AUDIT COMMITTEE

AGENDA

25 March 2013 at 3.30 pm

Council Chamber, Williton

1. Apologies for Absence

2. Minutes

Minutes of the Meeting of the Committee held on 28 November 2012 – **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 Strategy 2013 Update

To consider Report No. WSC 26/13, to be presented by Adrian Dyer, Chief Executive – **SEE ATTACHED.**

The purpose of the report is to present to Members an updated Risk Management Strategy for comment and approval, in accordance with the roles and responsibilities of the Audit Committee.

8. Hinkley Point C section106 (s106) Agreement (Site Preparation Works) – Financial Update

To consider Report No. WSC 47/13, to be presented by Andrew Goodchild, Planning Manager – **SEE ATTACHED.**

The purpose of the report is to provide a summary of the latest financial monitoring in respect of Hinkley Point C s106 contributions received, allocated and spent. The report also updates the Committee on the Hinkley financial governance audit review recently carried out by the South West Audit Partnership (SWAP), and on community development work being undertaken by West Somerset Council in relation to opportunities to access external funding and s106 impact mitigation monies.

9. Certification of Claims and Returns

To consider the Grant Thornton report on grants certification of claims and returns for 2011/12 - **SEE ATTACHED.**

10. Debt Analysis as at 31 December 2012

To consider Report No. WSC 44/13, to be presented by Steve Plenty, Principal Accountant – **SEE ATTACHED.**

To provide the Audit Committee with an update on the level of debts outstanding to the Authority as at 31^{st} December 2012.

11. Quarterly Review of Internal Audit Activity

The purpose of the report is to provide a review of Internal Audit activity for quarter 4, and to identify any level 4 and 5 control weaknesses – **SEE ATTACHED.**

12. Internal Audit Plan 2013/14

The purpose of the report is to inform the Audit Committee of the proposed work to be undertaken by Internal Audit during 2013/14 – **SEE ATTACHED.**

13. Accounting Policies – 2012/13 Statement of Accounts

To consider Report No. WSC 43/13, 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 2012/13 so that the Statement of Accounts can be prepared on this basis.

14. Consideration of an Independent Member

At the resignation of the Independent Member for the Audit Committee the Committee requested that consideration be given as to whether to appoint another Independent Member. The Committee is therefore requested to formally consider this so that if approved officers can draft a selection process for future approval.

15. Verbal Update on the Pensions Deficit

The Section 151 Officer to provide a verbal update on the Pensions deficit relating to decreased numbers of council staff.

16. Appointment of Director to SWAP

To consider Report No. WSC 45/13, to be presented by Sharon Campbell, Section 151 Officer – **SEE ATTACHED.**

To agree West Somerset Council's representatives on the SWAP Board of Directors and the SWAP Members' Board.

COUNCILLORS ARE REMINDED TO CHECK THEIR POST TRAYS

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 28 November 2012 at 4.30 pm in the Council Chamber, Williton

Present

Councillor A H Trollope-Bellew ……………………………………………………Chairman
Councillor E May …………………………………………………………Vice Chairman

Councillor R P Lillis
Councillor P H Murphy
Councillor K M Mills

Members In Attendance

Councillor D D Ross

Officers In Attendance

Section 151 Officer (S. Campbell)
Principal Accountant (S. Plenty)
Finance Officer (P Disney-Walford)
Meeting Administrator (H. Dobson)

Also In Attendance

Peter Lappin, Audit Manager/Engagement Manager, Audit Commission/Grant Thornton
Claire Hodgson, Audit Manager of South West Audit Partnership (SWAP)

A26 Apologies for Absence

Apologies for absence were received from Councillors M J Chilcott and S Y Goss.

A27 Minutes

(Minutes of the Meeting of Audit Committee held on 24 September 2012, circulated with the Agenda).

RESOLVED that the Minutes of the Meeting of Audit Committee held on 24 September 2012 be confirmed as a correct record.

A28 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 A Trollope-Bellew	All	SCC	Personal	Spoke and voted
Cllr P H Murphy	All	Watchet	Personal	Spoke and voted

In addition, Councillor A H Trollope-Bellew declared a personal interest in Item 5 Audit Committee Action Plan, he was a member of the Pensions Committee – spoke and voted.

A29 Public Participation

No members of the public had requested to speak.

A30 Audit Committee Action Plan

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

The Section 151 Officer informed that she had had a brief conversation regarding the concerns raised by the Audit Committee at their previous meeting relating to pensions and that she would report back to the Committee at their next meeting in March 2013, when she would have further information.

RESOLVED that the Audit Committee Action Plan be noted.

A31 Audit Committee Forward Plan

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

Members noted the large number of agenda items proposed for the next meeting of the Audit Committee and proposed that the start time be brought forward.

RESOLVED (1) that next meeting of the Audit Committee scheduled for 25 March 2013 commence at 3.30pm.

RESOLVED (2) that the Audit Committee Forward Plan be noted.

A32 Annual Audit Letter

(Annual Audit Letter, circulated with the Agenda).

The Audit Manager for the Audit Commission advised that the Annual Audit Letter was the last document that the Audit Committee would receive from the Audit Commission. The letter summarised the 2011/12 audit of West Somerset Council. He wished to express his thanks to the Section 151 Officer, the Principal Accountant and the Finance team for their assistance in making the process effective and efficient.

RESOLVED (1) that the Audit Commission be thanked for their service and professional advice given to West Somerset Council over the years.

RESOLVED (2) that the West Somerset Council Annual Audit Letter for 2011/12, be noted.

A33 Planned External Audit Fee Letter 2012/13

(Planned External Audit Fee Letter, circulated with the Agenda).

The Engagement Manager for Grant Thornton informed that on 1st November

2012 the majority of staff under the Audit Commission had transferred to Grant Thornton. He highlighted the fact that the main audit fee and grant certification fee for 12/13 were both significantly reduced by 40% and the key members of the team were unchanged. The Value for Money conclusion would look at the budget gap and the strategy for addressing the issues.

Members welcomed and noted the reduction in fees. In response to a question as to whether the reduction in fees related to the reduction in hours the Engagement Manager advised that was part of the reason. However, the large-scale redundancies of staff leaving the Audit Commission were probably the main cause for the reduction. He advised further, that the risk assessment to be undertaken by Grant Thornton to identify any significant risks before reaching a value for money conclusion was likely to be conducted in July 2013.

RESOLVED that the Planned External Audit Fee Letter, be noted.

A34 Hinkley Point C section 106 (S106) Agreement (Site Preparation Works) – Financial Monitoring Progress Report

(Report No. WSC 158/12, circulated with the Agenda).

The purpose of the report was to receive a quarterly monitoring report updating Members on the financial position and to issues relating to risk and financial governance.

The Finance Officer presented the report in detail and advised that the report sets out the joint internal audit of the council's arrangements alongside Somerset County Council (SCC) and Sedgemoor District Council (SDC). The report provided an update on how the council worked together with SCC and SDC, what the reporting and monitoring requirements of EDF were and how the council would take the process forward. The report also took in account work with parishes in order to put them in the best position possible to access impact mitigation funds.

Some of the governance processes to be looked at by SWAP would not be fully operational until part way through the following year. Therefore, the draft report would give the council opportunity to implement work arising from recommendations before Hinkley Point C Phase 2 was active. The Corporate Management Team had approved a draft Governance process that enables Hinkley s106 expenditure and performance to be monitored within the normal management process. In keeping with the existing performance management framework, future reports would be presented to Scrutiny Committee and Cabinet.

During the course of the debate the following main points included:

- The composition of the Hinkley Governance Group would comprise officers; individuals were yet to be decided.
- The Planning Obligations Board (POB)'s role was set out in the s106 Agreement; it will make recommendations for approval to Cabinet and Council on bids received, following evaluation of proposals in accordance with agreed criteria set out in the Section 106 agreement and the agreed appraisal processes.
- The future role of SWAP in relation to the activities of the Planning Obligations Board would be confirmed in due course, once the Board had the opportunity to determine its requirements.

Post Meeting Note (1):
The s106 Agreement requires the Board to establish its own financial monitoring and internal audit plan. SWAP will be asked to provide an initial view on the adequacy and effectiveness of the procedures currently being developed for evaluating and recommending bids for funding. It is reasonable to expect that this will be followed up in the course of further audit work during 2013, when it will be possible to review how the proposed arrangements are operating in practice. The Board will receive regular financial monitoring information from West Somerset Council. As part of its current audit work, SWAP will review financial control procedures established by the Council with regard to the management of Hinkley s106 monies, which will include financial transactions and management information relating to the Board's area of responsibility.

- The Finance Officer to advise on the request that there be some form of member scrutiny of the Planning Obligation Board's decisions.

Post Meeting Note (2):
Scrutiny Committee will be able to call-in decisions of Cabinet in accordance with normal practice. It would not be appropriate for WSC Members to scrutinise the decisions of the Board as WSC was only one of four members of the Board. The process as a whole would be reported and explained to all Members in due course.

