Thornton, and provides a useful update on emerging national issues that may have relevance to this Authority.

11. Internal Audit Charter

To consider Report No. WSC 57/14, to be presented by Claire Hodgson, Audit Manager, SWAP – [SEE ATTACHED.](#)

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

12. Internal Audit Plan 2014/15

To consider Report No. WSC 58/14, to be presented by Claire Hodgson, Audit Manager, SWAP – [SEE ATTACHED.](#)

The purpose of the report is to inform the Audit Committee of the proposed work to be undertaken by South West Audit Partnership during 2014/15.

13. Report of Internal Audit Activity Quarter 4, 2013/14

To consider Report No. WSC 59/14, to be presented by Claire Hodgson, Audit Manager, SWAP – **SEE ATTACHED.**

The purpose of the report is to inform the Audit Committee of the internal audit activity in respect of Quarter 4, 2013/14 and to identify any level 4 and 5 control weaknesses.

14. Accounting Policies – 2013/14 Statements of Accounts

To consider Report No. WSC 60/14, to be presented by Steve Plenty, Principal Accountant – **SEE ATTACHED.**

The purpose of the report is to request that members of the Audit Committee approve the accounting policies for 2013/14 in order that the Statement of Accounts can be prepared on this basis.

15. Debt Analysis Report - as at 31 December 2013

To consider Report No. WSC 62/14, to be presented by Steve Plenty, Principal Accountant – **SEE ATTACHED.**

The purpose of the report is to provide the Audit Committee with an update on the level of debts outstanding to the Authority as at 31st December 2013.

16. Treasury Management Strategy Statement 2014/15

To consider Report No. WSC 61/14, to be presented by Steve Plenty, Principal Accountant – **TO FOLLOW** - this is due to the fact that the decision has recently been made to change West Somerset's Treasury Management from Capita Asset Services to Arlingclose with effect from 1st April 2014 and therefore the document is currently being reviewed to ensure it is fit for purpose from their perspective, as the document relates to the 2014/15 financial year.

The purpose of the report is to approve the Treasury Management Strategy Statement for 2014/15.

17. Consideration of an Independent Member

At the meeting of Audit Committee, held 25 March 2013, members considered the necessity of appointing of an Independent Member due the resignation of the previous Independent Member. The Committee resolved that it was not necessary, at that time, but that it would be prudent to reconsider the situation in one year's time. The Committee is therefore requested to review the situation so that if approved officers can draft a selection process for future approval.

COUNCILLORS ARE REMINDED TO CHECK THEIR POST TRAYS

The Council's Vision:

Page 4

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

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 Officers.

AUDIT COMMITTEE**Minutes of the Meeting held on 3 December 2013 at 4.30 pm
in the Council Chamber, Williton****Present**

Councillor S GossChairman
Councillor E MayVice Chairman

Councillor R P Lillis

Councillor D J Sanders

Members In Attendance

Councillor K V Kravis

Officers In Attendance

Section 151 Officer (S Campbell)
Principal Accountant/Deputy Section 151 Officer (S Plenty)
Meeting Administrator (H Dobson)

Also In Attendance

Shirlene Adam - Section 151 Officer – Taunton Deane Borough Council (TDBC)
Peter Barber, Engagement Lead, Grant Thornton
Peter Lappin, Audit Manager, Grant Thornton
Claire Hodgson, Audit Manager of South West Audit Partnership (SWAP)
Anton Sweet, Funds and Investment Manager, Somerset County Council

A30 Apologies for Absence

Apologies for absence were received from Councillors M J Chilcott, M O A Dewdney and D D Ross.

A31 Minutes

(Minutes of the Meeting of Audit Committee held on 23 September 2013, circulated with the Agenda).

RESOLVED that the Minutes of the Meeting of Audit Committee held on 23 September 2013 be confirmed as a correct record.

A32 Declarations of Interests

Members present at the meeting declared the following personal interests in their capacity as a Member of a County, Parish or Town Council:

Name	Minute No	Description of Interest	Personal or Prejudicial	Action Taken
Cllr S Y Goss	All	Stogursey	Personal	Spoke and voted

A33 Public Participation

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

A34 Audit Committee Action Plan

(Audit Committee Action Plan, circulated with the Agenda).

RESOLVED that the Audit Committee Action Plan, be noted.

A35 Audit Committee Forward Plan

(Audit Committee Forward Plan, circulated with the Agenda).

RESOLVED that the Audit Committee Forward Plan be noted.

A36 Draft Annual Audit Letter

(Draft Annual Audit Letter, circulated with the Agenda).

The Audit Manager for Grant Thornton summarised the audit work and findings for the year ended 31 March 2013. He thanked the finance team for their work in achieving an unqualified opinion on the financial statements and value for money conclusion. He highlighted the key issues facing the Council in the future, in particular the significant financial pressures and joint management and services with Taunton Deane Borough Council.

RESOLVED that the Annual Audit Letter for 2012/13, be noted.

A37 Audit Committee Update

(Audit Committee Update for West Somerset District Council, circulated with the Agenda).

The Engagement Lead for Grant Thornton introduced himself and advised that he would be taking over from the Council's previous auditor, Alun Williams. He was also the appointed auditor for Taunton Deane Borough Council and other authorities in Somerset, Gloucestershire and Dorset.

The Engagement Lead advised that this item was a new report and it was planned that such an update would be reported to the Audit Committee at each meeting. He referred to the update and advised of the progress in delivering their responsibilities as external auditors, and work planned for the remainder of the year.

The Chairman thanked the Engagement Lead for the update and confirmed that the extra information contained under 'emerging issues and developments' was very useful and requested that it remain in future reports.

In response to concern as to whether the Council would incur extra cost for increased work relating to the shared management and services project with TDBC the Engagement Lead advised that it was hoped the work would be conducted under the agreed fee. The auditors would want to engage with staff early in the process to provide an understanding of the changes and ensure that expectations were clear. If issues should arise they would be raised with the Section 151 Officer. Further, he was the appointed auditor for a joined authority in Dorset and would be able to share relevant past experience with West Somerset and Taunton Deane Borough Councils.

RESOLVED that the Audit Committee Update for West Somerset Council be noted.

A38 Actuarial Review

(Information sheet, Triennial Actuarial Review of the Pension Fund, circulated at the meeting).

The Funds and Investment Manager for Somerset County Council provided an update referring to the Triennial Actuarial Review of the Pension Fund. The main points discussed included West Somerset Council valuation results, contribution rates, key statistics of the fund, key factors relating to the new scheme and increase in deficit, and outcomes relating to the future service cost and deficit recovery plan.

During the course of the presentation the following points were made:

- The Actuary makes a number of assumptions in order to predict the contribution rates which would be reviewed again in 2016 when further adjustments were likely to be made.
- When staff transfer to TDBC the payment deficit would continue to be funded by West Somerset Council.
- It was difficult to predict what would happen should an authority reach a position when it was not able to continue with payments, the law was not explicit.
- The new scheme from 2015 would be slightly cheaper mostly due to employees retiring later. The new scheme would not affect the deficit.
- Any savings made by potentially reducing the administration costs per head would be very small.
- The deficit recovery plan had been extended due to no progress being made to date against the deficit.

The Section 151 Officer confirmed that she would provide actual numbers of the active members, deferred pensioners and pensioners after the meeting.

RESOLVED that the Actuarial Review update, be noted.

A39 Treasury Management Update – 30 September 2013

(Report No. WSC 163/13, circulated with the Agenda).

The purpose of the update was to update the Audit Committee on the Treasury Management position as at 30 September 2013.

The Deputy Section 151 Officer presented the report and advised that the Council engaged with CAPITA to produce the update and highlighted what the average funds in the first 6 months were, that there was no borrowing, no debt rescheduling and that the Council complied with the treasury and prudential limits.

RESOLVED that the Treasury Management position as at 30 September 2013, be noted.

A40 Debt Analysis – As at 30 September 2013

(Report No. WSC 162/13, circulated with the Agenda).

The purpose of the report was to provide the Audit Committee with an update on the level of debts outstanding to the Authority as at 30 September 2013.

The Deputy Section 151 Officer presented the report and advised that the levels of debt as at 30 September 2013 were compared to those outstanding the previous year, 30 September 2012.

During the course of the discussion the Deputy Section 151 Officer confirmed that in order for members to gain an idea of the percentage of outstanding debts remaining he would adjust the report to include the gross amount of debts raised.

RESOLVED that the debt analysis as at 30 September 2013, be noted.

A41 Quarterly Review of Internal Audit Activity

(Quarterly Review of Internal Audit Activity, circulated with the Agenda).

The Audit Manager presented the report and advised that the definition of 'non opinion' had been included in the Control Assurance Definitions and that good progress was being made in quarter 3. She highlighted the level 4 recommendations relating to social media and that she was confident the mitigating actions would be completed.

During the discussion the Audit Manager advised that she would confirm whether any follow up reports had commenced.

RESOLVED that the Report of Internal Audit Activity for Quarter 3 2013/14, be noted.

The meeting closed at 5.40pm.

AUDIT COMMITTEE ACTION PLAN

Date/Minute Number	Action Required	Action Taken
<p>3 December 2013</p> <p>There were no resolutions/recommendations from the meeting held on 3 December 2013 that required monitoring.</p>		

WEST SOMERSET COUNCIL

AUDIT COMMITTEE

FORWARD LIST OF AGENDA ITEMS 2014

MEETING	DRAFT AGENDA ITEMS	LEAD OFFICER
24/3/14	Risk Management Strategy 2014 Update Certification of Claims and Returns Audit Plan 2013/14 Grant Thornton Update Internal Audit Charter Internal Audit Plan Quarterly Review of Internal Audit Activity Accounting Policies 2013/14 Statement of Accounts Debt Analysis Report – As At 31 December 2013 Treasury Management Strategy Statement 2014/15 Consideration of an Independent Member Forward Plan	Kim Batchelor Peter Barber (Grant Thornton) Peter Barber (Grant Thornton) Peter Barber (Grant Thornton) Claire Hodgson (SWAP) Claire Hodgson (SWAP) Claire Hodgson (SWAP) Steve Plenty Steve Plenty James Howells Steve Plenty
01/07/14	Internal Audit Charter Internal Audit Annual Report and Opinion Annual Review of Internal Audit Quarterly Review of Internal Audit Activity Unaudited Statement of Accounts 2013/14 Annual Governance Report 2013/14 Debt Analysis Report – As At 31 March 2014 External Audit Plan External Audit Certification Plan Grant Thornton Update Report Fees Letter Treasury Management Outturn Report 2013/14 Forward Plan	Claire Hodgson (SWAP) Claire Hodgson (SWAP) Claire Hodgson (SWAP) Claire Hodgson (SWAP) Steve Plenty Paul Fitzgerald Steve Plenty Peter Lappin (Grant Thornton) Peter Lappin (Grant Thornton) Peter Lappin (Grant Thornton) Peter Lappin (Grant Thornton) James Howells Steve Plenty

22/09/14	Quarterly Review of Internal Audit Activity Audited Statement of Accounts 2013/14 Annual Governance Report Debt Analysis Report – As At 30 June 2014 Forward Plan	Claire Hodgson (SWAP) Steve Plenty Paul Fitzgerald Steve Plenty Steve Plenty
02/12/14	Annual Audit Letter External Audit Fee Letter Quarterly Review of Internal Audit Activity Risk Management Update 6-Month Review of Treasury Management Activity Debt Analysis Report – As At 30 September 2014 Forward Plan	Peter Lappin (Grant Thornton) Peter Lappin (Grant Thornton) Claire Hodgson (SWAP) Kim Batchelor James Howells Steve Plenty Steve Plenty

Report Number: WSC 63/14
Presented by: Cllr Kate Kravis
Author of the Report: Kim Batchelor – Efficiencies and Performance Manager
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 Email: kbatchelor@westsomerset.gov.uk

Report to a Meeting of: Audit Committee
To be Held on: 24th March 2014
Date Entered on Executive Forward Plan Or Agreement for Urgency Granted: N/A

Risk Management Update

1. PURPOSE OF REPORT

- 1.1 This report provides an update on progress with the Council's approach to Risk Management.
- 1.2 The new Joint Management Team (JMT) has recently undertaken a fundamental review and refresh of the Corporate Risk Register which has been created as a joint risk register for West Somerset and Taunton Deane Borough Council. This will enable JMT to manage strategic risks for both councils across the 'One Team' organisation.

2. CONTRIBUTION TO CORPORATE PRIORITIES

- 2.1 All Corporate Priorities are considered within the Corporate Risk Register

3. RECOMMENDATIONS

- 3.1 It is recommended that Audit Committee approve the amendments to the Risk Management strategy reflecting the new Management Structure in place.
- 3.2 It is recommended that Audit Committee note:
- progress regarding Corporate Risk Management;
 - the updated combined Corporate Risk Register;
 - the approach and actions to achieve joint Risk Management for West Somerset Council and Taunton Deane Borough Council.

4. RISK ASSESSMENT (IF APPLICABLE)

Risk Matrix

Description	Likelihood	Impact	Overall
Risk – that the Council suffers loss, damage, injury or failure to achieve its objectives which is caused by an unwanted or uncertain action or event.	Likely (4)	Major (4)	High (16)

<i>Mitigation – The approval of a strategy that sets out a planned and systematic approach to the identification, evaluation and control of risk</i>	Possible (3)	Major (4)	Medium (12)
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The scoring of the risks identified in the above table has been based on the scoring matrix. Each risk has been assessed and scored both before the mitigation measures have been actioned and after they have.

5. **BACKGROUND INFORMATION**

5.1 **Introduction**

Risk Management is an important element of management and in planning and providing the safe delivery of economic, efficient, and effective Council services. It is recognised as an integral part of good management practice. To be most effective, risk management should become part of the Council's culture. It should be part of the philosophy, practices and service planning rather than viewed as a separate initiative. When this is achieved, risk management becomes the business of everyone in the organisation.

5.2 **Roles and responsibilities**

5.2.1 **Audit Committee**

The Audit Committee is responsible for monitoring the corporate governance of the authority. It receives regular reports on way risk is being managed in the authority to monitor the effectiveness of the Council's risk management and internal control arrangements. It is also responsible for approving the Risk Management Strategy.

5.2.2 **Individual Members (in particular Portfolio Holders) have a responsibility to understand the strategic risks the council faces. They will be kept informed on the management of those risks through updates from senior managers.**

5.3 **Risk Management progress update**

5.3.1 **The Corporate Risk Management Strategy is attached as Appendix A. There are minor amendments proposed (deletions crossed out and additions highlighted in red) to reflect the changes to senior management from Jan 2014.**

As detailed in 6.3 below, it is the intention, over the coming months to align the risk management frameworks of WSC & TDBC and a more fundamental review of WSC's risk management strategy is to be undertaken and it is planned that a draft be brought to the next Audit Committee in June 2014.

5.4 **Corporate Risk Register refresh for 2014**

5.4.1 **Joint Management Team (JMT) have undertaken a thorough process of reviewing and refreshing the Corporate Risk Register. A summary of the process is as follows:**

- Strategic risk identification workshop (JMT meeting 14 November 2013)
- Further analysis and understanding of risks, and refining of risk descriptions with individual JMT risk 'owners' during December 2013 / January 2014
- Assessment of risks (probability & impact levels – taking existing control measures into account) undertaken by JMT (meeting 29 January 2014)
- Risk response planning with individual JMT risk 'owners' during February 2014

5.4.2 **A copy of the refreshed Corporate Risk Register for 2014 is attached as Appendix B.**

The risk scoring matrix descriptions for probability and impact used by TDBC & WSC currently vary slightly, therefore a mapping between the descriptions has been included with the risk register.

