

AUDIT COMMITTEE

AGENDA

25 June 2012 at 4.30 pm

Council Chamber, Williton

1. **Apologies for Absence**

2. **Minutes**

Minutes of the Meetings of the Committee held on 26 March 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 2012/13 – **SEE ATTACHED**

7. **Hinkley Point C section106 Agreement - Financial Governance Arrangements**

To consider report No. WSC 87/12 to be presented by Councillor K Kravis, Lead Member for Resources and Central Support - **SEE ATTACHED**.

The purpose of the report is to consider financial governance issues relating to the Hinkley Point C Section 106 Agreement.

8. Audit of Financial Controls

The purpose of the report is for the Audit Commission to present their assessment of the adequacy of internal controls to the Committee – **SEE ATTACHED.**

9. Quarterly Review of Internal Audit Activity

The purpose of the report is to provide a review of Internal Audit activity plus identify any level 4 and 5 control weaknesses – **VERBAL UPDATE.**

10. Update on Level 4 and 5 Recommendations

The purpose of the report is to provide an update on recommendations made during 2010/11 by the council's Internal Auditors – **SEE ATTACHED.**

11. Council Tax and NNDR Managed Audit Follow-up Report

Example of recommendations made at levels 2 and 3 – **SEE ATTACHED.**

12. Internal Audit Annual Report and Opinion

The purpose of the report is to provide a review of the Internal Audit activity for the period April 2011 to March 2012, including an update on recommendations made, and an overall opinion to support the Annual Governance Statement – **SEE ATTACHED.**

13. Annual Review of Internal Audit

To consider report No. WSC 86/12 to be presented by Graham Carne, Group Manager – Finance and Central Support Services - **SEE ATTACHED.**

The purpose of the report is to review the effectiveness of Internal Audit, as delivered through SWAP (South West Audit Partnership) during 2011/12.

14. Draft Accounts 2011/12

To consider the draft financial statements for comment – **SEE ATTACHED**

15. Annual Governance Statement 2011/12

To consider report No. WSC 85/12 to be presented by Councillor K Kravis, Lead Member for Resources and Central Support - **SEE ATTACHED.**

The purpose of the report is to review the Annual Governance Statement prior to its signature by the Leader of the Council and the Chief Executive.

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

AGENDA ITEM 2

**Minutes of the Meeting held on 26 March 2012 at 4.30 pm
in the Council Chamber, Williton**

Present

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

Councillor M J Chilcott
Councillor P H Murphy

Councillor K M Mills
Reverend V Woods

Members In Attendance

Councillor K V Kravis

Officers In Attendance

Corporate Director (B. Lang)
Section 151 Officer (G. Carne)
Group Manager – Housing & Community (I. Timms)
Principal Accountant (S. Plenty)
Meeting Administrator (H. Dobson)

Also In Attendance

Alun Williams, District Auditor, Audit Commission
Claire Hodgson, Audit Manager of South West Audit Partnership (SWAP)

A50 Apologies for Absence

An apology for absence was received from Councillor R P Lillis.

A51 Minutes

(Minutes of the Meeting of Audit Committee held on 1 December 2011 and Special Committee held on 8 February 2012, circulated with the Agenda).

RESOLVED that, subject to an amendment to both minutes that A M Chilcott be changed to M J Chilcott, the Minutes of the Meeting of Audit Committee held on 1 December 2011 and Special Committee held on 8 February 2012 be confirmed as a correct record.

A52 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

A53 Public Participation

No members of the public had requested to speak.

A54 Audit Committee Action Plan

(Action Plan, circulated with the Agenda).

The Section 151 Officer advised that once actions from the February Audit Committee meeting had been added an updated plan would be circulated to the Committee.

RESOLVED that the Audit Committee Action Plan be noted.

A55 Audit Committee Forward Plan

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

The Section 151 Officer advised of a proposed training session to look at the draft statement of accounts. He noted the request to produce a flow chart showing how and when the various finance reports feed into each other throughout the year and that it could be included in the training session.

Members noted that a review of all audit recommendations made throughout the year would be conducted and the results reported to the Audit Committee at their meeting scheduled in June 2012.

RESOLVED that the Audit Committee Forward Plan be noted.

RESOLVED that a training session to look at the draft Statement of Accounts be held on 20 June 2012, at 5.00 pm.

A56 Quarterly Review of Internal Audit Activity

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

The purpose of the report was to provide a review of the Internal Audit activity plus any significant control weaknesses that remain unresolved.

The Audit Manager of SWAP outlined the details in the report and advised that the Audit Charter at Appendix A, attached to the report, related to item 8 on the agenda.

The Section 151 Officer noted the request that a sample of level 1, 2 and 3 recommendations be available to view at the next Audit briefing meeting.

A query was raised as to whether the number of level 1, 2 and 3 recommendations were increasing. The Audit Manager of SWAP confirmed that she would be able to include that information in future reports.

RESOLVED that the Quarterly Review of Internal Audit Activity report be noted.

A57 Internal Audit Plan 2012/13

(Internal Audit Plan 2012/13, circulated with the Agenda).