- The Community Development Officer would continue to assist communities in identifying their priorities for action and help to advise on how communities might access the s106 impact mitigation monies.
- The POB was currently determining its operating rules for considering bids for funding, and would ensure that they complied with the legal obligations of the s106 agreement. The Board was unlikely to be assessing bids much before Spring 2013, given the current timescale for phase 2.
- The priority areas would be as set out in the s106 agreement, the process as a whole would be reported and explained to all Members in due course.

The Finance Officer noted concerns raised regarding certain financial risks associated with the Development and advised that she would pass on concerns to the Planning Manager.

Post Meeting Note (3):
The queries raised have been discussed and resolved.

Members of the Audit Committee wished to thank the Finance Officer for the clear report, further they wished to record their concerns that it is was imperative that adequate governance arrangements were properly in place.

RESOLVED **(1)** that the Audit Committee request that there be in place Member scrutiny to monitor operating procedures and decisions of the Planning Obligations Board.

See Post Meeting Note 2 above.

RESOLVED **(2)** that the Audit Committee recommend to Cabinet to approve the governance arrangements proposed by the Corporate Management Team, which will ensure future Hinkley s106 financial, performance and risk monitoring is reported to the Scrutiny Committee and Cabinet, in accordance with the Council's standard approach.

RESOLVED (3) that the Hinkley Point C section 106 (S106) Agreement (Site Preparation Works) – Financial Monitoring Progress Report, and the latest Hinkley C s106 financial monitoring summary, attached as Appendix A to the report, be noted.

A35 Treasury Management Update 30 September 2012

(Report No. WSC 149/12, circulated with the Agenda).

The purpose of the report was to update the Audit committee on the Treasury Management position as at 30 September 2012.

The Principal Accountant presented the Treasury Management update and confirmed that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 30 September 2012 and that no new borrowing was undertaken. Further, that the Council had complied with Treasury and Prudential Limits. With regard to the expected significant increase in the level of cash balances related to the Hinkley planning obligation settlement, a report would be taken to members setting out a revised Investment Strategy.

He confirmed that he would explain the figure of £7,658,000 in Appendix 1, page 47 of the report, attached to the agenda, to members after the meeting.

RESOLVED that the Treasury Management Update – 30th September 2012, be noted.

A36 Debt Analysis Report as at 30 September 2012

(Report No. WSC157/12, circulated with the Agenda).

The purpose of the report was to provide Members with an update on the levels of outstanding debt across the authority as at 30 September 2012 compared with the situation as at 30 September 2011.

The Principal Accountant presented the report and advised that debt analysis used to be part of the performance and budget report presented to the Scrutiny Committee on a quarterly basis. However, Scrutiny Committee agreed that it was more appropriate for Audit Committee to receive future reports and this was the first debt analysis report to be presented to the Audit Committee.

During the course of the debate the following main issues were raised:

- Noted that the although the Council was responsible for collecting council tax in the district only 9% of the total debts, shown on page 50 of the report, attached to the agenda, related to West Somerset Council.
- Concern over the amount of outstanding council tax debt at 30 September 2012. Members noted that work was being conducted to present a report to Cabinet requesting that some of the debt be 'written off', thereby reducing the figure.

- How did the Council's outstanding council tax debt compare to other similar authorities?
- Members requested that this item be included on the agenda for the next meeting of the Audit Committee and that a Council Tax officer be invited to attend.

Members noted with concern the advice of the Section 151 Officer that currently, all of the business rate debt was the responsibility of central government with no impact to the Council. However, with effect from next year 40% of the business rate debt would become the responsibility of the council and would include this year's debt. As a result close monitoring of the business rate debts was important.

RESOLVED that this item be carried forward to the next meeting of the Audit Committee scheduled for 25 March 2013, and that an appropriate Council Tax Officer be invited to attend.

A37 Quarterly Review of Internal Audit Activity

The purpose of the update was to provide a review of Internal Audit activity plus identify any level 4 and 5 control weaknesses.

Group Audit Manager of SWAP presented the report and advised that the review on Delivery of Major Projects – Risk Management had received partial assurance.

The Principal Accountant confirmed that the responsible officer was aware of the recommendation of SWAP relating to the Risk Registers.

RESOLVED that the update on Level 4 and 5 recommendations for 2010/11, be noted.

The meeting closed at 18.12 pm.

AUDIT COMMITTEE ACTION PLAN

Date/Minute Number	Action Required	Action Taken
25 June 2012 A7 - Hinkley Point C Section 106 Agreement – Financial Governance Arrangements	• Concern was expressed that sufficient controls and checks might not be in place. The Finance Officer advised that as the framework was further developed the Council would need to look specifically at the risks and could put together a summary of the key risks and what procedures the Council had in place to mitigate those risks. This document could be included as part of the quarterly updates presented to the Audit Committee.	This links the work being scoped by SWAP and the monitoring that the Audit Committee have requested. It is suggested that the scope of the SWAP review is presented to Audit Committee when it is available
A14 - Draft Accounts 2011/12	After discussion with the Audit Committee the Section 151 Officer noted that a refresher session on the draft accounts be held later in the next municipal year to accommodate the deadline for the draft accounts, and that the first Audit Committee meeting of the municipal year be held in July.	Date yet to be arranged.
24 September 2012 A21 – Audit Committee Forward Plan	RESOLVED that, subject to the changes listed, the Audit Committee Forward Plan be noted: (i) consideration of an Independent Member be added the to the next meeting of the Audit Committee, (ii) clarification as to what has been done to help parishes maximise Hinkley Section 106 monies, be added to the next meeting of the Audit Committee,	Included as Item 14 on the agenda. Included as Item 8 on the agenda.
A23 – Audited Statement of Accounts	RESOLVED (5) that the Section 151 Officer provide a verbal update on the concerns raised relating to pensions, at the next appropriate meeting of the Audit Committee. ‘Members raised concerns regarding the size of the pension deficit; the fact that as staff numbers reduce the pension costs would increase; and how the pension would be affected should the Council be considered not viable, in the future. In response the Section 151 Officer advised that she would make enquiries regarding the concerns raised with the Pensions Manager at Somerset County Council’.	Included as Item 15 on the agenda.
A24 – SWAP Governance Arrangements	RESOLVED that the SWAP Governance Arrangements update, be noted. Questions raised: • what were the implications if West Somerset Council did not join the company? and, • would it be possible to walk away and	The Group Audit Manager of SWAP to report back on questions raised.

	buy services as a contract?	
28 November 2012 A32 - Annual Audit Letter	RESOLVED (2) that the West Somerset Council Annual Audit Letter for 2011/12, be noted.	No action required.
A33 - Planned External Audit Fee Letter 2012/13	RESOLVED that the Planned External Audit Fee Letter, be noted.	No action required.
A34 - Hinkley Point C section 106 (S106) Agreement (Site Preparation Works) – Financial Monitoring Progress Report	RESOLVED (1) that the Audit Committee request that there be in place Member scrutiny to monitor operating procedures and decisions of the Planning Obligations Board. RESOLVED (2) that the Audit Committee recommend to Cabinet to approve the governance arrangements proposed by the Corporate Management Team, which will ensure future Hinkley s106 financial, performance and risk monitoring is reported to the Scrutiny Committee and Cabinet, in accordance with the Council's standard approach. RESOLVED (3) that the Hinkley Point C section 106 (S106) Agreement (Site Preparation Works) – Financial Monitoring Progress Report, and the latest Hinkley C s106 financial monitoring summary, attached as Appendix A to the report, be noted.	Post Meeting Note: Scrutiny Committee will be able to call-in decisions of Cabinet in accordance with normal practice. It would not be appropriate for WSC Members to scrutinise the decisions of the Board as WSC was only one of four members of the Board. The process as a whole would be reported and explained to all Members in due course. Included in performance/service plan report considered at Cabinet on 6th March 2013. No action required
A35 - Treasury Management Update 30 September 2012	RESOLVED that the Treasury Management Update – 30th September 2012, be noted.	No action required
A36 - Debt Analysis Report as at 30 September 2012	RESOLVED that this item be carried forward to the next meeting of the Audit Committee scheduled for 25 March 2013, and that an appropriate Council Tax Officer be invited to attend.	Included as Item 10 on the agenda.
A37 - Quarterly Review of Internal Audit Activity	RESOLVED that the update on Level 4 and 5 recommendations for 2010/11, be noted.	No action required.