- 5.4.3 Risk management should be applied continuously with information made available when critical decisions are being made. The timing of the review of the council's strategic risks was therefore appropriate considering recent significant changes to the council's context, ie:
- Decision on Joint management & shared services
 - Budget-setting decisions to be made re 2014/15
 - New joint Chief Executive role
 - Significant projects eg. Hinkley Point
- 5.4.4 Regular review and monitoring of the Corporate Risk Register is undertaken as part of the quarterly JMT corporate performance review meetings. The next review is scheduled for early June 2014 (Quarter 4 performance review). The key outcomes of the JMT risk review process are:
- To review and approve refreshed Corporate Risk Register (with recent updates from each risk owner), and to consider the overall risk profile.
 - To identify any new strategic risks for inclusion on the Corporate Risk Register
 - To consider any risks that require escalating to the Corporate Risk Register from Service or Project risk registers

5.5 Service/Operational Risk Registers

- 5.5.1 Each Service plan has a risk register in place. These are constantly under review and are updated as part of the annual service planning process and informed by the SWOT analysis undertaken. Significant projects also have risk registers in place. The highest areas of risk are considered by JMT for escalation to the Corporate Risk Register.

5.6 Approach and actions for joint Risk Management – WSC & TDBC (March – June 2014)

- 5.6.1 The focus for the next few months is to adopt a new approach to joint risk management for West Somerset Council and Taunton Deane Borough Council. This approach was endorsed by JMT in January 2014.
- 5.6.2 Key principles:
- a) The aim is to fully align and combine the Risk Management Frameworks at WSC & TDBC into a single common and consistent framework for both councils, identifying and adopting best practice from both (the interim approach proposed below is the start of this process)
 - b) The approach will ensure robust but proportionate risk management which is fit for purpose
 - c) The approach will support JMT and Members and will inform decision-making, especially in the early stages of joint management and sharing services
- 5.6.3 Specific actions (Strategic, Programmes, Projects, Services & Partnerships) are outlined below:
- Strategic actions
- a) Develop a new combined corporate risk register (capable of recording different risk scores for each council where required, and showing TDBC/ WSC / both)
 - Talk to other shared service councils re a joint approach
 - Create Risk Response Plans & post response (target) risk scores following assessment / evaluation process (DW & KB with each risk owner)
 - b) Create a combined Risk Management Strategy:

- common scales for impact & probability,
 - roles & responsibilities,
 - strategic risk appetite & tolerance levels for the different categories of risk / difference business areas etc)
- c) Complete a high-level risk management 'health-check' to help identify any significant 'missings'

Programmes, Projects, Services & Partnerships

- a) Collate all existing risk registers – identify any missings
- b) Partnership risk management - identify key strategic & service delivery partners and review risk management arrangements in place
- c) Assistant Directors to review and consider whether any high-level risks for escalation
- d) Upload corporate & all programme / project risk registers to one place that JMT can access.

Other considerations

- a) Agree a standard risk register template
- b) Develop a combined Corporate Risk Management Action Plan
- c) Review how risks are reported in Member committee reports, and how these risk are then collated and managed as part of the on-going Risk Management process

6. FINANCIAL/RESOURCE IMPLICATIONS

- 6.1 Financial risk is and considered within the Corporate Risk Register.

7. COMMENTS ON BEHALF OF SECTION 151 OFFICER

- 7.1 Comments to be provided at the meeting.

8. EQUALITY & DIVERSITY IMPLICATIONS

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

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

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

9. CRIME AND DISORDER IMPLICATIONS

- 9.1 This areas is considered within the Corporate Risk Register.

10. CONSULTATION IMPLICATIONS

- 10.1 Consultation is undertaken with Portfolio Holders, managers and staff to collate and maintain Corporate Risk register as appropriate

11. ASSET MANAGEMENT IMPLICATIONS

- 11.1 Asset Management related risks are considered within the Corporate Risk Register.

12. ENVIRONMENTAL IMPACT IMPLICATIONS

12.1 These areas are considered within the Corporate Risk Register.

13. LEGAL IMPLICATIONS

13.1 Legal risk is within the Corporate Risk Register.



Management Strategy

Version 6.1 – March 2014

Minor amendments – March 2014



Contents

	Page
Introduction	3
What does risk management mean	4
Why we need a risk management strategy	4
Overview of the risk management process	6
Roles and responsibilities	10

1. Introduction

This document forms West Somerset Council's Risk Management Strategy. It sets out:

- What is risk management?
- Why we need a risk management strategy
- An overview of the risk management process
- How risk management links with existing processes
- A summary of the cycle of monitoring and review
- An outline of the associated roles and responsibilities of members, chief officers and other employees

The objectives of the strategy are to:

- Further develop risk management and raise its profile across the Council
- Integrate risk management into the culture of the organisation
- Embed risk management through the ownership and management of risk as part of all decision-making processes
- Manage risk in accordance with best practice

This strategy outlines how West Somerset Council is taking on its responsibility to manage risks and opportunities using a structured and focused approach.

2. What does Risk Management mean?

2.1 Risk Management can be defined as:

"The management of integrated or holistic business risk in a manner consistent with the virtues of economy, efficiency and effectiveness. In essence it is about making the most of opportunities (making the right decisions) and about achieving objectives once those decisions are made. The latter is achieved through controlling, transferring and living with risks" *Zurich Municipal/SOLACE, Chance or choice? July 2000.*

Risk management is thus a strategic tool and is an essential part of effective and efficient management and planning.

2.2 Why is Risk Management important?

All organisations, whether in the private or public sector, face risks to people, property and continued operations. Risk is the chance or possibility of loss, damage, injury or failure to achieve objectives caused by an unwanted or uncertain action or event. Risk management is the planned and systematic approach to the identification, evaluation and control of risk. Its objectives are to secure the assets of the organisation and to ensure the continued financial and organisational well-being. In essence it is, therefore, an integral part of good business practice. Risk management is concerned with evaluating the measures an organisation already has in place to manage identified risks and then recommending the action the organisation needs to take to control these risks effectively. It is the overall responsibility of the Audit Committee to approve the authority's risk management strategy, and to promote a culture of risk management awareness throughout the authority.

3. Why we need a Risk Management Strategy

3.1 Achievement of objectives

Risk management will strengthen the ability of West Somerset Council to achieve its objectives and enhance the value of services provided. It will also provide the following benefits for the Council:

- Better management of risks leading to delivery of the corporate plan and key services to the community with reduced likelihood and impact of incidents.
- Better use of finances as risks are managed and exposure to risk is reduced.
- Greater risk awareness and an improved control environment, which should mean fewer incidents and other control failures.
- Contributing to better decision making by helping members and officers to make informed decisions about the appropriateness of adopting policy or service delivery options.
- Through being embedded within existing planning, decision taking and option appraisal processes, it provides a basis for ensuring implications are thought through, the impact of other decisions, initiatives and projects are considered, and conflicts are balanced.
- Providing assurance to Members and management on the adequacy of arrangements for the conduct of business and the use of resources.
- Demonstrating openness and accountability to various inspectorate bodies and stakeholders more widely.

3.2 Corporate Governance

Risk management is an essential part of the CIPFA/SOLACE framework on Corporate Governance that has been adopted by all Local Authorities. The Framework requires the Council to establish and maintain a systematic strategy, framework and process for managing risk.

3.3 Internal Controls Assurance Statement

Alongside Corporate Governance the Council is required to publish an annual assurance statement in respect of internal controls called the Annual Governance Statement. This determines that the Council is responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.

The assurance statement is disclosed in the Annual Statement of Accounts and is signed by the Leader of the Council and the Head of Paid Service.

3.4 A Risk Management Culture

West Somerset Council will seek to embed risk management into its culture, processes and structure to ensure that opportunities are maximised. The Council will seek to encourage managers to identify, understand and manage risks, and learn how to accept the right risks. Adoption of this strategy will over a period of time result in a real difference in the Council's behavior.

4. Overview of the Risk Management Process

4.1 The risk management cycle

Implementing this strategy consists of seven steps. This is an ongoing process and is illustrated in Figure 1 below. The following sections outline each of these stages in more detail.

4.2 Stage One - Knowing the strategic and operational priorities

The starting point for risk management is a clear understanding of what the organisation is trying to achieve. Risk management is about managing the threats that may hinder delivery of our priorities and maximising the opportunities that will help to deliver them. Therefore, effective risk management should be clearly aligned to the corporate planning process, and should take into account the environment within which the Council operates. Similarly, this needs to be applied to all services and processes to ensure focus on achievement of priority objectives.

4.3 Stage Two - Risk identification & Compiling a 'Risk Register'

The annual service planning process requires the ~~Corporate Managers and Corporate Director~~ **Directors and Assistant Directors** to facilitate the undertaking of a SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis for each service, including how it may need to change in the future. The weaknesses, opportunities and threats identified will be used to create and refresh each individual service-based risk register.

~~Corporate Management Team will maintain the Corporate Risk Register in its own service plan and include any very high scoring service specific risks contained in service plans.~~

Joint Management Team will maintain the Corporate Risk Register and any 'very high' scoring service specific risks identified in service plans will be escalated for inclusion in the corporate risk register.

Consideration will also be given to including identical lower scoring risks that appear in more than one service plan. During the year additional risks may be identified -

- During team meetings,
- In internal audit reports and associated action plans,
- Through the drafting of committee reports,
- External reviews including peer reviews or
- Through the internal service review process

4.4 Stage Three – Scoring risks

Following identification, in order to decide on the best treatment option and to prioritise the treatment of the risks identified, the risks must be scored. Any risk that, prior to identification of any mitigation action(s) is assessed as high will be inserted in the relevant service plan, including the necessary mitigating action(s). Any such risk that is assessed as very high will, in addition, to being inserted in the relevant service plan be inserted in the Corporate Risk Register and rescored in relation to its corporate impact.

Risks are scored initially by identifying the likelihood of the event occurring and multiplying this by a factor representing the impact or consequences of the event if it did occur. This is on the basis that no mitigation has taken place. The risk is then scored again, this time taking into account the fact that mitigating action(s) had been successfully implemented. .

Figure 2.
Scoring Risk

Likelihood (Probability)	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 (Consequences)							

4.5 Stage Four – Treating risks

There are four general approaches to treating risk: avoid, reduce, transfer or accept.

- ▶ *Avoiding the risk* – not undertaking the activity that is likely to trigger the risk.
- ▶ *Reducing the risk* – controlling the likelihood of the risk occurring, or controlling the impact of the consequences if the risk does occur.
- ▶ *Transferring the risk* – handing the risk on elsewhere, either totally or in part – e.g. through insurance.
- ▶ *Accepting the risk* – acknowledging that the ability to take effective action against some risks may be limited or that the cost of taking action may be disproportionate to the potential benefits gained.

Assessment of each treatment option is used to provide the basis for selecting the best option to manage each risk identified.

4.7 Stage Five – Monitoring and reporting risk

Mitigating actions for high ('High' or above) scoring risks that are reflected in service plans will be managed by the ~~Corporate Manager~~ appropriate Assistant Director and implemented by Service Lead Officers; ~~Corporate Management Team~~ Joint Management Team will manage the Corporate Risk Register. Similarly, low-scoring risks that are included in work plans will be managed by Service Lead Officers.

Members will monitor the mitigation of high scoring risks through the regular monitoring of service plans, including Risk Register. The overall responsibility for the management of 'risk' arrangements will rest with the Audit Committee.

5. Roles and Responsibilities

Everyone in the Council is involved in risk management and should be aware of their responsibilities in identifying and managing risk.

In order to ensure the successful implementation of this Strategy, responsibilities for risk management are detailed in Figure 6.

Figure 3.

Roles and Responsibilities

Role	Responsibilities
Audit Committee	<ul style="list-style-type: none"> • Approve the Risk Strategy • Receive annual reports on the appropriateness of the Council's risk management arrangements • Ensuring that the risk management strategy is kept up to date
Cabinet	<ul style="list-style-type: none"> • Ensuring that a Corporate Risk Register, including details of the actions taken to mitigate the risks identified, is established and regularly monitored. • Ensuring that progress in implementing the risk mitigation actions is reviewed quarterly as part of monitoring service planning
CMT Joint Management Team	<ul style="list-style-type: none"> • Receiving and approving changes to scoring of risks following completion of actions as shown in service plans, including identification of new risks • Approving the content and monitoring the 'Corporate Risk' Register • Advising members on effective risk management and ensuring that they receive regular monitoring reports • Recommending a Risk Management Strategy to Members • Coordinating risk management across the Council • Being responsible for ensuring that the Council fully complies with all corporate governance requirements, including the Governance Statement.
Corporate Managers & Corporate Director Directors and Assistant Directors	<ul style="list-style-type: none"> • Ensuring that risk management within their group of services is implemented in line with the Council's Risk Management Strategy • Communicating to staff the corporate approach to risk management.
Staff	<ul style="list-style-type: none"> • Reporting systematically and promptly to their manager any perceived new risks or failures of existing control measures.
Internal Audit	<ul style="list-style-type: none"> • Auditing the key elements of the Council's Risk Management Process. • Using the results of the Council's Risk Management Process to focus and inform the overall internal audit plan. • Ensuring that internal controls are robust and operating correctly.