The purpose of the report was to inform the Audit Committee of the proposed work to be undertaken by Internal Audit during 2011/12.

In response to a question regarding the audit of Committee Reporting – Member Decisions, the Audit Manager of SWAP advised that the audit had not been scoped in full yet, but it was likely that SWAP would look at whether information that had been presented to members to make decisions was complete and timely etc.

A query was raised as to whether the audit would look at whether members had training on public sector equality. The Audit Manager for SWAP confirmed that she would be able to include that in the audit.

The Section 151 officer gave assurance regarding concerns the scope of the Hinkley operational audit, he advised that so far some 106 monies had been received some of which had been passed on. The payment process was being carried out in a steady manner and being checked for accuracy and in accordance with the schedules. A dedicated officer had recently been appointed and would be carrying out these duties.

RESOLVED that the Internal Audit Plan 2012/13, be noted.

A58 Internal Audit Charter 2012-13

(Report No. WSC 53/12, circulated with the Agenda).

The purpose of the report was to provide a review of the Internal Audit Charter and approve any changes.

RESOLVED that the Internal Audit Charter 2012-13 be approved.

A59 Future of the Audit Commission

The District Auditor provided an update on the future of the Audit Commission and advised that the results of the procurement exercise to outsource the work was complete. Grant Thornton would be the District Auditors for this Council in September 2012 and the current Audit Commission staff would be transferred by TUPE arrangements in November 2012. During the interim period, between September and November, the District Auditor would have a watching brief. However, he did not anticipate any problems, as work on the Council's accounts for 2012/13 wouldn't start until about October/November.

Members raised concern that despite most services being passed onto other organisations such as, the Local Government Association, other services, such as, research and publications, currently had not and may be lost.

RESOLVED that the update on the future of the Audit Commission, be noted.

A60 Opinion Audit Plan 2011/12

(Opinion Audit Plan 2011/12, circulated with the Agenda).

The District Auditor of the Audit Commission presented the report and advised that the plan sets out the key areas of work, how the Audit Commission fulfil their responsibilities and gives a brief outline of how the overall procedures were followed.

During the course of the discussion the following points were raised/addressed:

- The fee charged by the Audit Commission reflected the amount of work to be carried out. West Somerset Council's fee was quite low compared to other authorities and might be reduced further as some of the work was stopped.
- Great concern was expressed regarding the Hinkley Point C monies that would pass through the Council. Was there insurance to guard against 'clawback' should a wrong payment be made? In response the Section 151 Officer advised that there was a memorandum of understanding in place to ensure the money was discharged according to the obligations. He recognised that it was a large area of risk and noted that Councillor M J Chilcott wished to be included in the group that would look to mitigate the risks.
- The Audit Commission had looked at the community assets on the authority's asset register and had not identified any heritage assets to date. The Audit Commission were of the opinion that should any be identified in the future that it was unlikely that they would be material.

RESOLVED that the Audit Commission's Opinion Audit Plan for 2011/12 be noted.

A61 Accounting Policies – 2011/12 Statement of Accounts

(Report No. WSC 55/12, circulated with the Agenda).

The purpose of the report was to request that members of the Audit Committee approve the Accounting Policies for 2011/12 so that the Statement of Accounts could be prepared on this basis.

The Lead Member for Resources and Central Support advised that the Accounting Policies must be updated in line with Code of Practice on Local Authority Accounting and adapted where necessary for local practices.

In response to the use of some of the wording within the policies the Section 151 Officer advised that a standard set of words were provided by CIPFA, which makes it easier to demonstrate that the Council were meeting the requirements of the guidance.

Members noted that the policies were a living document and could be amended if necessary to comply with actual event that were to be reported in the 2011-12 Statement of Accounts.

RESOLVED that the Accounting Policies 2011-12, be approved.

The meeting closed at 6.05 pm.

AUDIT COMMITTEE ACTION PLAN

Date/Minute Number	Action Required	Action Taken
A47 - Certification of Claims and Returns	<u>RESOLVED</u> that the Certificate of Claims and Returns annual report, 2010/11, be noted	No action
A48 Treasury Management Strategy Statement, MRP Policy and Annual Investment Strategy 2012-13	<u>RESOLVED</u> that the combined Treasury Management Strategy Statement, Minimum Revenue Policy Statement and Annual Investment Strategy for 2012-2013, be noted.	No action (Policy was approved by Full Council in March 2012 – Chair of Audit made comments at that meeting)
A49 Risk Management Strategy 2012 Update	<u>RESOLVED</u> that the revised and updated Risk Management Strategy, attached to the agenda, be approved.	No action
A55 Audit Committee Forward Plan	<p>Members noted that a review of all audit recommendations made throughout the year would be conducted and the results reported to the Audit Committee at their meeting scheduled in June 2012.</p> <p><u>RESOLVED</u> that the Audit Committee Forward Plan be noted.</p> <p><u>RESOLVED</u> that a training session to look at the draft Statement of Accounts be held on 20 June 2012, at 5.00 pm.</p>	<p>This is agenda item 10</p> <p>No action</p> <p>This has been arranged for 22nd June 2012 at 11am</p>
A56 Quarterly Review of Internal Audit Activity	<u>RESOLVED</u> that the Quarterly Review of Internal Audit Activity report be noted.	No action
A57 Internal Audit Plan 2012/13	<u>RESOLVED</u> that the Internal Audit Plan 2012/13, be noted.	No action
A58 Internal Audit Charter 2012-13	<u>RESOLVED</u> that the Internal Audit Charter 2012-13 be approved.	No action
A59 Future of the Audit Commission	<u>RESOLVED</u> that the update on the future of the Audit Commission, be noted.	No action
A60 Opinion Audit Plan 2011/12	<u>RESOLVED</u> that the Audit Commission's Opinion Audit Plan for 2011/12 be noted.	No action
A61 Accounting Policies – 2011/12 Statement of Accounts	<u>RESOLVED</u> that the Accounting Policies 2011-12, be approved.	Draft accounts are item 13 on this agenda