AUDIT COMMITTEE FORWARD PLAN 2013/14

16 July 2013	23 September 2013	3 December 2013	24 March 2014
Quarterly Review of Internal Audit Activity	Quarterly Review of Internal Audit Activity	Quarterly Review of Internal Audit Activity	Quarterly Review of Internal Audit Activity
Update on Level 4 & 5 Recommendations	Statement of Accounts 2012/13	Annual Audit Letter	Internal Audit Plan 2014/15
Internal Audit Annual Report and Opinion	Annual Governance Report	Risk Management Update	Internal Audit Charter 2014-15
Annual Review of Internal Audit	Statement of the current Hinkley section 106 funding position	6-month review of Treasury Management Update	Opinion Audit Plan 2013/14
Draft Accounts 2012/13	Debt Anaylsis Report	Statement of the current Hinkley section 106 funding position	Accounting Policies – 2013/14 Statement of Accounts
Annual Governance Report 2012/13		External Audit Fee Letter	Treasury Management Strategy Statement, MRP Policy and Annual Investment Strategy 2014-15
Statement of the current Hinkley section 106 funding position		Debt Anaylsis Report	Certification of Claims and Returns
Debt Anaylsis Report			Risk Management Strategy 2014 update
			Statement of the current Hinkley section 106 funding position
			Debt Anaylsis Report

Report Number: *WSC 26/13*
Presented by: *Adrian Dyer*
Author of the Report: *Adrian Dyer*
Contact Details:
Tel. No. Direct Line *01984 635212*
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Report to a Meeting of: *Audit Committee*
To be Held on: *25th March 2013*
Date Entered on Executive Forward Plan Or Agreement for Urgency Granted: *Not applicable*

RISK MANAGEMENT STRATEGY - UPDATE

1. PURPOSE OF REPORT

1.1 The purpose of the report is to present to Members an updated Risk Management Strategy for comment and approval, in accordance with the roles and responsibilities of the Audit Committee.

2. RECOMMENDATIONS

2.1 It is recommended that Audit Committee approve the revised and updated Risk Management Strategy, as included at **APPENDIX 'A'**.

3. 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)**
Mitigation – The approval of a strategy that sets out a planned and systematic approach to the identification, evaluation and control of risk	Possible (3)	Major (4)	**Medium (12)**

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 measurers have been actioned and after they have.

4. BACKGROUND INFORMATION

4.1 The Risk Management Strategy outlines the objectives of risk management within the Council, details the activities undertaken to ensure the effective management of risk and identifies staff and member responsibilities. The current strategy was drafted in 2003 and last updated in February 2012. The proposed amendments are minor and mainly concern the process for drafting the Corporate Risk Register. A copy of the updated draft strategy is contained at **Appendix 'A'** and shows 'tracked changes' for ease of reference.

4.2 The strategy 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 and officers.

4.3 Each service plan contains a risk register relevant to that group. The Corporate Management Team service plan contains the Corporate Risk Register. As an example the current Corporate Risk register is included at **Appendix 'B'**.

4.4 The actions identified to mitigate risks are included within the relevant service plan and their delivery monitored through the Performance Management Framework.

5. <u>FINANCIAL/RESOURCE IMPLICATIONS</u>

5.1. There are no direct implications associated with the recommendations in this report

6. <u>SECTION 151 OFFICER COMMENTS</u>

6.1. These are contained within the body of the report

7. <u>EQUALITY & DIVERSITY IMPLICATIONS</u>

7.1. There are no direct implications associated with the recommendations in this report

8. <u>CRIME AND DISORDER IMPLICATIONS</u>

8.1. There are no direct implications associated with the recommendations in this report

9. <u>CONSULTATION IMPLICATIONS</u>

9.1. There are no direct implications associated with the recommendations in this report

10. <u>ASSET MANAGEMENT IMPLICATIONS</u>

10.1. There are no direct implications associated with the recommendations in this report

11. <u>ENVIRONMENTAL IMPACT IMPLICATIONS</u>

11.1. There are no direct implications associated with the recommendations in this report

12. <u>LEGAL IMPLICATIONS</u>

12.1. There are no direct implications associated with the recommendations in this report

APPENDIX ‘A’

Management Strategy

Version ~~5~~ 6 – ~~February 2012~~March 2013

Contents

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.

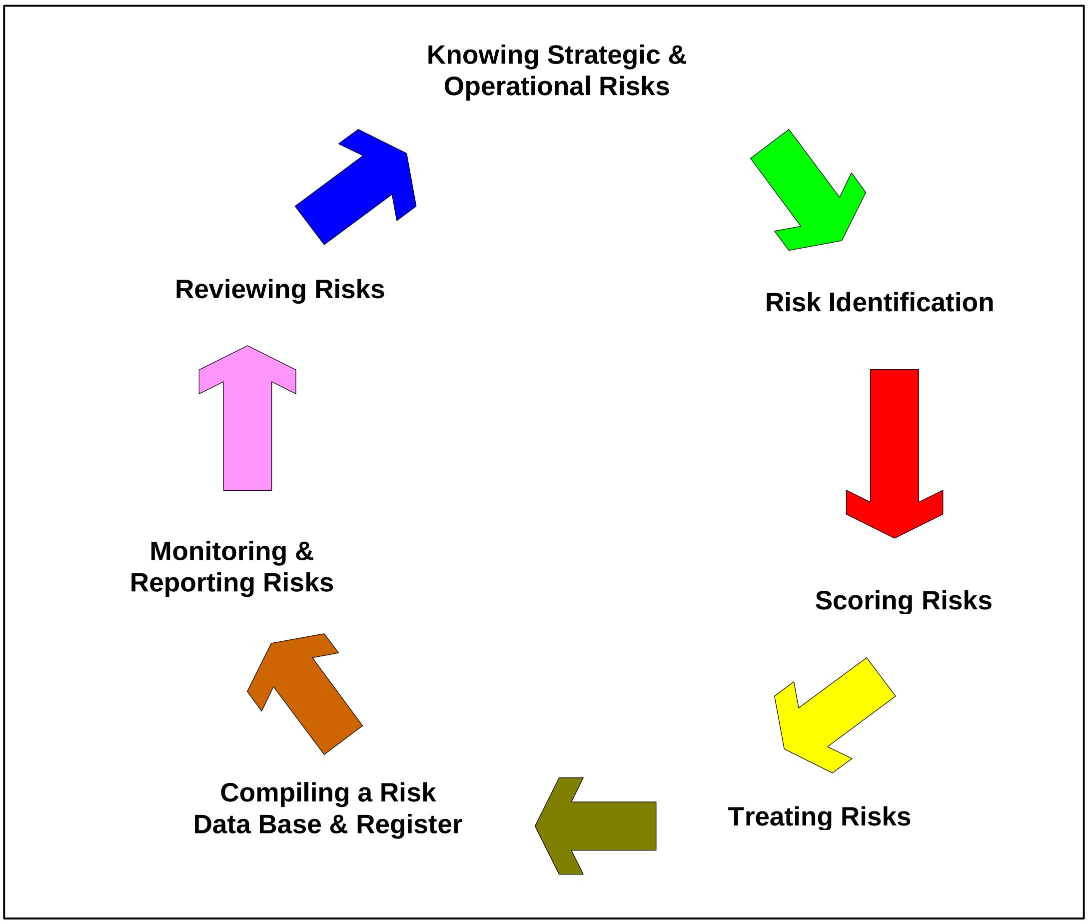
The assurance statement is disclosed in the Annual Statement of Accounts and is signed by the Leader of the Council and the Head of Paid Service.

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.

Figure 1.



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 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 ~~consider~~ include any **very high**-scoring service specific risks ~~from~~ contained in ~~Group~~ service ~~P~~plans. Consideration will also be given to including identical lower scoring risks that appear in more than one service plan. During the year ~~A~~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. ~~The scoring of the risks in the register will determine the 'higher' risks that are reflected in the Service Plan with mitigating actions. 'Lower' scoring risks will either be accepted with no mitigating action or be reflected in the Service Work plan.~~ 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 ~~S~~service ~~P~~plans will be managed by the Corporate Manager and implemented by Service Lead Officers; Corporate 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	• 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	• 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	• 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	• 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	• Communicating to staff the corporate approach to risk management. • Reporting systematically and promptly to their manager any perceived new risks or failures of existing control measures.

Internal Audit	• 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.

APPENDIX 'B'

CORPORATE RISK REGISTER

Risks	Likelihood	Impact	Risk Score Likelihood score x Impact score	Mitigating Action
Loss of key staff / skills / knowledge	4	5	**Very High (20)**	Sustaining PDR process Having in place support mechanisms (Westfield scheme etc.)
	3	4	**Medium (12)**	
Available capacity and resources are not directed to the Council's priority areas.	5	4	**Very High (20)**	Encouraging awareness & engagement of members & staff. Member's seminars/staff briefings.
	4	3	**Medium (12)**	
The impact of Welfare Reforms (including the localisation of council tax support) on communities and claimants is not appropriately administered or managed	5	4	**Very High (20)**	Adopted new policies/raised awareness/working with partners/staff training
	4	4	**High (16)**	
The financial implications of localising council tax support and business rate retention are not managed	4	5	**Very High (20)**	Adopted new scheme/putting in place regular monitoring arrangements/identified as key task under corporate priorities
	3	4	**Medium (12)**	
The proposed joint working with Taunton Deane BC does not deliver sufficient savings to make the Council financially sustainable post 2015/16	5	5	**Very High (25)**	Budget including financial planning, MTFP, partnership collaborative working, robust budget monitoring and production of flexible viable business case for joint working
	4	5	**Very High (20)**	
Inadequate business continuity arrangements including failure of IT systems / data loss	5	4	**Very High (20)**	Keep business continuity plans up to date Staff training
	3	3	**Medium (9)**	
Insufficient capacity to deliver organisational change whilst maintaining levels of service delivery	4	5	**Very High (20)**	
	3	4	**Medium (12)**	
Responding to civil emergencies including extreme weather (drought/rain/snow/high winds)	5	4	**Very High (20)**	Belwin Review and update clear procedures Clear budget provision Training
	4	4	**High (16)**	