Risk No.	Date raised	Risk group heading	Risk / Issue description	Risk Owner	Existing Control Measures		Current Assessment		Score	Proximity	Risk response option	Risk / Issue Response Action	Target score (post response)	
					Probability	Impact	Probability	Impact					Probability	Impact
1	Dec-13	Transformation	Joint-management & shared services (JIMASS) TDBC & WSC have entered into a new joint-management & shared services arrangement from 2014. If the management resource & capacity to run the new structure effectively is insufficient: RISK - failure to deliver the ambitions and financial savings as stated in the 'JIMASS' business case. Effects: Member's expectations not met / loss of political support, breakdown in relationships between Leaders & CEO, savings projections / timeline not delivered, existing projects & priorities negatively impacted	Shirlene Adam	- Effective governance arrangements in place - Consultation with Joint Unison Board - Information briefings - Programme plan in place	Slight(2) Critical(5)	Slight(2) Critical(5)	10	Feb-15	Accept	- Fortnightly JIMASS project meetings to review progress - responsibility for financial monitoring allocated - regular SLT discussions	Slight(2) Critical(5)	10	
2	Dec-13	Transformation	The wider transformation programme The Corporate Business Plan includes objectives to transform services and 'the way we work' - some projects have already been or are to be initiated (ie Customer Access & Council Accommodation). If a robust and effective approach to Programme and Change management is not implemented, or the existing contractual relationships in place for the supply of ICT services restricts the ability to deliver the new capability requirements - Risk of failure to deliver an effective programme of change to achieve the desired outcomes and benefits for the councils. Key effects: programme benefits not realised, financial loss, loss of political appetite for change, services do not embrace & adopt new ways of working, decline in staff morale & performance, detrimental impact on the quality of service & project delivery, failure to maximise service efficiency	Richard Seal	- existing individual projects being managed robustly	Feasible(3) Critical(5)	Slight(2) Critical(5)	15	14/15	Reduce	- Recruitment of new Programme Manager part of re-structure process Spring 2014 - Working with the ICT service to understand & minimise the costing for transformation ICT work & to identify possible alternative delivery options	Slight(2) Critical(5)	10	
3	Dec-13	Transformation	Shared Services across Somerset and wider Public Sector. Government policy is pushing wider transformation of public sector. No clear ambition has emerged for Somerset. RISK - wider transformation opportunities may be missed - or - if identified could slow down the pace of the TDBC / WSC transformation programme. Effects: (as per Risk no. 1 above)	Penny James	- Somerset Public Sector CEO meetings - contact with DCLG re central govt expected outcomes - Somerset Task & Finish review - LGA Shared CEO Special Interest Group - Support from LGA to Somerset to facilitate wider discussions	Slight(2) Critical(5)	Slight(2) Critical(5)	10	NOW	Share	Continued leadership engagement with wider public sector partners at political and officer level	Slight(2) Critical(5)	10	
4	Jan-14	Political	National changes to Law/Policy drivers. Changes advocated or made may be missed or not evaluated in a timely manner. The risk is the Councils are non-compliant and/or changes undermine the delivery of key priorities. Key effects: financial impact, failure to achieve the desired outcomes and benefits of the HRA Business Plan for the community and councils	Penny James	- JMT professional networks - Political Group networks - Director and AD responsibility to scan the policy horizon, and act as key policy advisors - TDBC Hub Reports - E-alerts from LGASOLACE/Government Departments	Feasible(3) Critical(5)	Slight(2) Critical(5)	15	NOW	Reduce	JMT to review on quarterly basis the national picture	Slight(2) Critical(5)	10	
5	Jan-14	Financial	Asset Management A new TDBC Corporate Asset Management Strategy has been approved, however there is a need to refresh the strategy for West Somerset Council. There is a need to ensure adequate capacity, resource/funding, and expertise for effective asset management, as well as the appetite to take decisions to maximise opportunities. Poor data management may also lead to poor decisions. RISK - failure to deliver Asset Management strategies and failure to manage existing assets appropriately. Key effects: - financial (asset base that is unaffordable to maintain, inability to maximise income opportunities) - failure to comply with community requests relating to assets - increased risk & liabilities in relation to disrepair & compliance matters	James Barrah	- TDBC approved Asset Strategy & 2 year funding secured to deliver the new plan - direct control of former SW1 Estates team to prioritise workload (following decision to bring the service back to TD from SW1)	Likely(4) Critical(5)	Slight(2) Critical(5)	20	NOW	Reduce	- Asset strategy & plan to be refreshed for WSC - Implement the approach & key activities (phase 1 & 2) as outlined in the report to TDBC council Dec 2013 - Recruitment of new Property & Development Assistant Director post - team restructure arising from JIMASS project	Slight(2) Critical(5)	10	
6	Dec-13	Financial	Medium Term Financial Planning (MTFFP) The key financial risk factors are: continuing budgetary pressures & adverse economic conditions, an environment of major financial risk & uncertainty (such as: Business Rates retention, Revenue Support Grant, Council Tax & Council Tax Support, Income from Fees & Charges, Capital investment), uncertainty as to the long-term sustainability / affordability of the existing contract with Somerset Waste Partnership, the shrinking of the General Fund (impact on the HRA). Risk of failure to agree and deliver a sustainable MTFFP for the next 5 years Key effects may include: - short-term or 'knee jerk' decisions with detrimental long-term implications - Government intervention - Adverse impact on the council's limited reserves & financial standing - Potential service closure / reduced service quality & therefore inability to deliver customer expectations - Insufficient capital resources to fund Corporate Strategy objectives - Inability to continue funding partnerships (eg Tone Leisure, SWP) - Unable to maximise investment returns	Shirlene Adam	- on-going raising of profile and awareness of financial challenges with Members - regular reviews, updates (latest forecasts) & reporting of MTFFP position - budget-setting / approval process	Likely(4) Critical(5)	Slight(2) Critical(5)	20	end 2015	Reduce	- fundamental review of WSC finances (including revenues, capital, treasury management) - new Treasury Management contract in place for WSC - Executive/Cabinet discussions on budget position - Inkeage of Asset Management plans - Health & Safety plans with Financial plans (TDBC & WSC)	Feasible(3) Critical(5)	15	

Risk No.	Date raised	Risk group heading	Risk / Issue description	Risk Owner	Existing Control Measures	Current Assessment		Score	Proximity	Risk response option	Risk / Issue Response Action	Target score (post response)		Score
						Probability	Impact					Probability	Impact	
11	Dec-13	Corporate Aim (TDBC)	<p>Growth & Development - Housing & employment land delivery</p> <p>Factors such as: the uncertain economic climate (national & local) and a lack of market appetite for growth, the extent of our ability to influence other agencies to address key issues, the Planning process, and identification of deliverable sites - are all causes of the following risk:</p> <p>Risk of failure to deliver proposals in the Development Plan relating to housing and employment land.</p> <p>Effects: in addition to those described above in risk no. 7, the council would be open to unplanned development</p>	Tim Burton	<ul style="list-style-type: none"> - TDBC Approved Core Strategy & Site Allocations work - Monkton Heathfield - Capacity Funding award - emerging WSC Local Plan 	Feasible(3)	Major(4)	12	from 2015	Reduce	<ul style="list-style-type: none"> - meet the timetable for preparation of Planning Policy documents - working with developers to bring forward Monkton Heathfield, other Urban Extensions, and other development sites across the 2 districts - dependency / links with Infrastructure risk & actions (risk 10) 	Slight(2)	Major(4)	8
12	Dec-13	Corporate Aim (WSC)	<p>Hinkley Point</p> <p>The development of a new Hinkley C power station (a 10 year construction period) may cause a variety of threats and opportunities to the achievement of our strategic objectives.</p> <p>There is a risk that the development will have an adverse impact on local accommodation, skills & employment and highways, and/or Economic & Social opportunities may not be realised (eg benefits to local businesses & the local economy or permanent inward migration, receipt of significant Community Fund grant monies).</p> <p>Key effects may include:</p> <ul style="list-style-type: none"> - homelessness increases and the council is unable to discharge its homelessness obligations; - increase in housing demand & lack of affordable housing; - increased congestion (impacting on Growth & Regeneration goals / inward investment) - Local businesses are not able to win contracts to participate in the project - Local people aren't trained and are unable to gain employment on the project 	Brendan Cleere / Andrew Goodchild (New Nuclear Programme Manager)	<ul style="list-style-type: none"> - Section 106 agreements with staff resources and contributions in place to mitigate effects - Very good working relationship with EDF Energy - Good understanding of local issues - Good working relationship with local businesses and West Somerset College 	Feasible(3)	Major(4)	12	from 2014	Reduce	<ul style="list-style-type: none"> - Programme Manager is post and objectives and key tasks set out in WSC Corporate and Services plans for 2014/15 - Robust programme management in place - Action plan and objectives being developed with Cabinet and then for wider approval - Developing relationship with LEP to attract additional funding 	Slight(2)	Major(4)	8
13	Dec-13	Communities	<p>Welfare Reforms</p> <p>There is an on-going requirement to reduce benefit payments (CTRS, Business Rates, Universal Credit) - the Welfare Reforms will mean that people in the welfare system will receive less Council Tax support.</p> <p>Risk of the Council failing to adequately support our community and services for the impact of the Government's Welfare Reform Agenda</p> <p>Key effects include:</p> <ul style="list-style-type: none"> - taxes and rents harder to collect - more vulnerable people - individuals & families may be unable to manage - increased pressure and demand on services 	Paul Fitzgerald / Simon Lewis	<ul style="list-style-type: none"> - Halcon One Team approach 	Feasible(3)	Critical(5)	15		Reduce	<ul style="list-style-type: none"> - Initiation of a new project - Please note - the Assistant Director (Resources) - Paul Fitzgerald has only recently been appointed and will therefore develop a risk response action plan as part of his business planning for 2014/14 			
14	Dec-13	Communities	<p>Addressing deprivation</p> <p>Deprivation is worsening and deepening in North Taunton and Taunton East, with other key community issues being rural isolation and an ageing population, and in West Somerset, the key issues are rural deprivation, fuel poverty & access to services.</p> <p>Initiatives such as Taunton Deane Partnership's Priority Areas Strategy (PAS) programme and the Health & Wellbeing Strategy are being developed & delivered to address the issue, however, if the work is not supported, or not adequately resourced:</p> <p>There is a risk that the programmes & activities may be unsuccessful and we fail to reduce levels of deprivation in our most deprived communities.</p> <p>Key effects may include:</p> <ul style="list-style-type: none"> - areas of deprivation remain or worsen; - other areas slip into deprivation; - community expectations are not managed or delivered - further burden on TDBC resources (eg increase in 'Troubled Families' interventions, Housing demand etc) - lost opportunities for additional funding, reduced service costs, reduced work duplication, improved experience for the customer - negative impacts on individuals, families & communities, plus the financial cost to public sector agencies increases 	Simon Lewis	<ul style="list-style-type: none"> - Housing & Community Development structure proposal to place greater emphasis on priority areas - PAS actively monitored and reviewed by TDP - Family Focus project supporting complex troubled families - TDBC engaging in 'early help' discussions and work with SCC to bring additional resources and focus into areas - Halcon One Team being supported in halcon and delivering tangible improvements and projects (eg Link Power) - Community Development projects - Voluntary & Community Sector grants allocated to provide support (eg CAB debt advice) - Somerset West Private Sector Housing Partnership continues to work on fuel poverty issues - communities in West Somerset supported to access grants and support 	Feasible(3)	Major(4)	12	NOW	Reduce	<ul style="list-style-type: none"> - A greater focus on collaborative partnership working in other parts of TD - Implement Programme of activities resulting from the H & W audit to address deprivation 	Slight(2)	Major(4)	8
15	Dec-13	Communities	<p>Gypsies & Travellers</p> <p>Local Authorities have a (planning) duty to allocate suitable provision for Gypsies & Travellers. TDBC has had previous experience of illegal Gypsy & Traveller encampments.</p> <p>There is a risk that TDBC is unable to identify suitable provision if required and cannot defend against future illegal encampments.</p> <p>Key effects may include:</p> <ul style="list-style-type: none"> - unable to respond to community or political pressure; - financial impact (eg high legal fees); - reputational damage 	Tim Burton (+ Property & Development AD)	<ul style="list-style-type: none"> - purchase of Otterford Green site (for temporary provision) - Gypsy & Traveller Accommodation Assessment - contacted potential site owners 	Slight(2)	Significant(3)	6	on-going	Reduce	<ul style="list-style-type: none"> - allocate sites - council needs to potentially purchase sites or work with other providers to develop sites 	Very Unlikely(1)	Significant(3)	3

Report Number: WSC 54/14
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Report to a Meeting of: Audit Committee
To be Held on: 24th March 2014
Date Entered on Executive Forward Plan N/A
Or Agreement for Urgency Granted:

CERTIFICATION REPORT 2012/13 FOR WEST SOMERSET DISTRICT COUNCIL

1. PURPOSE OF REPORT

- 1.1 To enable Grant Thornton to summarise their overall assessment of the Council's management arrangements in respect of the certification process and draws attention to significant matters in relation to individual claims.

2. CONTRIBUTION TO CORPORATE PRIORITIES

- 2.1 None in respect of this report.

3. RECOMMENDATIONS

- 3.1 To note the report from Grant Thornton.

4. RISK ASSESSMENT (IF APPLICABLE)

Risk Matrix

Description	Likelihood	Impact	Overall
.	N/A	N/A	N/A

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

5. BACKGROUND INFORMATION

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

- 5.2 Grant Thornton has certified two claims and returns for the financial year 2012/13 relating to expenditure of £27 million and these are the Housing and Council Tax Benefit Subsidy Claim and the National Non Domestic Rates claim.

6. FINANCIAL/RESOURCE IMPLICATIONS

- 6.1 As a result of the work undertaken by Grant Thornton, the actual fee payable totalled £14,300 for 2012/13 compared with an amount of £11,968 in respect of 2011/12, therefore an increase of £2,332.

7. COMMENTS ON BEHALF OF SECTION 151 OFFICER

- 7.1 Although Grant Thornton's work identified no significant issues in relation to the management arrangements and certification of individual grant claims and returns, four cases of Non-HRA Rent Rebates were incorrectly classified and there was one case of where Tax Credits had been incorrectly updated on the system, leading to an overpayment of Housing and Council Tax benefits for 2012/13 and 2011/12 totalling £3,515.
- 7.2 The rules surrounding the administration of housing and council tax benefit are inherently complicated and therefore not unusual for errors to be identified.
- 7.3 As a result of the findings an appropriate action plan has been put in place to monitor cases and quality control.

8. EQUALITY & DIVERSITY IMPLICATIONS

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

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

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

- 8.1 None in respect of this report.

9. CRIME AND DISORDER IMPLICATIONS

- 9.1 None in respect of this report.

10. CONSULTATION IMPLICATIONS

- 10.1 None in respect of this report.

11. ASSET MANAGEMENT IMPLICATIONS

- 11.1 None in respect of this report

12. ENVIRONMENTAL IMPACT IMPLICATIONS

- 12.1 None in respect of this report.

13. LEGAL IMPLICATIONS

- 13.1 None in respect of this report.

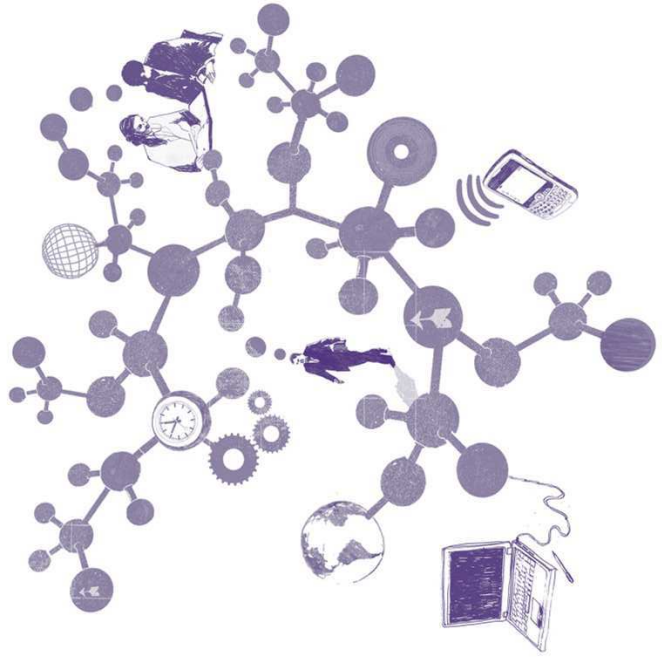
Certification report 2012/13 for West Somerset District Council

Year ended 31 March 2013
January 2014

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Contents

Section	Page
1. Executive summary	3
2. Results of our certification work	6
Appendices	
A Details of claims and returns certified for 2012/13	9
B Action plan	10
C Fees	11

Section 1: Executive summary

- 01. Executive summary
- 02. Results of our certification work

Executive summary

Introduction

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

We have certified two claims and returns for the financial year 2012/13 relating to expenditure of £27 million.

This report summarises our overall assessment of the Council’s management arrangements in respect of the certification process and draws attention to significant matters in relation to individual claims.

Approach and context to certification

Arrangements for certification are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency, and issues auditors with a Certification Instruction (CI) for each specific claim or return.

Our approach to certification work, the roles and responsibilities of the various parties involved and the scope of the work we perform were set out in our Certification Plan issued to the Council on 19th July 2013.

Key messages

A summary of all claims and returns subject to certification is provided at Appendix A. The key messages from our certification work are summarised in the table below and set out in detail in the next section of the report.

Aspect of certification arrangements	Key Messages	RAG rating
Submission & certification	Both claims were submitted and certified by the deadlines set by the grant-paying body.	Green
Accuracy of claim forms submitted to the auditor (including amendments & qualifications)	The Housing and Council Tax Benefit subsidy claim was amended and subject to qualification. The NNDR claim was not amended or qualified.	Amber
Supporting working papers	Supporting working papers were good which helped enable certification within the deadlines.	Green

The way forward

We set out recommendations to address the key messages above and other findings arising from our certification work at Appendix B.

Implementation of the agreed recommendations will assist the Council in compiling accurate and timely claims for certification. This will reduce the risk of penalties for late submission, potential repayment of grant and additional fees.

Acknowledgements

We would like to take this opportunity to thank the Council's officers in Finance and Revenues and Benefits for their assistance and co-operation during the course of the certification process.

Grant Thornton UK LLP
January 2014

Section 2: Results of our certification work

- 01. Executive summary
- 02. Results of our certification work

Results of our certification work

Key messages

We have certified two claims and returns for the financial year 2012/13 relating to expenditure of £27 million.

Details of the certification of all claims and returns are included at Appendix A.

Certification fees

The Audit Commission set an indicative scale fee for grant claim certification based on 2010/11 certification fees for each audited body. The fee for the Council for 2012/13 is £14,300. This is set out in more detail in Appendix C.

Significant findings

Our work has identified no significant issues in relation to the management arrangements and certification of individual grant claims and returns.

The Council has made progress in implementing the recommendations we made in last year's certification report. However, the Housing and Council Tax Benefit subsidy claim was still amended and subject to qualification this year.

Our testing identified the following issues:

- We identified four cases of Non-HRA Rent Rebates (board and lodging /short term accommodation) that were incorrectly classified between the appropriate cells.
- We identified one case where Tax Credits had been incorrectly updated on the system, leading to an overpayment of Housing and Council Tax benefits for 2012-13 and 2011-12 totalling £3,515.

The rules surrounding the administration of housing and council tax benefit are inherently complicated and it is not unusual for errors to be identified. Recommendations for improvement are included in the action plan at Appendix B.

Appendices

Appendix A: Details of claims and returns certified for 2012/13

Claim or return	Value	Amended?	Amendment (£)	Qualified?	Comments
National Non-Domestic Rates Return	£10,166,958	No	None	No	No issues were identified in the testing of this return
Housing and Council Tax Benefit Subsidy	£16,678,353	Yes	£94 (increase in subsidy receivable)	Yes	<p>There were two issues identified with the Housing and Council tax claim. Firstly, there were four (board and lodging / short term accommodation) claims that were incorrectly classified on the claim form within the Non-HRA cells.</p> <p>Secondly, during the initial testing one item was identified where the tax credit figures had not been correctly updated on the system, resulting in an individual receiving an overpayment of benefit of £3,515 relating to 2012-13 and 2011-12. This is a one off error and extended testing has not identified any further errors.</p>

Appendix B: Action plan

Priority

High - Significant effect on arrangements

Medium – Some effect on arrangements

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
	Housing Benefit and Council Tax Benefit subsidy			
1	The Council should ensure that the Non-HRA rent rebates (board and lodging/ short term accommodation) are classified correctly.	Medium	Agreed	Monitor all cases on quarterly basis – Jo Ross
2	The Council should ensure that all changes to tax credits are correctly updated on the system.	Medium	This appears to have been a one off. Quality control checking should look for any issues	Include as part of ongoing quality control and advise if any issues occur – Jo Batts

Appendix C: Fees

Claim or return	2011/12 fee (£)	2011/12 fee (£) reduced by 40% to provide comparison with 2012/13	2012/13 indicative fee (£)	2012/13 actual fee (£)	Variance year on year (£) Column y less column x	Explanation for significant variances
	Column z	Column x	Column y	Column y	x	
Housing and Council tax benefits subsidy claim and certification report	£17,728	£10,637	£13,580	£13,580	£2,943	The Audit Commission set the indicative fee for 2012/13 based on the actual fee for 2010/11. The fee in 2011/12 reduced from 2010/11. That is why the actual fee for 2012/13 is higher than 60% of 2011/12.
National non-domestic rates return	£2,219	£1,331	£720	£720	-£611	Parts A and B were undertaken in 2011/12. Only Part A testing was undertaken in 2012/13
Total	£19,947	£11,968	£14,300	£14,300	£2,332	There was a reduction in fee for housing benefit from 2010/11 to 2011/12

* 2011/12 fee less 40% fee reduction applicable for 2012/13 onwards. This is shown in this way to make it comparable to the 2012/13 fee.



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Report to a Meeting of: Audit Committee
To be Held on: 24th March 2014
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WEST SOMERSET DISTRICT COUNCIL AUDIT PLAN 2013/14

1. PURPOSE OF REPORT

- 1.1 To enable Grant Thornton to set out the audit plan for West Somerset District Council in respect of the 2013/14 financial year.

2. CONTRIBUTION TO CORPORATE PRIORITIES

- 2.1 None in respect of this report.

3. RECOMMENDATIONS

- 3.1 To note the report from Grant Thornton.

4. RISK ASSESSMENT (IF APPLICABLE)

Risk Matrix

Description	Likelihood	Impact	Overall
.	N/A	N/A	N/A

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

5. BACKGROUND INFORMATION

- 5.1 It is crucial when planning the audit approach that Grant Thornton understand the nature of West Somerset as the business, in both the challenges and opportunities the Authority is facing.

- 5.2 The report sets out the following:

- Developments relevant to the business and the audit
- Grant Thornton's audit approach

- Significant risks identified
- Other risks
- Results of interim work
- Value for money
- Key dates
- Fees and independence
- Communication of audit matters with those charged with governance
- Action Plan

6. FINANCIAL/RESOURCE IMPLICATIONS

6.1 Contained within the audit plan it makes reference to the audit fee chargeable which totals £66,400, split between the Council audit (£55,800) and grant certification (£10,600).

6.2 Provision for this has been included within the 2014/15 revenue budget.

7. COMMENTS ON BEHALF OF SECTION 151 OFFICER

7.1 This plan sets out Grant Thornton's audit approach and the challenges / opportunities facing West Somerset at the current time.

8. EQUALITY & DIVERSITY IMPLICATIONS

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

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

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

8.1 None in respect of this report.

9. CRIME AND DISORDER IMPLICATIONS

9.1 None in respect of this report.

10. CONSULTATION IMPLICATIONS

10.1 None in respect of this report.

11. ASSET MANAGEMENT IMPLICATIONS

11.1 None in respect of this report.

12. ENVIRONMENTAL IMPACT IMPLICATIONS

12.1 None in respect of this report.

13. LEGAL IMPLICATIONS

13.1 None in respect of this report.

The Audit Plan for West Somerset District Council

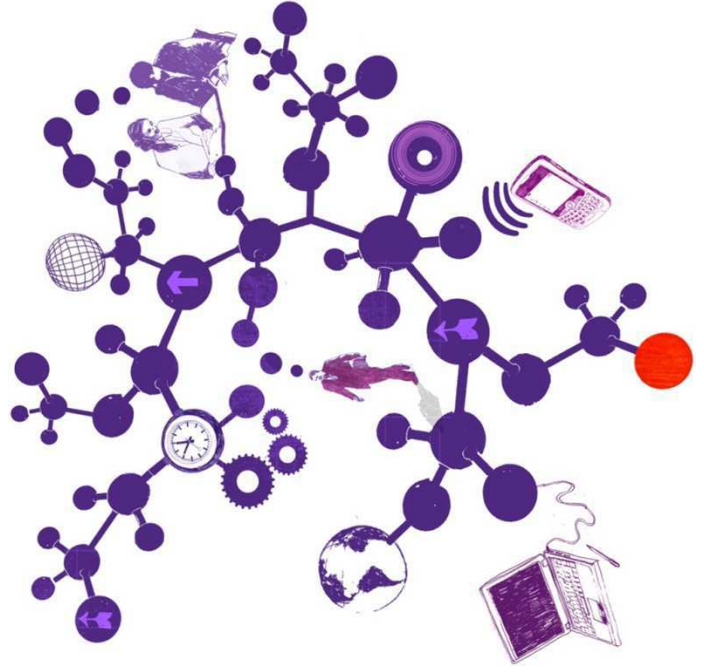
Year ended 31 March 2014

24 March 2014

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

Contents

Section	Page
1. Understanding your business	4
2. Developments relevant to your business and the audit	5
3. Our audit approach	6
4. Significant risks identified	7
5. Other risks	8
6. Results of interim work	9
7. Value for Money	11
8. Key dates	12
9. Fees and independence	13
10. Communication of audit matters with those charged with governance	14
Appendices	
A. Action plan	16

Understanding your business

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

Challenges/opportunities		Our response	
<p>1. Delivering the medium term financial plan</p> <ul style="list-style-type: none"> The Council faces further significant reductions in Government revenue support grant (£1.6m in 2013/14 and £1.2m in 2014/15). Further reductions are expected in 2015/16 but it anticipates that this reduction will be offset by an increase in retained business rates Although the Council is hoping to maintain General Fund reserves at £700 -£800k (through savings and the release of some earmarked reserves) the Council will have to find savings at levels higher than those ever achieved in previous years. 	<p>2. Local Government Finance Act</p> <p>The Local Government Resource Review made three areas of reform to Local Government Finance:-</p> <ul style="list-style-type: none"> The local retention of Business Rates The replacement of Council Tax Benefit by provision for Local Council Tax support from 1 April 2013. Discretion on the level and period of discount to be applied to certain classes of empty property. 	<ul style="list-style-type: none"> We will continue to monitor progress against the Medium Term Financial Plan and review progress in achieving the savings plans. We will continue to review the arrangements for securing future economies to inform our Value for Money conclusion and ensure that a balanced budget will be achieved in future years. We will follow up recommendations from our Financial Resilience report and Annual Audit Letter from last year. 	<ul style="list-style-type: none"> As part of our Value for Money work we will consider the financial planning arrangements in place to address the risks surrounding these financing changes. We will discuss and review the accounting impact of these changes with the finance team.
<p>3. Hinkley C</p> <p>West Somerset is the lead authority for the agreement with EDF Energy on the administering of planning monies, of up to £28m over the duration of the Hinkley C preparation project.</p> <p>Most of this money will be passed on to other public bodies to be spent in accordance with the terms of the agreement.</p>	<p>4. Accounts</p> <p>There were a few recommendations arising from the audit of 2012/13 accounts including a review of the method of calculating the impairment of debtors, a reconciliation of the creditor control account and some minor IT control weaknesses.</p>	<ul style="list-style-type: none"> We will review the Council's arrangements for administering and accounting for the receipts for the Joint Board. We will review the Council's arrangements for ensuring that any conditions have been met before recognising the receipts as income. 	<ul style="list-style-type: none"> We will review the progress made by the Council in response to our audit recommendations. We will continue to discuss key issues in advance of the audit with the finance team.
<p>5. Shared Services and Joint Management with Taunton Deane Borough Council</p> <ul style="list-style-type: none"> The Council in partnership with Taunton Deane Borough Council has agreed to share management and services, beginning with the Chief Executive in October 2013 and Directors from January 2014. Both Councils are relying on the sharing and transformation of services to deliver significant savings and enhanced service resilience. 	<ul style="list-style-type: none"> We will review delivery of savings from sharing services and the impact on current budgets and medium term financial plan. We will review the basis of how costs have been shared between the Councils. 		

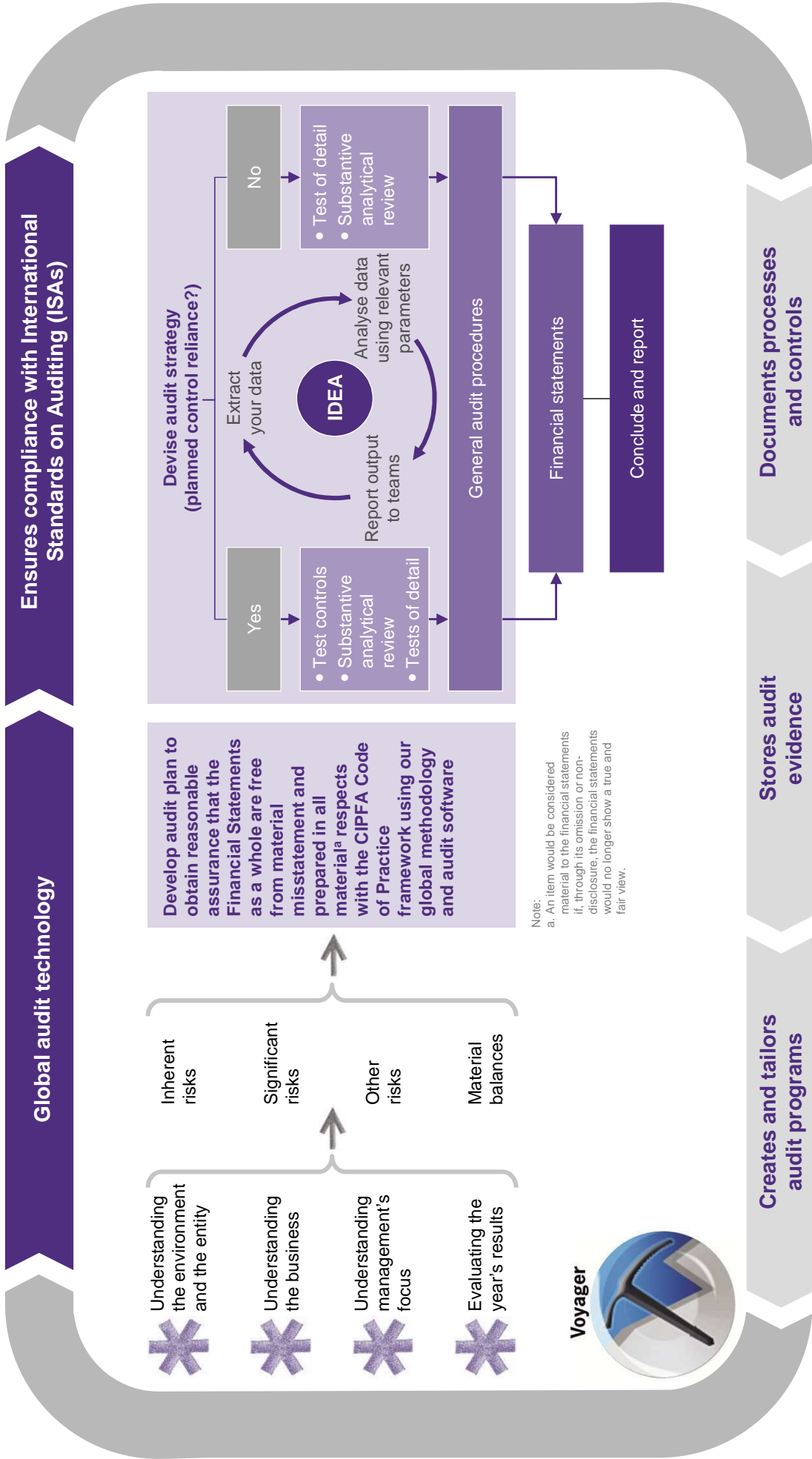
Developments relevant to your business and the audit