VERY HIGH SCORING RISKS FROM SERVICE PLANS:

There are no Very High Scoring risks in Service Plans that are not covered above				

RE-OCCURING RISKS FROM SERVICE PLANS:

Hinkley Point	5	5	**Very High (25)**	New staff recruited/resources allocated and a corporate priority
	3	4	**Medium (12)**	
Staff – retention/skills/morale	4	5	**Very High (20)**	Regular communication/retention of current terms and conditions/PDR process
	3	4	**Medium (12)**	
New Legislation	5	4	**Very High (20)**	Regular monitoring/agree new procedures and reviewing progress
	3	4	**Medium (12)**	
Finances – reduced funding/reducing income	5	5	**Very High (25)**	Taunton Deane project/working with central government/regular monitoring
	5	4	**Very High (20)**	

Likelihood (probability)	1 = Rare	2 = Unlikely	3 = Possible	4 = Likely	5 = Almost Certain
Impact (consequences)	1 = Negligible	2 = Minor	3 = Moderate	4 = Major	5 = Catastrophic

Source of Corporate Risks

- CMT identify what they think are corporate risks
- Risks assessed as Very High in service plans are automatically entered and rescored from a corporate perspective
- Any identical risk that is in one or more service plan will be considered for inclusion in the corporate risk register and if Included, re-scored.

REPORT NUMBER WSC 47/13

PRESENTED BY ANDREW GOODCHILD, PLANNING MANAGER

DATE 25 MARCH 2013

Hinkley Point C section106 (s106) Agreement (Site Preparation Works) – Financial Update

1. PURPOSE OF REPORT

1.1 This paper provides a summary of the latest financial monitoring in respect of Hinkley Point C s106 contributions received, allocated and spent.

1.2 The report also updates the Committee on the Hinkley financial governance audit review recently carried out by the South West Audit Partnership (SWAP), and on community development work being undertaken by West Somerset Council in relation to opportunities to access external funding and s106 impact mitigation monies.

1.3 It should be noted that all references to the Hinkley s106 Agreement in this report apply to the current Site Preparation Works Deed of Agreement only (unless otherwise stated).

2. RECOMMENDATIONS

2.1. That the Audit Committee notes and where felt appropriate comments on the current position set out in this paper.

3. RISK ASSESSMENT

Description	Likelihood	Impact	Overall
If financial management is poor, there is a risk that funds will be misspent, that projects will be overspent or funds clawed back by the Developer under the terms of the section 106 Agreement. The Council could face severe financial consequences and suffer loss of reputation.	3 Possible	5 Catastro-phic	15 High
Effective financial governance must be evident in the management of Hinkley section 106 contributions. Agreed practices should ensure clear and appropriate accountability, sound decision-making and monitoring arrangements and swift responses to rectify flagged concerns.	2 Unlikely	3 Moderate	6 Low

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 measurers have been actioned and after they have.

4. BACKGROUND INFORMATION

Financial Monitoring – Current Position

4.1 The Audit Committee has previously received financial monitoring updates relating to the Council's Hinkley s106 monies. The current position is attached at Appendix A, which shows the overall position for West Somerset in terms of contributions received, allocated and spent as at 31 December, 2012. In accordance with Financial Regulations, approval to incur expenditure has previously been given by Cabinet and/or Council. The Council's Scrutiny Committee and Cabinet recently received the regular Service Plan performance report, which now incorporates Hinkley activity monitoring (as approved by this Committee in November 2012).

4.2 The current financial picture is relatively unchanged, with most expenditure being incurred on staff posts associated with the delivery of the Council's s106 obligations. Further significant contributions (£892,150) are due towards the end of March, £655,000 of which will be transferred across to other public bodies involved in Community Safety activities associated with the proposed Hinkley Point C Development. The final Service Level Agreement (SLA) instalment of £570,000 will be received by West Somerset on 1st May 2013. £459,000 will be retained by the Council towards the cost of employing staff under the SLA. These amounts are index-linked under the Agreement.

4.3 The timing of Phase 2 of the Development is still unconfirmed. For financial planning purposes, it is assumed that the contributions triggered by the start of Phase 2 (including the Community Impact Mitigation Fund and Housing monies) will not be received before summer 2013. The Council's Treasury Management Strategy for the year ahead will be structured to accommodate the investment of this wider portfolio of funds. Investment returns generated from the management of s106 funds must be ringfenced to fund future s106 expenditure. However, the Treasury Management Strategy will help ensure the Council is best placed to optimise financial returns, whilst maintaining appropriate financial safeguards.

Financial Governance Audit

4.4 The Committee received a paper at its meeting in November which set out the terms of a Hinkley financial governance review, to be performed by SWAP. The Terms of Reference were jointly agreed by Sedgemoor, West Somerset and Somerset County Councils. The two main objectives addressed by the audit are:

(i) To provide assurance that the Councils each have in place effective and robust arrangements that will help ensure the financial and governance requirements of the s106 Agreement are complied with.
(ii) To ensure that the joint Planning Obligations Board receives regular and accurate reports relating to the monitoring of approvals, expenditure and outcomes, to enable the Board to monitor effectively how the funding allocations that it recommends for approval are being spent (para 4.13 refers).

4.5 The audit work has now largely been completed, focussing around the Councils' exposure to six key risk areas:

(i) Non-compliance with the terms of the S106 agreement
(ii) Non-delivery of expected outcomes and outputs
(iii) Lack of transparency and accountability to stakeholders regarding mitigation of the impacts of the Hinkley Point C Development
(iv) Poor financial management of S106 funds
(v) Loss of investment returns due to poor treasury management of S106 monies
(vi) Qualification of the Councils' final accounts

4.6 The draft audit report has been received and close-out meetings are due to take place with each Council during March. This is very timely, as the Councils progress discussions with EDF Energy to implement effective, shared programme governance arrangements appropriate to the next phase of the Development.

4.7 No significant issues have been identified as a consequence of the initial audit work. However, the close-out meetings will engage staff and senior managers in reviewing any specific issues for consideration emerging from the review. An action plan will be agreed and progress monitored during the coming months as actions are implemented. SWAP will be engaged to perform a second part to the assurance review during 2013/14. This will be targeted on assessing the effectiveness of key processes that are as yet non-operational – for instance, the evaluation of bids for Community Impact Mitigation funds.

4.8 The Audit Committee will receive further updates on the outcomes of the initial SWAP audit and planned follow-up work, as the year progresses.

Community Development

4.9 Members frequently express interest in the work which is ongoing with communities, to prepare for opportunities to bid for s106 Community Impact Mitigation (CIM) funding.

4.10 The Community Development Officer is progressing a number of activities, many of which are aimed at building a more cohesive third sector within West Somerset. Potentially, this will deliver significant benefit to local communities and also lever in additional external funding to match-fund Hinkley s106 contributions. As a consequence of joint strategic planning discussions, West Somerset Bureau, Magna, Care & Repair, Mind, Somerset Community Council, Somerset Sight, Somerset Advice and Wessex Solutions have submitted a lottery bid for £220k to develop a new model for providing advice services, dealing with issues of access, wider service development and digital inclusion. The lottery fund is highly competitive, but it is hoped that funding may be secured alongside s106 monies.

4.11 A range of activities is also taking place to engage with specific community organisations and other bodies, aimed at furthering opportunities for community development, building links with the Hinkley Development and, in some cases, developing local plans and projects to the point where CIM funding and/or other sources of funding can be applied for. This includes holding meetings and community consultation events, researching funding opportunities, exploring voluntary sector needs, piloting new guidance to help manage and develop Village Halls, helping to develop proposals which could see village halls create activity hubs to improve health and wellbeing, and progressing the Sports Partnership strategy and the West Somerset sports facilities strategy.

4.12 Discussions are also taking place with the Somerset Community Foundation (SCF). This organisation will have responsibility for the administration of further Community Impact Mitigation monies, to be provided by the Developer under the second HPC s106 Agreement (Development Consent Order). Subject to the Development going ahead, this second mitigation fund is likely to be run at the same time, hence there is a need to avoid too much confusion and to ensure the funds sit well together operationally.

Overall Governance of the Process relating to Hinkley Point

4.13 Members have periodically requested clarification on the roles and responsibilities for each Committee, PAG's and other meetings involving Members since the completion of the Section 106 Agreements. To ensure a consistent approach to interpretation and understanding it is intented to bring a report to Corporate PAG, Cabinet and Council during April and May 2013 – this will enable reflection on the decision of the Secretary of States decision on the main application which is expected on or before the 19th March 2013.