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

Developments and other requirements					
<p>1. Financial reporting</p> <ul style="list-style-type: none"> Changes to the CIPFA Code of Practice Clarification of Code requirements around property valuations Changes to NDR accounting and provisions for business rate appeals 	<p>2. Legislation</p> <ul style="list-style-type: none"> Local Government Finance settlement Welfare reform Act 2012 	<p>3. Corporate governance</p> <ul style="list-style-type: none"> Annual Governance Statement (AGS) Explanatory foreword 	<p>4. Pensions</p> <ul style="list-style-type: none"> The impact of 2013/14 changes to the Local Government Pension Scheme (LGPS) 	<p>5. Financial Pressures</p> <ul style="list-style-type: none"> Managing service provision with less resource Progress against savings plans 	<p>6. Other requirements</p> <ul style="list-style-type: none"> The Council is required to submit a Whole of Government accounts pack which we review The Council completes grant claims and returns on which audit certification is required

Our response	
<p>We will review</p> <ul style="list-style-type: none"> how the Council ensures that it complies with the requirements of the CIPFA Code of Practice the basis of the Council's estimates for business rate appeals 	<ul style="list-style-type: none"> We will discuss the impact of the legislative changes with the Council through our regular meetings with senior management and those charged with governance, providing a view where appropriate
<ul style="list-style-type: none"> We will review the arrangements the Council has in place for the production of the AGS We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge 	<ul style="list-style-type: none"> We will review how the Council dealt with the impact of the 2013/14 changes through our meetings with senior management and a review of the entries in your draft 2013/14 financial statements.
<ul style="list-style-type: none"> how the Council ensures that it complies with the requirements of the CIPFA Code of Practice the basis of the Council's estimates for business rate appeals 	<ul style="list-style-type: none"> We will review the Council's performance against the 2013/14 budget, including consideration of performance against the savings plan We will undertake a review of Financial Resilience as part of our VFM conclusion
<ul style="list-style-type: none"> how the Council ensures that it complies with the requirements of the CIPFA Code of Practice the basis of the Council's estimates for business rate appeals 	<ul style="list-style-type: none"> We will carry out work on the WGA pack in accordance with requirements We will certify grant claims and returns in accordance with Audit Commission requirements

Our audit approach



Note:
a. An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.

Significant risks identified

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

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

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	<p>Work completed to date:</p> <ul style="list-style-type: none"> Initial testing of material revenue streams months 1 - 8 <p>Further work planned:</p> <ul style="list-style-type: none"> Review and testing of revenue recognition policies Testing of material revenue streams
Management over-ride of controls	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	<p>Work completed to date:</p> <ul style="list-style-type: none"> Review of accounting estimates, judgments and decisions made by management Testing of journal entries months 1 - 8 <p>Further work planned:</p> <ul style="list-style-type: none"> Review of accounting estimates, judgments and decisions made by management Testing of journal entries Review of unusual significant transactions

Other risks identified

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

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

Other reasonably possible risks	Description	Work completed to date	Further work planned
Operating expenses	Creditors understated or not recorded in the correct period	<ul style="list-style-type: none"> Walkthrough tests of design and operation of controls Initial substantive testing of Operating Expenses for months one to eight to underlying supporting documentation 	<ul style="list-style-type: none"> Substantive testing of operating expenditure for remaining periods 9 to 12 and year end adjustments / reconciliations Review and testing of creditors/liability balances of unusual and large amounts Review of unrecorded liabilities and after date payments to ensure all liabilities identified
Employee remuneration	Employee remuneration accrual understated (expenses not correct)	<ul style="list-style-type: none"> Walkthrough tests of design and operation of controls 	<ul style="list-style-type: none"> Substantive testing of a sample payroll payments throughout the year to underlying evidence Agreement of payroll accruals to schedules and underlying evidence. Review of senior officers pay disclosures and agreement to underlying data. Analytical procedures over the payroll figures throughout the year to ensure that it is reasonable and complete. Reconciliation of the payroll system figures to the general ledger figures
Welfare Expenditure	Welfare benefit expenditure improperly computed	<ul style="list-style-type: none"> Walkthrough tests of design and operation of controls 	<ul style="list-style-type: none"> Substantive testing of welfare expenditure will occur for the whole year to gain assurance over the welfare expenditure figures

Results of interim audit work

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

	Work performed and findings	Conclusion
Internal audit	<p>We have reviewed internal audit's overall arrangements in accordance with auditing standards. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment at the Council.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
Walkthrough testing	<p>We have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p>	<p>For welfare, operating expenses and payroll the reconciliations are performed by the same person who is involved in the processing of transactions. This limits the effectiveness of the expected control of segregation of duties. This is understandable in a small Council but we have to take into account these weaknesses in the control environment.</p> <p>Our work has not identified any other weaknesses which impact on our audit approach.</p>
Review of information technology controls	<p>Our information systems specialist will be performing a high level review of the general IT control environment, as part of the overall review of the internal controls system. We will also perform a follow up of the issues that were raised last year.</p>	<p>We will report the results of our findings and any recommendations in our Audit Findings Report.</p>

Results of Interim Work (continued)

	Work performed	Conclusion
Journal entry controls	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p> <p>To date we have undertaken some detailed testing on journal transactions recorded for the first eight months of the financial year, by extracting 'unusual' entries for further review. No issues have been identified that we wish to highlight for your attention.</p>	<p>Overall, no significant issues have been identified in the journal policies or procedures, or the journals identified and tested to date.</p> <p>Further journal testing will occur to ensure that testing on the journals in the last four months of the period will be completed and that all unusual journals are tested.</p>
Early substantive testing	<p>Some early substantive work has been undertaken on the Operating Expenses and Other Revenues streams for the first eight months of the year.</p>	<p>No issues have been identified with the testing that has been completed to date. Further testing will need to be undertaken to cover the remainder of the year.</p>
Follow up of prior year recommendations	<p>We have considered the recommendations made following our 2012-13 audit of the financial statements and discussed progress with the finance team. We have established that the creditor control account is now reconciled, as per our recommendation.</p>	<p>We will continue to review progress against the recommendations raised as the implementation of these will be during the preparation of the 2012-13 financial statements.</p> <p>One recommendation has been found to be resolved, with others to be reviewed at the year end.</p>

Value for money

Value for money

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

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

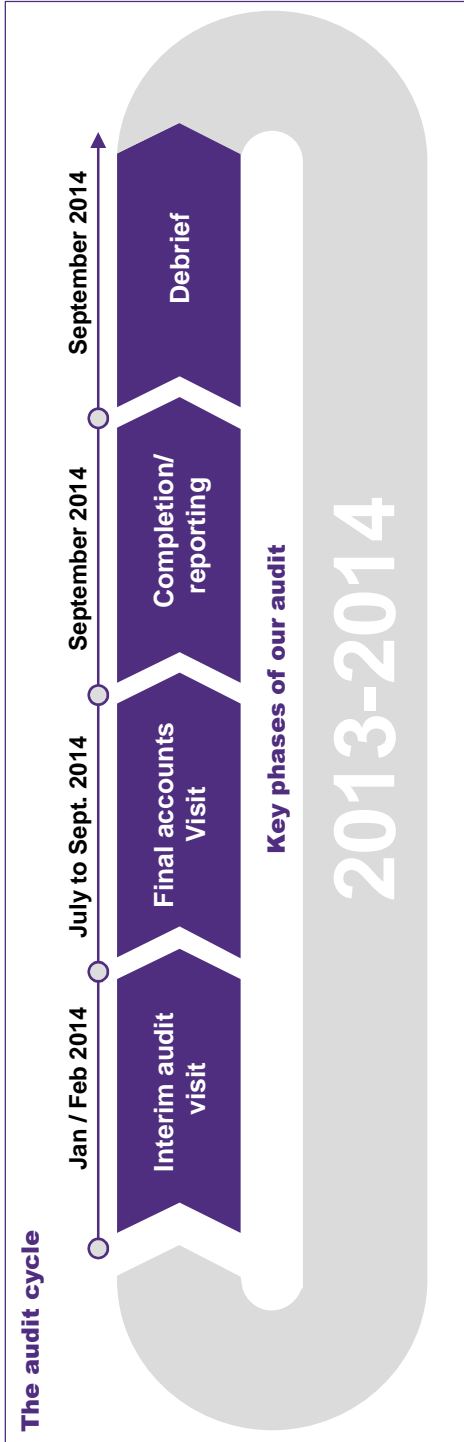
VfM criteria	Focus of the criteria
The organisation has proper arrangements in place for securing financial resilience	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate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

We have undertaken a risk assessment to identify areas of risk to our VfM conclusion. Our work will include a review of:

- key indicators of financial performance
- strategic financial planning
- financial governance
- financial control
- delivery of savings against the 2013/14 budget
- the medium term financial plan (MTFP) and capital programme
- cashflow forecasts and the financing of future expenditure

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

Key dates



Date	Activity
January	Planning
January to February	Interim site visit
March	Presentation of audit plan to Audit Committee
July and August	Audit of financial statements
September	Meeting to clear final audit findings
September	Report audit findings to the Audit Committee
September	Issue opinion on financial statements

Fees and independence

Fees

	£
Council audit	55,800
Grant certification	10,600
Total fees (excluding VAT)	66,400

Fees for other services

Service	Fees £
None	Nil

Our fee assumptions include:

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

Independence and ethics

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

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

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

Communication of audit matters with those charged with governance

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

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

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

Respective responsibilities

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

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

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

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

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

Appendices

Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	<p>Reconciliations (of payroll and creditor payments) should be performed by someone not involved in the processing of the transactions.</p> <p>Otherwise the Council should consider compensating controls to mitigate the risk from ineffective segregation of duties.</p>	Medium	<p>The creditors control is currently reconciled manually by another member of the Finance Team and therefore I am satisfied that sufficient segregation of duties is in place.</p> <p>With regard to the payroll control this is reconciled by the officer undertaking the payroll function. However in light of the reducing nature of the payroll function at West Somerset as part of the shared services arrangement with Taunton Deane Borough Council, this risk will reduce as we go through the 2014/15 financial year, with it disappearing totally by the end of March 2015.</p>	<p>Immediate – Included on the Finance Team Work Plan</p> <p>Not Applicable</p>



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Report Number: WSC 56/14
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Report to a Meeting of: Audit Committee
To be Held on: 24th March 2014
Date Entered on Executive Forward Plan N/A
Or Agreement for Urgency Granted:

AUDIT COMMITTEE UPDATE FOR WEST SOMERSET COUNCIL

1. PURPOSE OF REPORT

- 1.1 This report updates the Committee on the work of the external auditor, Grant Thornton, and provides a useful update on emerging national issues that may have relevance to this Authority.

2. CONTRIBUTION TO CORPORATE PRIORITIES

- 2.1 None in respect of this report.

3. RECOMMENDATIONS

- 3.1 To note the update report from Grant Thornton.

4. RISK ASSESSMENT (IF APPLICABLE)

Risk Matrix

Description	Likelihood	Impact	Overall
	N/A	N/A	N/A

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

5. BACKGROUND INFORMATION

- 5.1 This report provides a useful update on the progress against each piece of 'regular' work carried out by our external auditors. Additionally, the update report shares headlines on some national issues that will have an impact on this Council. This will assist Councillors to ensure they are sighted on "big issues" and if appropriate, engage with the appropriate officers to progress.

6. FINANCIAL/RESOURCE IMPLICATIONS

6.1 None in respect of this report.

7. COMMENTS ON BEHALF OF SECTION 151 OFFICER

7.1 This form of general update will now be shared with the Audit Committee on a regular basis.

8. EQUALITY & DIVERSITY IMPLICATIONS

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

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

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

8.1 None in respect of this report.

9. CRIME AND DISORDER IMPLICATIONS

9.1 None in respect of this report.

10. CONSULTATION IMPLICATIONS

10.1 None in respect of this report.

11. ASSET MANAGEMENT IMPLICATIONS

11.1 None in respect of this report

12. ENVIRONMENTAL IMPACT IMPLICATIONS

12.1 None in respect of this report.

13. LEGAL IMPLICATIONS

13.1 None in respect of this report.



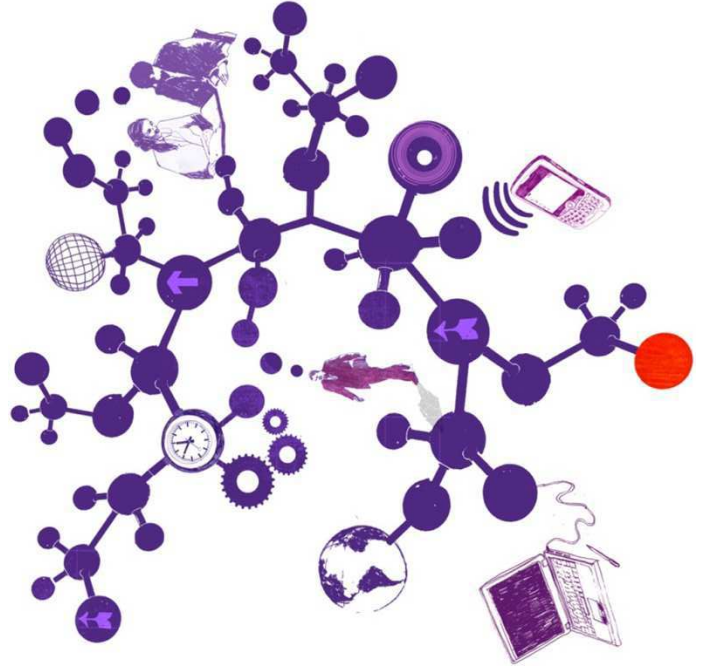
Audit Committee Update for West Somerset District Council

Year ended 31 March 2014

24 March 2014

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

Contents

Section	Page
Introduction	4
Progress at 4 March 2014	5
Emerging issues and developments	
Local government guidance	7
Grant Thornton	9
Accounting and audit issues	12

Introduction

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

- a summary of emerging national issues and developments that may be relevant to you as a district council in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications – 'Local Government Governance Review 2013', 'Towards a tipping point?', 'The migration of public services', 'The developing internal audit agenda', 'Preparing for the future', 'Surviving the storm: how resilient are local authorities?'

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

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Progress at 4 March 2014

Work	Planned date	Complete?	Comments
<p>2012-13 certification work We audit those grants and returns that require certification in accordance with Audit Commission guidance and department deadlines.</p>	By 30 November 2013	Yes	We issued a certification report in January 2014 and it is included in this Committee's agenda.
<p>2013-14 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 2013-14 financial statements.</p>	March 2014	In progress	Our audit plan sets out our approach for the final accounts visit in the summer of 2014. The plan is informed by our interim accounts audit which is yet to be completed.
<p>Interim accounts audit Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> • updating our review of the Council's control environment • updating our 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 to March 2014	In progress	We have updated our understanding of the Council's financial systems and we are undertaking walk-through tests.

Progress at 4 March 2014

Work	Planned date	Complete?	Comments
<p>2013-14 final accounts audit</p> <p>Including:</p> <ul style="list-style-type: none"> • audit of the 2013-14 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion. 	July to September 2013	Not yet due	None
<p>2013-14 Value for Money (VfM) conclusion</p> <p>The scope of our work to inform the 2013/14 VfM conclusion comprises:</p> <ul style="list-style-type: none"> • a detailed review of financial resilience • a review of arrangements for securing economy and efficiency • a follow up of recommendations made last year. 	Spring Summer 2014	Not yet due	None
<p>Other activities</p> <ul style="list-style-type: none"> • Accounts workshop in the South West to help local authorities in the preparation of the financial statements for 2013/14. 	February 2014	Not yet due	The Council's finance team has been invited to a choice of workshops in Exeter and Bristol.

Councils must continue to adapt to meet the needs of local people

Local government guidance

Audit Commission research - Tough Times 2013

The Audit Commission's latest research, <http://www.audit-commission.gov.uk/wp-content/uploads/2013/11/Tough-Times-2013-Councils-Responses-to-Financial-Challenges-w1.pdf> shows that England's councils have demonstrated a high degree of financial resilience over the last three years, despite a 20 per cent reduction in funding from government and a number of other financial challenges. However, with uncertainty ahead, the Commission says that councils must carry on adapting in order to fulfil their statutory duties and meet the needs of local people.

The Audit Commission Chairman, Jeremy Newman said that with continuing financial challenges 'Councils must share what they have learnt from making savings and keep looking for new ways to deliver public services that rely less on funding from central government'.

Key findings:

The Audit Commission's research found that:

- the three strategies most widely adopted by councils have been reducing staff numbers, securing service delivery efficiencies and reducing or restructuring the senior management team;
- three in ten councils exhibited some form of financial stress in 2012/13 – exhibited by a mix of difficulties in delivering budgets and taking unplanned actions to keep finances on track;
- auditors expressed concerns about the medium term prospects of one third of councils (36 per cent)

Councils choosing their auditors one step closer

Local government guidance

Local Audit and Accountability Act

The Local Audit and Accountability Act received Royal Assent on 30 January 2014.

Key points

Amongst other things:

- the Act makes provision for the closure of the Audit Commission on 31 March 2015;
- arrangements are being worked through to transfer residual Audit Commission responsibilities to new organisations;
- there will be a new framework for local public audit due to start when the Commission's current contracts with audit suppliers end in 2016/17, or potentially 2019/20 if all the contracts are extended;
- the National Audit Office will be responsible for the codes of audit practice and guidance, which set out the way in which auditors are to carry out their functions;
- Local Authority's will take responsibilities for choosing their own external auditors;
- recognised supervisory bodies (accountancy professional bodies) will register audit firms and auditors and will be required to have rules and practices in place that cover the eligibility of firms to be appointed as local auditors;
- Local Authority's will be required to establish an auditor panel which must advise the authority on the maintenance of an independent relationship with the local auditor appointed to audit its accounts;
- existing rights around inspection of documents, the right to make an objection at audit and for declaring an item of account unlawful are in line with current arrangements;
- transparency measures give citizens the right to film and tweet from any local government body meeting.

79% of Councils anticipate Tipping Point soon

Grant Thornton

2016 tipping point? Challenging the current

This report http://www.grant-thornton.co.uk/Global/Publication_pdf/LG-Financial-Resilience-2016-tipping-point.pdf is the third in an annual series which assesses whether English local authorities have the arrangements in place to ensure their sustainable financial future.

Local authorities have so far met the challenges of public sector budget reductions. However, some authorities are predicting reaching tipping point, when the pressure becomes acute and financial failure is a real risk. Based on our review of forty per cent of the sector, this report shows that seventy nine per cent of local authorities anticipate some form of tipping point in 2015/16 or 2016/17.

Our report rates local authorities in four areas - key indicators of financial performance, strategic financial planning, financial governance and financial control. It also identifies a series of potential 'tipping point scenarios' such as local authorities no longer being able to meet statutory responsibilities to deliver a range of services.

Our report also suggest some of the key priorities for local authorities in responding to the challenge of remaining financially sustainable. This includes a relentless focus on generating additional sources of revenue income, and improving efficiency through shared services, strategic partnerships and wider re-organisation.

Alternative Delivery Models – are you making the most of them?

Grant Thornton

Alternative delivery models in local government

This report: <http://www.grant-thornton.co.uk/en/Publications/2014/Responding-to-the-challenge-alternative-delivery-models-in-local-government/> discusses the main alternative delivery models available to local government. These are based on our recent client survey and work with local government clients. It aims to assist others as they develop their options and implement innovation strategies.

Local government has increased the variety and number of alternative delivery models it uses in recent years including contracts and partnerships with other public bodies and private sector organisations, as well as developing new public sector and non-public sector entities. With financial austerity set to continue, it is important that local authorities continue innovating, if they are to remain financially resilient and commission better quality services at reduced cost.

This report is based on a brief client survey and work with local authority clients and:

- Outlines the main alternative delivery models available to local authorities
- Aims to assist other authorities as they develop their options and implement innovation strategies
- Considers aspects of risk.

Your Director of Operations has asked for a number of copies to provide background information to support a joint working group looking at transforming services.

Welfare reforms – what you think of it so far?

Grant Thornton

Reaping the benefits: first impressions of the impact of welfare reform.

The potential scope of this topic is broad, so our report, [Reaping the benefits](#) focuses on the financial and managerial aspects of welfare reform. This involves:

- Understanding the challenges currently facing local government and housing associations in regard to welfare reform and what organisations have been doing to meet this challenge in terms of strategy, projects and new processes.
- Reporting on the early indications of effectiveness following the implementation of these measures and the impact of reform.
- Providing early insight into challenges facing these organisations in the near future.

We have pulled together information from a variety of sources, including our regular conversations across the local government and housing sectors and surveying local authorities and housing associations in England.

We found that:

- In general, organisations have been very active in engaging with stakeholders and putting in place appropriate governance arrangements and systems to implement specific reforms. A minority of organisations did not fully exploit all the options open to them in preparing for reform.
- So far, the indication is that the impact of reform experienced by local authorities and partners has been managed effectively. This may be because the full impact has not yet been felt. Some worrying signs are emerging, including rising rental arrears, homelessness and reliance on food banks, which may be linked to the reforms.
- Looking ahead, further reforms, such as the implementation of universal credit and the move to direct payments present significant uncertainties and challenges over the next few years.

Estimating the impact of business rate appeals

Accounting and audit issues

Business rate appeals provisions

Local authorities are liable for successful appeals against business rates. They should, therefore, recognise a provision for their best estimate of the amount that businesses have been overcharged up to 31 March 2014.

However, there are practical difficulties which mean that making a reliable estimate for the total amount that has been overcharged is challenging:

- the appeals process is managed by the Valuation Office Agency (VOA) and so local authorities are reliant on the information provided to them by the VOA
- some businesses may have been overcharged but not yet made an appeal.

We would expect local authorities:

- to work with the VOA to make sure that they have access to the information they need
- where appeals have been made, to determine a methodology for estimating a provision and to apply this methodology consistently
- where appeals have not been made:
 - to consider the extent to which a reliable estimate can be made (for example, in relation to major businesses)
 - to recognise a provision where a reliable estimate can be made
 - to disclose a contingent liability where a reliable estimate cannot be made
 - to provide a rationale to support their judgement that a reliable estimate cannot be made
- to revisit the estimate with the latest information available immediately before the audit opinion is issued.



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Report Number: WSC 57/14
Presented by: Claire Hodgson, Audit Manager, SWAP
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Report to a Meeting of: Audit Committee
To be Held on: 24th March 2014
Date Entered on Executive Forward Plan N/A
Or Agreement for Urgency Granted:

INTERNAL AUDIT CHARTER

1. PURPOSE OF REPORT

- 1.1 To set out the nature, role, responsibility, status and authority of internal auditing within the West Somerset Council and to outline the scope of the internal audit work.

2. CONTRIBUTION TO CORPORATE PRIORITIES

- 2.1 None in respect of this report.

3. RECOMMENDATIONS

- 3.1 To note the report from South West Audit Partnership.

4. RISK ASSESSMENT (IF APPLICABLE)

Risk Matrix

Description	Likelihood	Impact	Overall
.	N/A	N/A	N/A

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

5. BACKGROUND INFORMATION

- 5.1 The Charter was approved by the Audit Committee on 25th September 2006 and is reviewed each year to confirm that it remains accurate and up to date.
- 5.2 The Charter was last reviewed by the Audit Committee at its meeting on 19th July 2013.

6. FINANCIAL/RESOURCE IMPLICATIONS

6.1 None in respect of this report.

7. COMMENTS ON BEHALF OF SECTION 151 OFFICER

7.1 Annual review of the Internal Charter ensures that it remains accurate, up to date and fit for purpose.

8. EQUALITY & DIVERSITY IMPLICATIONS

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

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

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

8.1 None in respect of this report.

9. CRIME AND DISORDER IMPLICATIONS

9.1 None in respect of this report.

10. CONSULTATION IMPLICATIONS

10.1 None in respect of this report.

11. ASSET MANAGEMENT IMPLICATIONS

11.1 None in respect of this report.

12. ENVIRONMENTAL IMPACT IMPLICATIONS

12.1 None in respect of this report.

13. LEGAL IMPLICATIONS

13.1 None in respect of this report.

Internal Audit Charter

Purpose

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

Approval

This Charter was approved by the Audit Committee on 25th September 2006 and is reviewed each year to confirm it remains accurate and up to date. It was last reviewed by the Audit Committee¹ on 19th July 2013.

Provision of Internal Audit Services

The internal audit service is provided by the South West Audit Partnership Limited (SWAP). SWAP is a Local Authority controlled company. This charter should be read in conjunction with the Service Agreement, which forms part of the legal agreement between the SWAP partners.

The budget for the provision of the internal audit service is determined by the Council, in conjunction with the Members Meeting. The general financial provisions are laid down in the legal agreement, including the level of financial contribution by the Council, and may only be amended by unanimous agreement of the Members Meeting. The budget is based on an audit needs assessment that was carried out when determining the Council's level of contribution to SWAP. This is reviewed each year by the s151 Officer in consultation with the Chief Executive of SWAP.

Role of Internal Audit

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

Responsibilities of Management and of Internal Audit

Management²

Management is responsible for determining the scope, except where specified by statute, of internal audit work and for deciding the action to be taken on the outcome of, or findings from, their work. Management is responsible for ensuring SWAP has:

- the support of management and the Council; and
- direct access and freedom to report to senior management, including the Council's Chief Executive and the Audit Committee.

Management is responsible for maintaining internal controls, including proper accounting records and other management information suitable for running the Authority. Management is also responsible for the appropriate and effective management of risk.

Internal Audit

Internal audit is responsible for operating under the policies established by management in line with best practice.

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).

¹ The Standards require that Internal Audit report to the Board. CIPFA have, via the Public Sector Internal Audit Standards (PSIAS) Guidelines, determined that the Audit Committee in this instance represents the Board.

² In this instance Management refers to the Joint Management Team

Internal audit is not responsible for any of the activities which it audits. SWAP staff will not assume responsibility for the design, installation, operation or control of any procedures. SWAP staff who have previously worked for West Somerset Council will not be asked to review any aspects of their previous department's work until one year has passed since they left that area.

Relationship with the External Auditors/Other Regulatory Bodies

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

Status of Internal Audit in the Organisation

The Chief Executive of SWAP is responsible to the SWAP Board of Directors and the Members Meeting. The Chief Executive of SWAP and the **Director of Quality** also report to the Section 151 Officer, and report to the Audit Committee as set out below.

Appointment or removal of the Chief Executive of SWAP is the sole responsibility of the Members Meeting.

Scope and authority of Internal Audit work

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

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

- reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information;
- evaluating and appraising the risks associated with areas under review and make proposals for improving the management of risks;
- appraise the effectiveness and reliability of the enterprise risk management framework and recommend improvements where necessary;
- assist management and Members to identify risks and controls with regard to the objectives of the Council and its services;
- reviewing the systems established by management to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports, and determining whether West Somerset Council is in compliance;
- reviewing the means of safeguarding assets and, as appropriate, verifying the existence of assets;
- appraising the economy, efficiency and effectiveness with which resources are employed;
- reviewing operations or programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned.
- reviewing the operations of the council in support of the Council's anti-fraud and corruption policy.
- at the specific request of management, internal audit may provide consultancy services provided:
 - the internal auditors independence is not compromised

WSC Audit Committee 24/03/2014

- the internal audit service has the necessary skills to carry out the assignment, or can obtain such skills without undue cost or delay
- the scope of the consultancy assignment is clearly defined and management have made proper provision for resources within the annual audit plan
- management understand that the work being undertaken is not internal audit work.

Planning and Reporting

SWAP will submit to the Audit Committee, for approval, an annual internal audit plan, setting out the recommended scope of their work in the period.

The annual plan will be developed with reference to the risks the organisation will be facing in the forthcoming year, whilst providing a balance of current and on-going risks, reviewed on a cyclical basis. The plan will be reviewed on a quarterly basis to ensure it remains adequately resourced, current and addresses new and emerging risks.

SWAP will carry out the work as agreed, report the outcome and findings, and will make recommendations on the action to be taken as a result to the appropriate manager and Corporate Director. SWAP will report at least four times a year to the Audit Committee. SWAP will also report a summary of their findings, including any persistent and outstanding issues, to the Audit Committee on a regular basis.

Internal audit reports will normally be by means of a brief presentation to the relevant manager accompanied by a detailed report in writing. The detailed report will be copied to the relevant line management, who will already have been made fully aware of the detail and whose co-operation in preparing the summary report will have been sought. The detailed report will also be copied to the s151 Officer and to other relevant line management.

The Chief Executive of SWAP will submit an annual report to the Audit Committee providing an overall opinion of the status of risk and internal control within the council, based on the internal audit work conducted during the previous year.

In addition to the reporting lines outlined above, the Chief Executive of SWAP and the **Director of Quality** have the unreserved right to report directly to the Leader of the Council, the Chairman of the Audit Committee, the Council's Chief Executive Officer or the External Audit Manager.

Revised **March 2014**

Report Number: WSC 58/14
Presented by: Claire Hodgson, Audit Manager, SWAP
Author of the Report: Claire Hodgson, Audit Manager, SWAP
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Report to a Meeting of: Audit Committee
To be Held on: 24th March 2014
Date Entered on Executive Forward Plan N/A
Or Agreement for Urgency Granted:

INTERNAL AUDIT PLAN 2014/15

1. PURPOSE OF REPORT

- 1.1 To inform the Audit Committee of the proposed work to be undertaken by South West Audit Partnership during 2014/15.

2. CONTRIBUTION TO CORPORATE PRIORITIES

- 2.1 None in respect of this report.

3. RECOMMENDATIONS

- 3.1 To note the report from South West Audit Partnership.