5. FINANCIAL/RESOURCE IMPLICATIONS

5.1 This paper is largely an update report and there are no direct financial implications. However, as set out above, the Council is well-prepared to manage the level of additional resources expected to be received over the coming months, subject to the Hinkley Point C Development proceeding.

6. SECTION 151 OFFICER COMMENTS

6.1 The Hinkley C s106 contributions managed by the Council represent a very significant level of funding. The Council recognises the importance of maintaining appropriate arrangements to safeguard the management of these funds and minimise the risks associated with non-compliance or other consequences of poor financial stewardship.

6.2. The link between resource and performance management is now well established across public sector organisations. The Governance processes should continue to place equal emphasis on the ability to monitor outputs and outcomes secured through the s106 funding, alongside the control of financial resources. This is vitally important to enable the Council to monitor that monies are being spent in accordance with its obligations under the Agreement and to demonstrate its commitment to accountability.

6.3. The Council's existing service planning and budget monitoring processes will be integral to providing these assurances in respect of the Hinkley s106 monies. However, the role of the Hinkley Governance Group will facilitate an essential "programme-level" overview of finance and performance, further strengthening the Council's approach in this regard.

7. EQUALITY & DIVERSITY IMPLICATIONS

7.1. None directly in this report.

8. CRIME AND DISORDER IMPLICATIONS

8.1. None directly in this report.

9. CONSULTATION IMPLICATIONS

9.1. The Council works closely with Finance officers in Somerset County Council and Sedgemoor District Council. Through the Hinkley Finance Liaison Group, the Councils are also collaborating to develop a joint approach to financial monitoring and reporting with the Developer, EDF Energy.

10. ASSET MANAGEMENT IMPLICATIONS

10.1. None directly in this report.

11. ENVIRONMENTAL IMPACT IMPLICATIONS

11.1. None directly in this report.

12. LEGAL IMPLICATIONS

12.1. None directly in this report.

REPORT TO THE AUDIT COMMITTEE TO BE HELD ON 25TH MARCH 2013.

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Grant Thornton

West Somerset District Council

Certification work report 2011/12

January 2013

Contents

1 Executive Summary

Arrangements for certification for claims and returns:

- below £125,000 - no certification
- above £125,000 and below £500,000 - agreement to underlying records
- over £500,000 - agreement to underlying records and assessment of control environment. Where full reliance cannot be placed, detailed testing.

Introduction

1.1 Grant Thornton, as the Council's auditors and acting as agents of the Audit Commission, is required to certify the claims submitted by the Council. This certification typically takes place three to eight months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

1.2 Your previous auditors, the Audit Commission, certified two claims and returns for the financial year 2011/12 relating to expenditure of £26 million.

1.3 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

1.4 We provide a certificate on the accuracy of grant claims and returns to various government departments and other agencies. 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.

1.5 Appendix A sets out an overview of the approach to certification work, the roles and responsibilities of the various parties involved and the scope of the work we perform.

Key messages

1.6 It should be noted that all work reported in this certification report was completed by the Audit Commission prior to our appointment as the Council's auditors. The findings set out in this report therefore represent the results of your previous auditors work.

1.7 A summary of all claims and returns subject to certification and details of our certification fee is provided at Appendix B. The key messages from our review are summarised in Exhibit One, and set out in detail in the next section of the report.

Exhibit One: Summary of Council performance

Aspect of certification arrangements	Key Message
Submission and certification	Both claims were submitted on time to audit and they were certified within the required deadline.
Accuracy of claim forms submitted to the auditor Amendments and qualifications	Although there was no amendment to the NNDR3 return the auditor issued a qualification letter. The Council can improve its arrangements for verifying empty property relief. It relies on information from owners. Of the 10 empty property reliefs tested, there were no inspections for two of them, three had an inspection report carried out four to six months after the request and two had inspection reports relating to prior years. There were amendments to the housing benefit and council tax benefit subsidy claim, increasing subsidy by £402 but there was a qualification letter identifying errors. The Department has notified that the Council that it will reduce subsidy. The Council is undertaking further testing to arrive at a more accurate error rate. We will review the additional testing and make appropriate revisions to the qualification letter.
Supporting working papers	The Council provided a good standard of working papers and officers were very helpful. These factors have resulted in a further reduction in the certification fee for 2011/12 from 2010/11.

The way forward

1.8 We have made a number of recommendations to address the key messages above and other findings arising from our certification work at Appendix C.

1.9 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

1.10 We would like to take this opportunity to thank Council officers for their assistance and co-operation during the course of the certification process.

Grant Thornton UK LLP

January 2013

2 Results of our certification work

Key messages

2.1 Your previous auditors, the Audit Commission certified two claims and returns for the financial year 2011/12 relating to expenditure of £26 million.

2.2 The Council's performance in preparing claims and returns is summarised in Exhibit Two.

Exhibit Two: Performance against key certification targets

Performance measure	Target	Achievement in 2011-12		Achievement in 2010-11		Direction of travel
		No.	%	No.	%	
Total claims/returns		2		3		
Number of claims submitted on time	100%	2	100	3	100	→
Number of claims certified on time	100%	2	100	3	100	→
Number of claims certified with amendment	50%	1	50	1	33	→ HB claim amended in both years
Number of claims certified with qualification	100%	2	100	1	33	↓

2.3 This analysis of performance shows that:

- the Council had only two claims that had to be certified in 2011/12. Auditors are no longer require to certify the claim for disabled facilities grants. As the amounts were below £500K the claim was only ever subject to a restricted number of tests.
- there was a qualification of the NNDR3 return on inspections on empty property reliefs in 2011/12. There was no qualification in 2010/11.

2.4 Details on the certification of all claims and returns are included at Appendix B.

2.5 Where we have identified opportunities for improvement in the compilation of claims and returns, these are summarised below and recommendations are included in the action plan at Appendix C.

2.6 Your previous auditors, the Audit Commission, charged a total fee of £19,947 against an indicative budget of £22,162 for the certification of claims and returns in 2011-12. Details of fees charged for specific claims and returns are included at Appendix B.

Significant findings

2.7 The following significant findings were identified in relation to the certification of individual grant claims and returns:

Certification of housing benefit and council tax benefit

2.8 The auditor reviewed 20 rent allowance cases identified and found one case which included payments made in 2011/12 for monies owed to the claimant dating back to 2003.

2.9 There was another isolated error where a cell consisted of only one case and this case had incorrectly included an ineligible service charge of £21 a week. The Council has agreed that as this was a local authority error and not a technical error, then the amount should have been included in cell 031 and not cell 032.

2.10 The Council amended the form was amended for these two isolated errors and resulted in an increase in subsidy of £402.

2.11 The auditor reviewed 20 council tax benefit cases and found one case where the Council had overpaid benefit as a result of incorrectly assessing the claimant's weekly earned income.

2.12 In one case a claim was reassessed a year later when a change in circumstances claim was submitted and it was found that the claimant was no longer entitled to benefit as income had significantly increased. The Council did not reassess the previous year's award, although it was apparent that this was likely to have been overpaid. As previous payslips were not requested, the Council is unable to quantify the value of any overpayment. All the amount that the claimant had received in 2011/12 was reassessed and agreed to be a local authority overpayment.

2.13 The auditor was required to undertake additional testing from a sample of 40 cases which the Council had sampled for the same type of error. The form has not been amended but a qualification letter was issued highlighting the facts. Applying the error rate from the 60 cases sampled to the council tax benefit population leads to a potential reduction of subsidy because the threshold for local authority errors would be exceeded. The form was not amended but the facts were set out in the qualification letter to the Department for Work and Pensions.

2.14 The Department for Work and Pensions contacted the Council indicating that it will reduce the Council's housing benefit and council tax benefit subsidy. The Council wants to minimise the potential loss of subsidy. It has sought and received the Department's agreement that the Council will undertake further testing to arrive at a more accurate error rate. The Council has asked us to review this work with a view to revising the qualification letter.

Certification of NNDR3 (national non domestic rates)

2.15 Although there were no audit adjustments to the return to the Department for Communities and Local Government the auditor issued a qualification letter to accompany the certified return. The letter concluded that the Council did not have adequate arrangements for verifying empty property relief. It relies on information from owners. Of the 10 empty property reliefs tested, there were no inspections for two of them, three had an inspection report carried out four to six months after the request and two had inspection reports relating to prior years.

A Approach and context to certification

Introduction

In addition to our responsibilities under the Code of Audit Practice, we also act as agents for the Audit Commission in reviewing and providing a certificate on the accuracy of grant claims and returns to various government departments and other agencies.

The Audit Commission agrees with the relevant grant paying body the work and level of testing which should be completed for each grant claim and return, and set this out in a grant Certification Instruction (CI). Each programme of work is split into two parts, firstly an assessment of the control environment relating to the claim or return and secondly, a series of detailed tests.

In summary the arrangements are:

- for amounts claimed below £125,000 - no certification required
- for amounts claimed above £125,000 but below £500,000 - work is limited to certifying that the claim agrees to underlying records of the Council
- for amounts claimed over £500,000 - an assessment of the control environment and certifying that the claim agrees to underlying records of the Council. Where reliance is not placed on the control environment, detailed testing is performed.

Our certificate

Following our work on each claim or return, we issue our certificate. The wording of this depends on the level of work performed as set out above, stating either the claim or return is in accordance with the underlying records, or the claim or return is fairly stated and in accordance with the relevant terms and conditions. Our certificate also states that the claim has been certified:

- without qualification;
- without qualification but with agreed amendments incorporated by the authority; or
- with a qualification letter (with or without agreed amendments incorporated by the authority).

Where a claim is qualified because the authority has not complied with the strict requirements set out in the certification instruction, there is a risk that grant-paying bodies will retain funding claimed by the authority or, claw back funding which has already been provided or has not been returned. In addition, where claims or returns require amendment or are qualified, this increases the time taken to undertake this work, which impacts on the certification fee.

Certification fees

Each year the Audit Commission sets a schedule of hourly rates for different levels of staff, for work relating to the certification of grant claims and returns. When billing the Council for this work, we are required to use these rates. They are shown in the table below.

Role	2011/12	2010/11
Engagement lead	£325	£325
Manager	£180	£180
Senior auditor	£115	£115
Other staff	£85	£85

B Details of claims and returns certified for 2011-12

Claim or return	Value (£)	Amended?	Amendment Amount (£)	Qualified?	Fee 2010/11 (£)	Fee 2011/12 (£)	Comments
Housing and council tax benefit scheme	£16,448,672	Yes	£402 taking the certified claim total to £16,449,074	Yes	£22,588	£17,373	The amount of work required can depend on the complexity of cases selected and the number and type of errors found in the initial testing sample of 20 for each category. There were three errors in 2011/12 but two of these were isolated and only one error led to additional 40+ testing. The Housing Benefits team was very helpful in answering queries quickly and clearly.

Claim or return	Value (£)	Amended?	Amendment Amount (£)	Qualified?	Fee 2010/11 (£)	Fee 2011/12 (£)	Comments
National non-domestic rates return	£9,476,336	No	NIL	Yes	£1,173	£2,219	All tests have to be carried out at least once every three years. Limited tests (Tests A) had been carried out in 2009/10 and 2010/11 but 2011/12 was the third year in which all tests in Sections A and B of the Certification Instruction had to be performed. A qualification letter was issued regarding inspections of empty property reliefs.
Reporting to those charged with Governance	N/A	N/A	N/A	N/A	N/A	£355	Requirement to show separate costs of planning and reporting
Total	**£25,925,008**		**£402**		**£23,761**	**£19,947**	The fee letter in April 2011 estimated the total fee at £22,162

C Action plan

Claim or return	Recommendation	Priority (L/M/H)	Management response & implementation details
Housing benefit and council tax benefit	Raise awareness amongst Benefits team that where a review of earnings results in a reduction in benefit then there could be an overpayment to be followed up.	Medium	**Agreed – Will make this an agenda item at next team meeting and also remind remote processing supplier**
National non domestic rates (NNDR)	Ensure an adequate programme of inspections to support NNDR relief.	Medium	**An operational review has led to the responsibility for inspections being reallocated and a set amount of time (1 day per week) being 'ring-fenced'.** **Routine inspections of all empty properties have been re-introduced. In addition, newly unoccupied properties are generally being inspected promptly.** **An annual canvass of empty properties is to be introduced. An initial canvass is to take place early in 2013/14. Subsequent annual canvasses to take place in conjunction with the annual long term empty homes canvass (Council Tax) in mid August/early September.**

Report Number:	*WSC 44/13*
Presented by:	*Steve Plenty, Principal Accountant*
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Report to a Meeting of:	*Audit Committee*
To be Held on:	*25th March 2013*
Date Entered on Executive Forward Plan Or Agreement for Urgency Granted:	*N/A*

DEBT ANALYSIS – AS AT 31 DECEMBER 2012

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 2012.

2. CONTRIBUTION TO CORPORATE PRIORITIES

2.1 None.

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
Continued collection of debt following the procedures and arrangements the Authority has put in place	2	3	6
That from 1st April 2013 there is a detrimental financial impact on the Council due to unpaid Business Rates invoices.	4	4	16
Continued collection of debt following the procedures and arrangements the Authority has put in place	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 measurers 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 2012, comparing this to what was outstanding at as 31st December 2011 (the previous year).

Corporate Debts

Age of debt	Amount Outstanding As At 31 Dec 2012 (£)	Amount Outstanding As At 31 Dec 2011 (£)
Less than 3 months	85,173	104,781
3 to 6 months	12,005	10,466
6 months to 1 year	24,489	16,611
Over 1 year	143,695	129,313
Total	**265,362**	**261,171**

Housing Benefit Debts

	Amount Outstanding As At 31 Dec 2012 (£)	Amount Outstanding As At 31 Dec 2011 (£)
Debts being recovered from ongoing entitlement to housing benefit	182,497	144,319
Debts being recovered from former claimants	284,991	271,255
Total outstanding	**467,488**	**415,574**

Council Tax Debts

Year from 1 April	Amount Outstanding As At 31 Dec 2012 (£)	Amount Outstanding As At 31 Dec 2011 (£)
Pre 2000	(2,286)	(689)
2001	6,847	9,284
2002	9,075	13,111
2003	10,430	13,165
2004	20,575	22,326
2005	23,227	37,750
2006	43,856	58,292
2007	60,892	79,106
2008	72,026	96,223
2009	67,688	114,967
2010	121,271	240,010
2011	244,380	
Total	**677,981**	**683,545**

For information, as at 31 December 2011 current year debt stood at £2,588,556 compared with current year debt as at 31 December 2012 of £2,619,719.

Business Rates Debts

Year from 1 April	**Amount Outstanding As At 31 Dec 2012 (£)**	**Amount Outstanding As At 31 Dec 2011 (£)**
Pre 2000	(338)	2,812
2001	(160)	531
2002	2,612	3,325
2003	1,213	3,689
2004	2,595	4,826
2005	1,955	3,530
2006	2,753	6,879
2007	6,309	9,097
2008	13,586	19,158
2009	14,792	56,005
2010	32,471	103,167
2011	91,072	
Total	**168,860**	**213,019**

For information, as at 31 December 2011 current year debt stood at £1,191,802 compared with current year debt as at 31 December 2012 of £1,326,275.

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.

8.1 From 1st April 2013 the Council will have to bear some of the costs of any debts written off for 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.

SOUTH WEST AUDIT PARTNERSHIP

Delivering Audit Excellence

West Somerset Council

Report of Internal Audit Activity

Quarter 4, 2012/13

Internal Audit ▪ Risk ▪ Special Investigations ▪ Consultancy

Contents

The contacts at SWAP in connection with this report are:

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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 has adopted and works to the Standards of the Institute of Internal Auditors, but also follows the CIPFA Code of Practice for Internal Audit. The Partnership is also guided by the Internal Audit Charter approved by the Audit Committee at its meeting in March 2012. 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)
- 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 Audit Plan was reported to this Committee at its meeting in March 2012.

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

Quarter 4 Update:

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

Internal Audit Work Programme

The schedule provided at Appendix A contains a list of all audits as agreed in the Annual Audit Plan 2012/13. 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.

Where assignments record that recommendations have been made to reflect that some control weaknesses have been identified as a result of audit work, these are considered to represent a less than significant risk to the Council's operations. However, in such cases, the Committee can take assurance that improvement actions have been agreed with management to address these.

Quarter 4 Update:

Completed Audit Assignments in the Period

Operational Audits

Operational Audits are a detailed evaluation of a service's 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.

The **Hinkley Point C Site Preparation Works Section 106** audit has been issued as a draft report to each of the three Councils.

Two non-opinion ICT reviews have been completed; **Change Management** and **IT Procurement**.

Key Control Audits

Key Control Audits are completed to assist the External Auditor in their assessment of the Council's financial control environment and this have now all been completed.

Since our last report **Main Accounting, Payroll, Housing Benefits** and **Council Tax and NNDR** have all been finalised, and we were able to offer reasonable assurance for each of these reviews.

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

Governance, Fraud and Corruption Audits

Governance, Fraud and Corruption audits focus primarily on key risks relating to cross cutting areas that are controlled and/ or impact at a Corporate rather than Service specific level.

Two areas have been completed since November; **Committee Reporting - Member Decisions**, and **Contract Fraud**. These were both were given reasonable assurance; although they both contained a priority 4 recommendation for improvement. Appendix C contains details of the recommendations and agreed actions. A further themed review of **Expenses Fraud** is at draft report stage, and the remaining three governance reviews are in progress; **Treasury Management strategy, Remote and Mobile Working**, and **Asset Management** (this last replaces Procurement).

Follow Up Audits

Follow up audits are undertaken on the request of management, or whenever partial assurance is given. The following follow ups have been completed during the quarter;

Community Safety - two priority 3 recommendations have been completed and two priority 4 recommendations are in progress.

Car Parks income was requested by management due to staff changes - five priority 3 recommendations were made; three were completed, one was not due at the time of follow up and another was incomplete.