4. RISK ASSESSMENT (IF APPLICABLE)

Risk Matrix

Description	Likelihood	Impact	Overall
.	N/A	N/A	N/A

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

5. BACKGROUND INFORMATION

- 5.1 West Somerset's audit plan for 2014/15 is based on 167 days and is notionally broken down across various audit categories including the following:

- Key Financial Systems Audits
- Fraud / Governance Audits
- IT Audits
- Operational Audits
- Follow Up Audits

- Non-opinion Reviews

5.2 Further details of the Annual Internal Audit Plan for 2014/15 can be found in Appendix A to this report.

6. FINANCIAL/RESOURCE IMPLICATIONS

6.1 None in respect of this report.

7. COMMENTS ON BEHALF OF SECTION 151 OFFICER

7.1 Annual review of the Internal Charter ensures that it remains accurate, up to date and fit for purpose.

8. EQUALITY & DIVERSITY IMPLICATIONS

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

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

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

8.1 None in respect of this report.

9. CRIME AND DISORDER IMPLICATIONS

9.1 None in respect of this report.

10. CONSULTATION IMPLICATIONS

10.1 None in respect of this report.

11. ASSET MANAGEMENT IMPLICATIONS

11.1 None in respect of this report.

12. ENVIRONMENTAL IMPACT IMPLICATIONS

12.1 None in respect of this report.

13. LEGAL IMPLICATIONS

13.1 None in respect of this report.

West Somerset Council
Internal Audit Plan 2014/15

Contents

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Role of Internal Audit Background	Page 1
The Annual Plan	Page 2,3
Appendix A	Page 4



SWAP
SOUTH WEST AUDIT PARTNERSHIP
Delivering Audit Excellence

SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors and further guided by interpretation provided by the Public Sector Internal Audit Standards

Our audit activity is split between:

- Key Control Audit
- Fraud/Governance Audit
- IT Audit
- Operational Audit
- Follow Up Audit
- Non-opinion reviews

Role of Internal Audit

The Internal Audit service for West Somerset Council is provided by South West Audit Partnership Limited (SWAP). SWAP has adopted and works to the Public Sector Internal Audit Standards, following the requirements of the Local Government Application Note for Internal Audit. The work of the Partnership is also guided by the 'Internal Audit Charter' which was last reviewed and approved by the Audit Committee at its meeting in July 2013.

Internal Audit provides an independent and objective opinion on the Authority's governance, risk and control environment by evaluating its effectiveness. In order to achieve this, the audit activity is split across the review categories listed to the left.

Background

It is recommended by the Public Sector Internal Audit Standards that organisations nominate a 'Board' to oversee (monitor and scrutinise) the work of Internal Audit. As such, in addition to senior management oversight, this Council has determined that, through its formal Terms of Reference, the Audit Committee will undertake this function. The plan is presented in Appendix A to this report and represents the internal audit activity for the 2014/15 financial year.

At the start of each audit an initial meeting is held to agree the terms of reference for the audit which includes the objective and scope for the review. Any changes to individual plan items, in terms of days, are managed within the annual payment made by the Council. The plan is pulled together with a view to providing assurance to both officers and Members that current and imminent risks faced by the Authority are adequately controlled and managed. As with previous years the plan will have to remain flexible as new and emerging risks are identified. Any changes to the agreed plan will only be made through a formal process involving the Section 151 officer and will be reported to this Committee.



The Annual Plan

The Annual Plan

In order to develop the plan for the year the Audit Manager reviewed the corporate risk register and engaged with Sharon Campbell, Shirlene Adam and Richard Sealy. The draft plan has had approval from the JMT. In addition SWAP have considered emerging risks facing local authorities in general with a view to co-ordinating, where possible, with the audit plans of the other members of SWAP, and particularly the other Somerset authorities. Joint audits of this kind derive real benefits in both reducing the overall time taken and in the shared lessons that can be learned by the partners.

West Somerset Council's audit plan is based on 167 days and is notionally broken down across various audit categories;

Key Financial Systems Audits – focus primarily on key risks relating to the Council's major financial systems.

Fraud/Governance Audits – SWAP operate a specialised Fraud Team who will undertake proactive fraud reviews and also provide a reactive service to Partners should the need arise. The focus of the Governance reviews is primarily the key risks relating to cross cutting areas that are controlled and/or impact at a corporate rather than service specific level. It also provides an annual assurance review of areas of the Council that are inherently higher risk. This work will, in some cases, enable SWAP to provide management with added assurance that they are operating best practice as we will be conducting most of these reviews at all our Partner Sites.



The Annual Plan

The Annual Plan

IT Audits – are completed to provide the Authority with assurance with regards to their compliance with industry best practice. Some of these audits have come from previous year assessments and our awareness of current IT risks.

Operational Audit - are a detailed evaluation of a service or functions control environment. A risk evaluation matrix is devised and controls are tested. Where weaknesses or areas for improvement are identified, actions are agreed with management and target dated.

Follow Up Audit – Where an audit receives a ‘Partial’ or ‘No Assurance’ level, SWAP are required to carry out a follow up review within 12 months to provide assurance that identified weaknesses have been addressed and risks mitigated.

Non-opinion reviews - are undertaken at the specific request of management where they may have concerns or are looking for advice on a particular subject matter. Such reviews are not normally afforded an audit opinion.

The schedule provided at Appendix A details the Annual Internal Audit Plan for 2014/15.



Draft WSC Audit Plan 2014/15

Days Planned **Quarter**

167

Planning, Reporting & Advice, SWP contribution

Annual

20

Key Financial Systems

62

Creditors

Oct - Dec

10

Debtors

Oct - Dec

10

Payroll

Oct - Dec

10

Main Accounting

July - Sept

12

Council Tax & NDR

Oct - Dec

10

Housing Benefits

Oct - Dec

10

Fraud / Governance audit

60

Fraud theme

April - June

10

Asset management (10 days c/f from 2013/14)

Jan - March

-

Absence management (SWAP theme)

July - Sept

10

WSC & TDBC shared services

Annual

10

Choice Based Lettings (Somerset theme)

Jan - March

5

Private water supplies (SWAP theme)

July - Sept

10

Data Transparency - new requirements

July - Sept

10

Safer Somerset partnership (Somerset theme)

Jan - March

5

ICT audit

20

Protective marking - new requirements

July - Sept

10

TBC

Jan - March

10

Operational audit

0

Hinkley s106 (additional days to be reclaimed)

0

Follow ups

5

Social media (partial 2013/14)

April - June

2

Public safety

Jan - March

3

Report Number: WSC 59/14
Presented by: Claire Hodgson, Audit Manager, SWAP
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Report to a Meeting of: Audit Committee
To be Held on: 24th March 2014
Date Entered on Executive Forward Plan N/A
Or Agreement for Urgency Granted:

REPORT OF INTERNAL AUDIT ACTIVITY QUARTER 4, 2013/14

1. PURPOSE OF REPORT

- 1.1 To inform the Audit Committee of the internal audit activity in respect of Quarter 4, 2013/14 and to identify any level 4 and 5 control weaknesses.

2. CONTRIBUTION TO CORPORATE PRIORITIES

- 2.1 None in respect of this report.

3. RECOMMENDATIONS

- 3.1 To note the report and Appendices from South West Audit Partnership.

4. RISK ASSESSMENT (IF APPLICABLE)

Risk Matrix

Description	Likelihood	Impact	Overall
.	N/A	N/A	N/A

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

5. BACKGROUND INFORMATION

- 5.1 Internal audit work is largely driven by an audit plan and this is approved by the Section 151 Officer following consultation with the Management Team and External Auditors.
- 5.2 The 2013/14 Internal Audit Plan was reported to this committee at its meeting in March 2013.
- 5.3 Appendix A contains a list of all audits as agreed within the 2013/14 Annual Audit Plan.

- 5.4 Appendix B details the assurance opinion ratings that have been determined in accordance with the Internal Audit “Audit Framework Definitions”.
- 5.5 Appendix C details two level 4 recommendations that have been made since the last update provided to the Committee.

6. FINANCIAL/RESOURCE IMPLICATIONS

- 6.1 None in respect of this report.

7. COMMENTS ON BEHALF OF SECTION 151 OFFICER

- 7.1 None in respect of this report.

8. EQUALITY & DIVERSITY IMPLICATIONS

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

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

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

- 8.1 None in respect of this report.

9. CRIME AND DISORDER IMPLICATIONS

- 9.1 None in respect of this report.

10. CONSULTATION IMPLICATIONS

- 10.1 None in respect of this report.

11. ASSET MANAGEMENT IMPLICATIONS

- 11.1 None in respect of this report.

12. ENVIRONMENTAL IMPACT IMPLICATIONS

- 12.1 None in respect of this report.

13. LEGAL IMPLICATIONS

- 13.1 None in respect of this report.

West Somerset Council

Report of Internal Audit Activity
Quarter 4, 2013/14

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Summary	1
Progress on 2013 / 2014 audits	2
Future Planned Work	3
Conclusions	3
Appendices	
2013/14 Plan Progress	Appendix A
Audit Framework Definitions	Appendix B
Priority 4 recommendations	Appendix C



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

Our audit activity is split between:

- **Operational Audit**
- **Key Control Audit**
- **Governance, Fraud & Corruption**

Role of Internal Audit

The Internal Audit service for West Somerset Council is provided by South West Audit Partnership (SWAP). SWAP is a local authority controlled company. SWAP has adopted and works to the Standards of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS), and also follows the CIPFA Code of Practice for Internal Audit. The Partnership is also guided by the Internal Audit Charter approved by the Audit Committee and last reviewed at its meeting on 19th July 2013. Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work includes;

- Plan of Operational Reviews (including IS reviews)
- Annual Review of Key Financial System Controls (Key Control Audits)
- Cross cutting governance audits
- Annual review of key governance and fraud controls

Overview of Internal Audit Activity

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 Internal Audit Plan was reported to this Committee at its meeting in March 2013.

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

2013/14 Quarter 4 Update:

Completed audit assignments to March 2014

Audit Plan Progress

The schedule provided at Appendix A contains a list of all audits as agreed in the Annual Audit Plan 2013/14. 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 “control assurance” opinion together with the number and relative ranking of recommendations that have been raised with management. The assurance opinion ratings have been determined in accordance with the Internal Audit “Audit Framework Definitions” as shown in Appendix B.

The following audits have progressed since the last update;

Governance, Fraud and Corruption:

- 1 review of Public Safety in Open Spaces has been completed and partial assurance was offered. (Please see Appendix C for details of the high priority actions.)
- 1 review of Fighting Fraud Locally has been completed, three different opinions were given depending on the Council’s work in relation to acknowledging, preventing and pursuing fraud, but overall reasonable assurance was given.

Key Control:

- 3 reviews have been completed; Main Accounting and Housing Benefits were both given substantial assurance, and Council Tax and NNDR was given reasonable assurance.

ICT:

- 1 audit of the Data and Communications Centre has been scoped and is likely to be completed early in the new financial year.

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

Future Planned Work

The audit plan for 2013/14 is detailed in Appendix A. Members will note that there were necessary changes to the plan throughout the year; any changes made have been subject to agreement with the section 151 officer.

Conclusion

For the audits completed to report stage each report contains an action plan with a number of recommendations which are given priority scores. Definitions of these priorities are contained in Appendix B. There will be some roll forward into 2014/15 but all audits will be completed. Two audits have not been required during the year and these will be allocated during 2014/15.

Five audits have been completed since the last update and we have offered two substantial, two reasonable and one partial opinions. The review of Public Safety in Open Spaces identified that there is a high inherent risk of 'death, abuse or injury to the public, staff and volunteers' which although low probability would have a high impact. This could be partly mitigated by undertaking further site specific risk assessments and undertaking a condition survey for trees. No level 5 priority actions and two level 4 recommendations were made which are provided in Appendix C. Managers have committed to producing an action plan to address these issues by the end of April.

WSC 2013/14 Plan Progress

APPENDIX A

Directorate/Service	Audit Area	Quarter	Status	Opinion	SWAP Feedback	No. of recs	Recommendations				
							3	4	5	3 = Medium ← → 5 = Major	
FINAL REPORT											
Governance, Fraud & Corruption	Delivering Good Governance	Qtr 1	Final August	Non Opinion	80%	4	4	0	0	0	
Follow Up	Delivery of Major Projects - Risk Management	Qtr 2	Final June	Non Opinion	-						
Operational	Section 106	Qtr 2	Final September	Substantial	100%	0	0	0	0	0	
Special Investigation	Use of Council Vehicles		Final July	Non Opinion	-	5	4	1	0	0	
Governance, Fraud & Corruption	Social Media	Qtr 2	Final November	Partial	79%	9	7	2	0	0	
Special Investigation	Whistleblowing complaints - regulatory services		Final September	Non Opinion	-	7	7	0	0	0	
Follow up	Payroll	Qtr 3	Final September	Non Opinion	-						
Special Investigation	Cash and Banking		Completed Nov	Non Opinion	-						
Key Control	Main Accounting	Qtr 3	Final November	Substantial	95%	0	0	0	0	0	
Governance, Fraud & Corruption	Fighting Fraud Locally	Qtr 2	Final December	Reasonable	65%	6	5	1	0	0	
Key Control	Housing Benefits	Qtr 3	Final January	Substantial	99%	0	0	0	0	0	
Governance, Fraud & Corruption	Public Safety in Open Spaces	Qtr 2	Final February	Partial		8	6	2	0	0	
Key Control	Council Tax & NNDR	Qtr 3	Final February	Reasonable		4	4	0	0	0	
WORK IN PROGRESS											
Operational	Council Tax Support Scheme	Qtr 2	In progress								
ICT	Data & Communications Centre	Qtr 4	In progress								
NOT STARTED											
Governance, Fraud & Corruption	Financial resilience / partnership risks with TDBC	Qtr 3	Days to be c/f into 2014/15								
Governance, Fraud & Corruption	Asset Management	Qtr 4	To be done Q1 of 2014/15								

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.
None	▲	I am not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

Categorisation Of Recommendations

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

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

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

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

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

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

Definitions of Risk

Risk	Reporting Implications
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.

Priority 4 recommendations since previous Audit Committee – Public Safety in Open Spaces

Agreed Actions

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date
<p>Objective: To ensure that, in accordance with current legislation, all reasonable means are taken to ensure the safety of the public, staff and volunteers whilst using the parks and open spaces owned and managed by WSC</p> <p>Risk: Death, abuse or injury to the public, staff and volunteers</p>					
Site specific risk assessments have not been completed.	I recommend that the Assistant Director – Operational Delivery identifies and prioritises the sites that require a separate operational risk assessment. Risk assessments to be completed and reviewed on a rolling programme.	4	At the time of reporting resources are necessarily being diverted by the flooding crisis. However we recognise the seriousness of the issues raised and will produce an action plan by the end of April to deal with them.	Assistant Director – Operational Delivery	End April 2014
There is no condition survey for trees in public spaces that WSC holds responsibility for.	I recommend that Assistant Director – Operational Delivery reviews the Zurich recommendations and HSE guidance to ensure WSC is aware of the extent of risk it is currently carrying with regard to Tree Maintenance and identify any feasible mitigation.	4	As above.		

Report Number: WSC 60/14
Presented by: Steve Plenty, Principal Accountant
Author of the Report: Steve Plenty, Principal Accountant
Contact Details:

Tel. No. Direct Line 01984 635217
Email: sjplenty@westsomerset.gov.uk

Report to a Meeting of: Audit Committee
To be Held on: 24th March 2014
Date Entered on Executive Forward Plan Or Agreement for Urgency Granted: N/A

ACCOUNTING POLICIES – 2013/14 STATEMENT OF ACCOUNTS

1. PURPOSE OF REPORT

- 1.1 To request that members of the Audit Committee approve the accounting policies for 2013/14 in order that the Statement of Accounts can be prepared on this basis.