Information Security Regulatory Compliance - one priority 4 and three priority 3 recommendations are in progress.

Two further follow ups of **Software Licensing and Asset Management**, and **Contract Management** have been deferred until later in the year to give managers further opportunities to progress the actions.

Full details of the status of previous high or medium/high recommendations made will accompany the annual report.

Future Planned Work

As can be seen from Appendix A all agreed audits in the plan have started with the exception of two follow ups, and 100% of the plan will be achieved.

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.

One audit has received partial assurance, and three medium/high priority recommendations have been made during the year. To date there have been no level 5 priority actions. All other reports finalised in the year to date have received reasonable assurance and we have not identified any very high risks to the Council.

Overall, based on the work completed to date this financial year, I can report that risks are generally well managed and the systems of internal control are working effectively. WSC management respond positively to internal audit suggestions for improvements.

APPENDIX A

3 = Medium ⟷ 5 = Major

Directorate/Service	Audit Area	Quarter	Status	Opinion	SWAP Feedback	No. of recs	Recommendations 3	Recommendations 4	Recommendations 5
							3	4	5
			FINAL REPORT						
Follow up	Partnerships	Qtr 1	Final July	N/A					
Follow up	BCP	Qtr 2	Final July	N/A					
Governance, Fraud & Corruption	Freedom of Information	Qtr 1	Final July	Reasonable	93%	6	4	0	0
Governance, Fraud & Corruption	Cash and Bank - Car Parks	Qtr 1	Final July	Reasonable		5	5	0	0
Governance, Fraud & Corruption	Gifts & Hospitality / Register of Interests (& Related Party Transactions follow up)	Qtr 2	Final August	Reasonable	88%	3	3	0	0
Governance, Fraud & Corruption	Creditor Fraud	Qtr 1	Final Sept	Reasonable		15	15	0	0
Operational	South West Private Sector Housing Partnership	Qtr 2	Final Sept	Reasonable		8	8	0	0
Governance, Fraud & Corruption	Delivery of Major Projects - Risk Management	Qtr 1	Final November	Partial	83%	5	4	1	0
Follow up	Debtors key control	Qtr 3	Final November	N/A					
Follow up	Capital key control	Qtr 3	Final November	N/A					
Follow up	Treasury Management key control	Qtr 3	Final November	N/A					
Follow up	Maximising Income	Qtr 3	Final November	N/A					
IS Review	Data Security breaches	Qtr 1	Final November	Reasonable	74%	13	10	0	0
Follow up	Creditors key control	Qtr 3	Final November	N/A					
Follow up	Cash and Bank - Car Parks	Qtr 3	Final November	N/A	95%				
IS Review	ICT Change Management	Qtr 3	Final December	Non-opinion	74%				
Governance, Fraud & Corruption	Committee Reporting - Member Decisions	Qtr 2	Final December	Reasonable	87%	3	2	1	0
Key Control	Housing Benefits	Qtr 3	Final December	Reasonable		1	1	0	0
Follow up	Community Safety	Qtr 2	Final January	N/A					
Key Control	Main Accounting	Qtr 3	Final February	Reasonable		2	2	0	0
Key Control	Payroll	Qtr 3	Final February	Reasonable		5	4	0	0
IS Advice	ICT Procurement Checklist	Qtr 4	Final February	Non-opinion					
Key Control	Council Tax & NNDR	Qtr 3	Final March	Reasonable		7	6	0	0

Follow up	Information Security Regulatory Compliance	Qtr 4	Final March	N/A					
Governance, Fraud & Corruption	Contract fraud	Qtr 2	Final March	Reasonable	79%	6	5	1	0
DRAFT REPORT									
Operational	Hinkley Site Preparation Works s106	Qtr 3	Draft March	Non-opinion					
Governance, Fraud & Corruption	Expenses fraud	Qtr 4	Draft March	Reasonable					
WORK IN PROGRESS									
Governance, Fraud & Corruption	Treasury Management theme	Qtr 3	In progress						
Governance, Fraud & Corruption	Asset Management (replacing Procurement)	Qtr 4	In progress						
Governance, Fraud & Corruption	Change Management - Remote and Mobile working	Qtr 4	In progress						
NOT STARTED									
Governance, Fraud & Corruption	Procurement - dropped and replaced with Asset Management	Qtr 2	Dropped						
Follow up	Software Licensing & Asset Management	Qtr 4	Deferred to 2013/14						
Follow up	Contract Management	Qtr 4	Deferred to 2013/14						

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

Agreed Actions

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date
Objective: To verify that decisions taken are based on Committee Reports that contain accurate, up to date and complete information.					
Risk: Committee Reports are not prepared in a standard format and do not contain all of the information needed.					
No guidance notes to assist in the completion of the report template	I recommend the Corporate Director oversees the creation of guidance notes to assist in the completion of Committee reports.	4	Agree- propose to provide annotated guidance notes within the standard template document	Corporate Director	31 May 2013
Objective: Credible Contracts are in place with genuine suppliers and these contracts are fully utilised by the Authority and effectively monitored.					
Risk: Individual Contracts are entered into outside of procured Corporate Contracts					
A contracts register is in place, but it is neither complete nor up to date and there is no current process in place to ensure new contracts are added.	I recommend the Corporate Director ensure processes are put in place to make certain the contracts register is complete, accurate and regularly updated.	4	This action has been discussed and agreed by the Corporate Management Team. Although the failing is recognised, it was requested that the priority rating be reduced to level three on the basis it will be completed. It should also be recognised that this task will present resource implications.	Group Manager - Environment, Customer and community	31st March 2014

Appendix C

SWAP
SOUTH WEST AUDIT PARTNERSHIP
Delivering Audit Excellence

West Somerset Council

Internal Audit Plan 2013/14

Internal Audit ▪ Risk ▪ Special Investigations ▪ Consultancy

Contents

The contacts at SWAP in connection with this report are:

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Summary

Our audit activity is split between:

- **Key Control Audit**
- **Fraud/Governance Audit**
- **IT Audit**
- **Operational Audit**
- **Follow Up Audit**

Role of Internal Audit

The Internal Audit service for West Somerset Council (WSC) is provided by South West Audit Partnership (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 March 2012. Review and approval of the charter for 2012/13 has been deferred until the next Audit Committee in order that changes in SWAP's legal status and the Public Sector Internal Audit Standards can be fully reflected. 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 2013/14 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 CMT and the Section 151 officer.

The Annual Plan

The Annual Plan

In order to develop the plan for the year the Audit Manager engaged with the Section 151 officer and Principal Accountant. The draft plan has had approval from CMT. In addition, SWAP Management facilitated a Control and Risk Self-Assessment (CRSA) session with the SWAP Management Board. This session identified emerging risks facing local authorities in general with a view to co-ordinate, where possible, with the audit plans of the other members of SWAP. 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 all the partners.

West Somerset Council has reduced the audit days from 240 in 2012/13 to 167 in 2013/14. The audit plan is notionally broken down across various audit categories; the following summarises each:

Key Control Audit – focus primarily on key risks relating to the Council's major financial systems. It is essential that all key controls identified by the External Auditors are operating effectively to provide management with the necessary assurance.

Fraud/Governance Audit – 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 key themes and the further Governance reviews were identified at the CRSA session involving Partner Section 151 Officers or their representatives. 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 - Continued

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 Audits - 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 Audits – Where an audit receives a Partial or No Assurance level, SWAP are required to carry out a follow up review to provide assurance that identified weaknesses have been addressed and risks mitigated. WSC also have follow up audits for key control audits which were found to be at least reasonable assurance in the previous year, there are no significant changes to the systems, and are not required in full by the external auditors. The Plan identifies those audit assignments where follow-up from 2012/13 is required and two follow ups from 2011/12 were deferred.

The schedule provided at Appendix A details the Annual Internal Audit Plan for 2013/14.

APPENDIX A

Draft WSC Audit Plan 2013/14	Days Planned
	<u>167</u>
Planning, Reporting & Advice, SWP contribution	**20**
Contingency	**4**
Key control	**60**
Creditors	10
Debtors	10
Capital	5
Treasury Management	5
Main Accounting	10
Council Tax & NNDR	10
Housing Benefits	10
Fraud / Governance audit	**60**
Financial resilience / partnership risks with TDBC	10
Public safety in open spaces owned / managed by WSC	10
Council Tax support / reduction scheme	10
Delivering good governance	10
Asset management - leasing and rental	10
Social media	10
ICT audit	**8**
TBC	8
Operational audit	**10**

Hinkley s106 (joint with SCC and SDC)	15
Hinkley s106 funding to offset audit days	-15
S106 / Community Infrastructure Levy	10
Follow ups	**5**
Payroll	3
Delivery of Major Projects - Risk Management	2
Software Licensing & Asset Management (from 12/13)	0
Contract Management (from 12/13)	0

Report Number: *WSC 43/13*

Presented by: *Steve Plenty, Principal Accountant*

Author of the Report: *Steve Plenty*
Contact Details:

Tel. No. Direct Line *01984 635217*

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Report to a Meeting of: *Audit Committee*

To be Held on: *25 March 2013*

Date Entered on Executive Forward Plan Or Agreement for Urgency Granted: *Not Applicable*

ACCOUNTING POLICIES – 2012/13 STATEMENT OF ACCOUNTS

1. PURPOSE OF REPORT

1.1 To request that members of the Audit Committee approve the Accounting Policies for 2012/13 so that the Statement of Accounts can be prepared on this basis.

2. CONTRIBUTION TO CORPORATE PRIORITIES

2.1 None.

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 it's Accounts in line with the recommended Accounting Policies	Unlikely (1)	Major (3)	Medium (3)
Planning and the scheduling of regular sessions during the closedown period will minimise this			

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 measurers have been actioned and after they have.

5. BACKGROUND INFORMATION

5.1. In preparation for the completion of the 2012/13 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 Authority Accounting in the United Kingdom 2012/13 and adapted where necessary for local practices.

5.3. The proposed Accounting Policies are attached in Appendix A. 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 2012/13 Statement of Accounts.

6. FINANCIAL/RESOURCE IMPLICATIONS

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

7. SECTION 151 OFFICER COMMENTS

7.1. The policies as presented are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and the Service Reporting Code of Practice 2012/13, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act and adjusted for relevance to West Somerset Council. This is a key area that will be audited by the Audit Commission in the summer following the preparation of the 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 this report.

9. CRIME AND DISORDER IMPLICATIONS

9.1 None directly in this report.

10. CONSULTATION IMPLICATIONS

10.1 None directly in this report.

11. ASSET MANAGEMENT IMPLICATIONS

11.1 None directly in this report.

12. ENVIRONMENTAL IMPACT IMPLICATIONS

12.1 None directly in this report.

13. LEGAL IMPLICATIONS

13.1 None directly in this report.

APPENDIX A

Proposed Accounting Policies 2012/13

General Principles

The Statement of Accounts summarises the Authority's transactions for the 2012/2013 financial year and its position at the year-end of 31 March 2012. 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 2012/13 and the Service Reporting Code of Practice 2012/13, 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 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.

Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Authority's financial performance.

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. 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 4.6% based on the yield on the iBoxx AA, rated over the 15 year Corporate Bond Index.
- 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 pensions liability is analysed into seven components:

- 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
- Interest cost – 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
- 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
- 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.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

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 £10,000) 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 and 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.

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 2011/12 (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 £2,000. 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).

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.

Assets included in the Balance Sheet at current value are revalued where there have been material changes in the value, but as a minimum every five years. A full revaluation of Land and Buildings, Community assets, Investment Properties and Surplus Assets by a qualified valuer took place as at 1 April 2009. 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

- Vehicles, plant and equipment – reducing balance method, based on a percentage of the value of each class of assets in the balance sheet, (vehicles 20% per annum, plant 15% per annum and equipment 20-25% per annum)

- Infrastructure – straight-line allocation over 25 years.

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 £10,000 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 £10,000 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 £180,000 (approximately 1% of the Authority’s non current assets as at 31 March 2012).
- 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. The assets will be reviewed by the following:
    - Sub Structure
    - Superstructure (frame, upper floors, roof, stairs, external walls, windows, external doors, internal walls, partitions, internal doors)
    - Internal finishes (walls, floors and ceilings)
    - Fixtures (sanitary, water, disposal equipment)
    - Engineering services (heating, air treatment, gas installations, lifts, protective, communications)
    - External works
- 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.

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 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 2010. This amount is then adjusted for the Authority's share of the surplus/deficit of 31 March 2009 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 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 45/13*
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Report to a Meeting of: *Audit Committee*
To be Held on: *25th March 2013*
Date Entered on Executive Forward Plan Or Agreement for Urgency Granted: *Not Applicable*

SWAP GOVERNANCE

1. PURPOSE OF REPORT

1.1 To agree West Somerset Council's representatives on the SWAP Board of Directors and the SWAP Members' Board.

2. CONTRIBUTION TO CORPORATE PRIORITIES

2.1.1 The Council is currently working with Taunton Deane Borough Council to draft a business case for the commissioning or sharing of services, management and staff, SWAP Ltd is an example of joint working.

3. RECOMMENDATIONS

3.1 That the Deputy Section 151 Officer be the West Somerset representative on the SWAP Board of Directors

3.2.1 That the Chair of the Audit Committee be the West Somerset representative on the SWAP Members' Board

4. RISK ASSESSMENT (IF APPLICABLE)

Risk Matrix

Description	Likelihood	Impact	Overall
That the interests of West Somerset Council are not represented at Board level in the new company	3	3	9
By making these 2 appointments the interests of the council will be covered	1	1	1

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 At the Council meeting of the 27th February 2013 the Council made the following decisions:

5.1.1 Approved the formation of a company, limited by guarantee, to replace the existing SWAP Joint Committee

5.1.2 Elected to be a Member of the SWAP Ltd from 1st April 2013, on the terms and basis set out in the articles of association, deed and service agreement.

5.1.3 Agreed to the dissolving of the SWAP Joint Committee at a date to be determined, but not later than 30th June 2013.

5.1.4 Noted the separation of responsibilities and the membership profiles of the Members' Board and the Board of Directors.

5.1.5 Noted that the fees for the provision of internal audit services by SWAP Ltd, for the financial year 2013/14, will not increase on the fees paid to SWAP by the council in 2012/13

5.1.6 Agreed that the appointment of the membership of the Members' Board and the Board of Directors is delegated to the Audit Committee to decide.

5.2 **The Members' Board**

This is, in effect, the equivalent of the current Partnership Board. Each partner would nominate a Councillor to represent them on this Board. It is the supreme authority of the company and would make all decisions relating to strategy, policy, appointment and dismissal of senior management and the admission of new partners.

If a Member is unable to attend a meeting they can send a deputy but the deputy is unable to vote. A Member can give the Chair a proxy vote on any issue.

5.3 **The Board of Directors**

The Board oversees the implementation of the strategy and policy, as well as ensuring the operational activities of the partnership are achieving the objectives set by the Members' Board. The Board will be much more 'hands on', functioning very much like the current Management Board. Most Board members, in order to be effective, will need a good working understanding of internal audit and risk management. Provision has been made in the articles for other directors to be appointed, including some SWAP management.

If a Director is unable to attend any meeting a deputy can be sent but the deputy is unable to vote. A Director can give any other Director, including the Chair, a proxy vote on any issue.

The Partnership Board endorsed the following membership arrangements for the board of directors:

- Two Councillors who would normally be the Chairman and Vice Chairmen of the Members' Board.
- Twelve officers representing each of the current partners.
- A maximum of three executive officers from SWAP, with at least the Chief Executive being included.

5.4 **Respective Roles of the two Boards**

Summarised below is an abbreviated list of the responsibilities and powers of the two governing bodies of the new company.

Members’ Board	Board of Directors
• Admission of new partners • Approval of the Annual Business Plan • Any changes to the approved Annual Business Plan • Setting of the annual budget • Approval of annual accounts • Extending or reducing the scope of operations • Appointment or removal of Directors, in accordance with the Articles and the legal agreement • Setting and approving the form and content of the financial regulations • Appoint or remove the Chief Executive or any member of the management team • Change the name of the Company or its registered office • Change the bankers of the Company or open or close any bank accounts • License, assign or otherwise dispose of intellectual property rights owned by the Company • Approves and reviews the annual risk register	• Agrees the preliminary budget, for submission to the Member’s Board for approval • Approves all changes to the budget, except in relation to any proposals which would lead to an increase in Member contributions • Reviews and approves the annual statement of accounts, prior to submission to the Members’ Board • On-going Budget monitoring • Agrees combined audit plan and ensures equity of resource distribution amongst the Members • Agrees any changes to audit plans that impact on the partnership • Approves and reviews annual themed audits to ensure best practice is shared with relevant service heads at each Member • Monitors overall performance against the combined audit plan • Reviews and monitors the risk register to ensure risks are managed in accordance with the requirements of the Members’ Board • Approves and monitors terms and conditions of staff

6. FINANCIAL/RESOURCE IMPLICATIONS

6.1 The Board of Directors will meet 4 times per year which is the same frequency as the current SWAP management board so will not require any additional resource

6.2 The Members’ Board will meet twice a year which is the same frequency as the current board so will not require any additional resource

7. SECTION 151 OFFICER COMMENTS

7.1 The current s151 officer is not an employee of West Somerset Council so it is not appropriate that they sit on the Board of Directors. As such it is proposed that the deputy s151 officer, who is the most senior member of the finance team employed by West Somerset, is appointed as a Director.

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

9. CRIME AND DISORDER IMPLICATIONS

9.1 None

10. CONSULTATION IMPLICATIONS

10.1 None

11. ASSET MANAGEMENT IMPLICATIONS

11.1 None

12. ENVIRONMENTAL IMPACT IMPLICATIONS

12.1 None

13. LEGAL IMPLICATIONS

13.1 The Members Agreement and Articles of Association have been checked by our Legal Advisors.