2. CONTRIBUTION TO CORPORATE PRIORITIES

- 2.1 None directly in respect of this report.

3. RECOMMENDATIONS

- 3.1 That members approve the accounting policies as detailed in Appendix A to this report.

4. RISK ASSESSMENT (IF APPLICABLE)

Risk Matrix

Description	Likelihood	Impact	Overall
The Council doesn't prepare its Accounts in line with the recommended accounting policies.	Unlikely	Major	Medium
<i>Planning and the scheduling of regular closedown sessions during the closedown period will minimise this.</i>	(1)	(3)	(3)

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

5. BACKGROUND INFORMATION

- 5.1 In preparation for the completion of the 2013/14 Statement of Accounts it is regarded as good practice if the rules under which the Statements will be prepared, are agreed in advance of their production.

5.2 The accounting policies have been updated in line with the Code of Practice on Local Government Accounting in the United Kingdom 2013/14 and adapted where necessary for local practices.

5.3 The proposed accounting policies are attached in Appendix A to this report. It is also intended that the policies will be revisited during the actual closedown process and amended if necessary to comply with actual events that will be reported in the 2013/14 Statement of Accounts.

6. FINANCIAL/RESOURCE IMPLICATIONS

6.1 There are no financial implications in accepting this report and the associated recommendations.

7. COMMENTS ON BEHALF OF SECTION 151 OFFICER

7.1 The policies as presented are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and the Service reporting Code of Practice 2013/14, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the 2003 Act and they have been adjusted for relevance to West Somerset Council.

7.2 This is a key area that will be audited by the appointed auditor, Grant Thornton, during the audit of the Statement of Accounts, and it is considered good practice for the Audit Committee to approve the accounting policies prior to their application in the financial statements for the year.

8. EQUALITY & DIVERSITY IMPLICATIONS

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

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

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

8.1 None directly in respect of this report.

9. CRIME AND DISORDER IMPLICATIONS

9.1 None directly in respect of this report.

10. CONSULTATION IMPLICATIONS

10.1 None directly in respect of this report.

11. ASSET MANAGEMENT IMPLICATIONS

11.1 None directly in respect of this report.

12. ENVIRONMENTAL IMPACT IMPLICATIONS

12.1 None directly in respect of this report.

13. LEGAL IMPLICATIONS

13.1 None directly in respect of this report.

1 Accounting Policies

General Principles

The Statement of Accounts summarises the Authority's transactions for the 2013/14 financial year and its position at the year-end of 31 March 2014. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2011, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and the Service Reporting Code of Practice 2013/14, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance is written down and a charge made for the income that might not be collected.

Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value. West Somerset District Council will include deposits in Business Reserve Accounts in Cash Equivalents.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts

that are repayable on demand and form an integral part of the Authority's cash management.

Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e., in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- Depreciation attributable to the assets used by the relevant service
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off

The Authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance.

Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance (Minimum Revenue Provision), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority.

An accrual is made for the cost of holiday entitlements (or any form of leave e.g. time off in lieu) earned by employees but not taken before the year-end, which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accrual basis to the appropriate service or, where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement at the earlier of when the authority can no longer withdraw the offer of those benefits or when the authority recognises costs for a restructuring. ~~These are charged on an accruals basis to the appropriate service line in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.~~

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-Employment Benefits

Employees of the Authority are members of the Local Government Pensions Scheme administered by Somerset County Council. The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees working for the Authority.

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Somerset County Council pension fund attributable to West Somerset are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of x% (based on the indicative rate of return on high quality corporate bond (name of bond or index of bonds)). ~~using the annualised yield at the 18 year point on the Merrill Lynch AA-rated Corporate Bond curve which has been chosen to meet the requirements of IAS19 and with consideration of the duration of the employers liabilities.~~
- The assets of the Somerset County Council pension fund attributable to West Somerset are included in the Balance Sheet at their fair value and include quoted securities at current bid price and property at market value.

The change in the net pension liability is analysed into the following seven components:

Service cost comprising:

- **Current service cost** – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked

- **Past service cost** – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs

◆ **Net interest on the net defined benefit liability (asset), ie net interest expense for the authority - Interest cost** – the change during the period in the defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments, the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

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- ◆ **Remeasurements comprising: Expected return on assets** – the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- ◆ **Gains or losses on settlements and curtailments** – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- ◆ **Actuarial gains and losses** – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve
- ◆ **The return on plan assets** – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- ◆ **Actuarial gains and losses** – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- **Contributions paid to the Somerset County Council Pension Fund** – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative

balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits that are earned by employees.

Discretionary Benefits

The Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

Events after the Balance Sheet Date

Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified into two types:

- **Loans and receivables** – assets that have fixed or determinable payments but are not quoted in an active market
- **Available-for-sale assets** – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

- The Authority will comply with the conditions attached to the payments, and
- The grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £0.010m) the Capital Receipts Reserve.

Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Authority as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Authority at the end of the lease period).

The Authority is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation, revaluation and impairment losses are therefore substituted by

a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (eg there is a rent-free period at the commencement of the lease).

The Authority as Lessor

Finance Leases

Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- **A charge for the acquisition of the interest in the property** – applied to write down the lease debtor (together with any premiums received), and
- **Finance income** (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement)

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against Council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the

lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2013/143 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Authority's status as a multi-functional, democratic organisation.
- Non-Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred. There are two exceptions to this:

- The expenditure incurred is below £0.002m. In such cases expenditure is charged direct to the revenue accounts.
- The asset is acquired through an operating lease when rental payments are charged to the revenue account.

Measurement

Assets are initially measured at cost, comprising:

~~all expenditure that is directly attributable to bringing the asset into working condition for its intended use (such as purchase price; any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management).~~

- The purchase price
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

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Assets are then carried in the Balance Sheet using the following measurement basis:

- Infrastructure, community assets and assets under construction – depreciated

historical cost

- All other assets – fair value, determined as the amount that would be paid for the asset in existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

~~Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.~~

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, where there have been material changes in the value, but as a minimum every five years. A full revaluation of Land and Buildings, Investment Properties, Surplus Assets not held for sale and Surplus Assets held for sale by a qualified valuer took place as at 31 March 2013. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account.

Where decreases in value are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against the balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

~~Capital expenditure incurred in enhancing assets or increasing their useful life is classed as enhancing expenditure.~~

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all assets with a determinable finite life (except for investment properties), by allocating the value of the assets in the balance sheet over the periods expected to benefit from their use.

Depreciation is calculated on the following bases:

- Dwellings and other buildings – straight-line allocation over the life of the property as estimated by the Valuer. The useful economic lives of the assets held as operational buildings, as determined by the District Valuer, range between 1 and 60 years.
- Vehicles, plant and equipment – straight-line allocation, based on the type of asset class in the balance sheet, (vehicles 5-15 years, plant 10 years and equipment 5 years)
- Infrastructure – straight-line allocation over 25 years.

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Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Assets that are sold during the year are treated as if sold on 1 April and therefore do not attract a depreciation charge for the year. Assets acquired during the year attract a full years' charge.

Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation

Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £0.010m are categorised as capital receipts and credited to the Capital Receipts Reserve which can then only be used for new capital investment [or set aside to reduce the Authority's underlying need to borrow (the capital financing requirement)]. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement. If the proceeds are £0.010m or less, they are not treated as capital receipts but are instead credited to revenue.

The written-off value of disposals is not a charge against Council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Component Accounting

Components of non-current assets do not always have the same useful lives and may depreciate or wear out at different rates throughout their life. Therefore, it is appropriate to depreciate each significant component separately over its useful life, in order that the Comprehensive Income & Expenditure Account is fairly charged with the consumption of economic benefits of those assets.

Where a significant component is expected to wear out more quickly than the overall asset, it is depreciated over a shorter period of time and any subsequent expenditure on restoring or replacing the component is capitalised (with any carrying amount of the replaced component being written off to the Comprehensive Income and Expenditure Statement).

From 1 April 2010, components will be recognised when an asset is enhanced, acquired or re-valued.

Where a component is replaced or restored, the carrying amount of the old component is derecognised:

- Land and individual buildings will be valued separately.
- Assets are deemed to be material and considered for componentisation when the cost or value in the Balance Sheet is at least £0.184m (approximately 1% of the Authority's non-current assets as at 31 March 2013)
- Each asset will be reviewed individually by the valuer to determine whether any part of a material asset has a differing useful life or method of depreciation.
- Where component spend is worth 20% of the total cost value of the asset it is deemed to be significant. Where information is not readily available to determine the value of components, a best estimate will be accounted for and detail of how the estimate was arrived at, in liaison with relevant professional advice, will be documented.

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West Somerset currently does not have any Property, Plant and Equipment that meets the above criteria and therefore has not disclosed this separately.

Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential and a reliable estimate can be made of the amount of the obligation. For instance, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Authority becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Authority settles the obligation.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

Reserves

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Authority - these reserves are explained in the relevant policies.

Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure

to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

Related Party Transactions

The Authority is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council.

The materiality of the transaction has been considered before justifying inclusion in the statements. Transactions disclosed elsewhere in the statement of accounts are not cross referenced in the note. Disclosure is only required where the Council has gone beyond providing financial assistance to having a relationship with the assisted organisation that allows it to exert control over the organisation's financial and operational policies.

The Collection Fund

Billing authorities in England are required by statute to establish and maintain a separate fund for the collection and distribution of amounts due in respect of Council Tax and National Non-Domestic Rates (NNDR).

There is no requirement for a separate Collection Fund Balance Sheet as balances are distributed across the Balance Sheets of the billing authority, the Government and precepting authorities.

Further details on the Collection Fund use can be found within the notes to the Collection Fund in the Statement of Accounts.

Accounting for Council Tax

The collection of council tax income is in substance an agency arrangement, the cash collected by the Council from council tax debtors belongs proportionately to the Council and the major preceptors. There will be therefore a debtor/creditor position between the Council and each major preceptor to be recognised since the net cash paid to each major preceptor in the year will not be its share of the cash collected from Council taxpayers.

The Council Tax income included in the Taxation and Non Specific Grant Income line in the Comprehensive Income and Expenditure Statement shall be the accrued income for the year. This is calculated by taking the demand on the Collection Fund plus the Authority's share of the carry forward surplus/deficit on the Collection Fund as at the 31 March 2013. This amount is then adjusted for the Authority's share of the surplus/deficit of 31 March 2012 that has not been distributed or recovered in the current year.

The difference between the income included in the Taxation and Non Specific Grant Income line in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the Collection Fund shall be taken to the Collection Fund Adjustment Account and included as a reconciling item in the General Fund in the Movement in Reserves Statement.

Accounting for National Non-Domestic Rates

The Council, as an agent on behalf of Central Government carries out the collection of National Non-Domestic Rates (NNDR). Cash collected from NNDR taxpayers by the Council (net of the cost of collection allowance) belongs to the Government and the amount not yet paid to the Government at the Balance Sheet date shall be included in the Balance Sheet as a creditor; similarly, if the cash paid to the Government exceeds the cash collected from NNDR taxpayers (net of the cost of collection allowance), the excess shall be included in the Balance Sheet as a debtor.

NNDR debtor and creditor balances with NNDR taxpayers and the impairment allowance for doubtful debts are not assets and liabilities of the Council and are not recognised in the Council's Balance Sheet.

Heritage Assets

A heritage asset is an asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

West Somerset District Council reviewed assets it holds under Community Assets and it was concluded that the Authority doesn't hold any at the present time.

Report Number: WSC 62/14
Presented by: Steve Plenty, Principal Accountant
Author of the Report: Steve Plenty, Principal Accountant
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Report to a Meeting of: Audit Committee
To be Held on: 24th March 2014
Date Entered on Executive Forward Plan N/A
Or Agreement for Urgency Granted:

DEBT ANALYSIS – AS AT 31 DECEMBER 2013

1. PURPOSE OF REPORT

1.1 To provide the Audit Committee with an update on the level of debts outstanding to the Authority as at 31st December 2013.

2. CONTRIBUTION TO CORPORATE PRIORITIES

2.1 None in respect of this report.

3. RECOMMENDATIONS

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

4. RISK ASSESSMENT (IF APPLICABLE)

Risk Matrix

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

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

5. **BACKGROUND INFORMATION**

- 5.1 Analysis of the Authority's current level of debt used to form part of the Corporate Performance Report presented to Members on a quarterly basis.
- 5.2 During discussions it was suggested by the then current Section 151 Officer that scrutiny of these debts would be better undertaken by the Audit Committee separately.
- 5.3 Therefore set out below are details of the different streams of debt owed to the Authority as at 31st December 2013, comparing this to what was outstanding at as 31st December 2012 (the previous year).

Corporate Debts

Age of debt	Amount Outstanding As At 31 Dec 2013 (£)	Amount Outstanding As At 31 Dec 2012 (£)
Less than 3 months	58,538	85,173
3 to 6 months	10,149	12,005
6 months to 1 year	11,009	24,489
Over 1 year	141,253	143,695
Total	220,949	265,362

Housing Benefit Debts

	2013 (£)	2012 (£)
Balances As At 1 April	458,074	412,240
New Overpayments Created In Year	475,371	458,862
Debts being recovered from on-going entitlement to housing benefit	(285,584)	(261,789)
Debts being recovered from former claimants	(135,437)	(122,810)
Write Offs	(9,664)	(28,429)
Total Outstanding As At 31 March	502,760	458,074

Council Tax Debts

Year from 1 April	Amount Outstanding As At 31 Dec 2013 (£)	Amount Outstanding As At 31 Dec 2012 (£)
Pre 2005	33,947	44,641
2005	16,452	23,227
2006	30,414	43,856
2007	45,887	60,892
2008	50,369	72,026
2009	46,134	67,688
2010	85,290	121,271

2011	128,548	244,380
2012	249,340	
Total	686,381	677,981

Business Rates Debts

Year from 1 April	Amount Outstanding As At 31 Dec 2013 (£)	Amount Outstanding As At 31 Dec 2012 (£)
Pre 2005	2,659	5,922
2005	644	1,955
2006	309	2,753
2007	643	6,309
2008	5,287	13,586
2009	4,047	14,792
2010	19,647	32,471
2011	63,689	91,072
2012	152,230	
Total	249,155	168,860

6. FINANCIAL/RESOURCE IMPLICATIONS

6.1 As set out in the report.

7. SECTION 151 OFFICER COMMENTS

7.1 Levels of debt can adversely affect the Council's cashflow. As such all debt is actively managed to keep outstanding amounts to a minimum.

7.2 As from 1st April 2013 the Council now has to bear some of the costs of any debts written off in respect of Business Rates.

8. EQUALITY & DIVERSITY IMPLICATIONS

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

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

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

8.1 None in respect of this report.

9. CRIME AND DISORDER IMPLICATIONS

9.1 None in respect of this report.

10. CONSULTATION IMPLICATIONS

10.1 None in respect of this report.

11. ASSET MANAGEMENT IMPLICATIONS

11.1 None in respect of this report.

12. ENVIRONMENTAL IMPACT IMPLICATIONS

12.1 None in respect of this report.

13. LEGAL IMPLICATIONS

13.1 None in respect of this report.