AUDIT COMMITTEE FORWARD PLAN 2012/13

September 2012	December 2012	March 2013	June 2013
Quarterly Review of Internal Audit Activity	Quarterly Review of Internal Audit Activity	Quarterly Review of Internal Audit Activity	Quarterly Review of Internal Audit Activity
Statement of Accounts	Annual Audit Letter	Internal Audit Plan 2013/14	Update on Level 4 & 5 Recommendations
Annual Governance Report	Risk Management Update	Internal Audit Charter 2013-14	Internal Audit Annual Report and Opinion
	6-month review of Treasury Management Activity	Opinion Audit Plan 2012/13	Annual Review of Internal Audit
		Accounting Policies – 2012/13 Statement of Accounts	Draft Accounts 2012/13
		Treasury Management Strategy Statement, MRP Policy and Annual Investment Strategy 2013-14	Annual Governance Report 2012/12
		Certification of Claims and Returns	
		Risk Management Strategy 2013 update	

REPORT NUMBER WSC 87/12
PRESENTED BY COUNCILLOR KATE KRAVIS – LEAD MEMBER FOR
RESOURCES AND CENTRAL SUPPORT
DATE 25 JUNE 2012

Hinkley Point C section106 Agreement - Financial Governance Arrangements

1. PURPOSE OF REPORT

- 1.1 This paper considers financial governance issues and sets out the Council's approach – in particular the role of CMT and managers – associated with the Hinkley Point C Site Preparation Works Section 106 Agreement (the Agreement). It does not consider any planning aspects of the Agreement itself but ensures that the Council's financial governance arrangements do not conflict with financial processes and the Council's commitments regarding the receipt of contributions that are set out in the Agreement. The approach set out within the report is designed to ensure sound financial governance remains a priority for discharging the Council's responsibilities under the Agreement. It is consistent with the Council's Scheme of Delegation and current practices for ensuring accountability for spending and effective budget and service plan monitoring, and also provides for greater visibility of spend in relation to sums paid directly to other bodies under the Agreement and where the Council will pay money to other bodies in accordance with the Agreement.
- 1.2 Effective financial governance and good project and organisational management will jointly deliver the best practice requirements set out in this paper. The formal governance framework that will determine how spending decisions are approved is already in place and operating procedures will shortly be communicated. It is necessary at this point to ensure that financial governance arrangements are clarified, given the Council's role in managing monies already received under the Agreement. Clearly CMT and Group Managers play a pivotal role in this regard.
- 1.3 For information, Appendix A provides an update on the funds received pursuant to the Agreement by West Somerset Council and the sums committed against these monies to date.

2. RECOMMENDATIONS

- 2.1. That the Audit Committee recommends West Somerset Council Cabinet to approve the proposed governance arrangements set out in this report, with regard to the management of Hinkley Point C section 106 contributions.
- 2.2. That a further report be presented to the Audit Committee in September 2012, following consultation on the proposed financial governance processes with the South West Audit Partnership.

3. **RISK ASSESSMENT**

Risk Matrix

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 would suffer loss of reputation.	3 Possible	4 Major	12 Medium
<i>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.</i>	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 measures have been actioned and after they have.

4. **BACKGROUND INFORMATION**

- 4.1. The Hinkley Point C Site Preparation Works Section 106 Agreement (the Agreement) was completed on 29th January 2012. It provides for monies in excess of £28m to be made available to mitigate the effects of the proposed Development, most of which will be paid on an instalment basis to West Somerset Council, Sedgemoor District Council, Somerset County Council and some other third parties. Members will recall that a detailed report was considered by Cabinet in December 2011 and Council in January this year (minute C76 refers), identifying the various mechanisms for distributing monies received under the Agreement. The approval framework that will govern spending decisions taken by WSC Cabinet and Full Council is shown in Appendices B – E. Operating procedures will shortly be confirmed and implemented.
- 4.2. Appendix F shows the intended initial distribution of these funds across the public bodies that are affected by the Hinkley proposals (as set out in the Agreement). The largest part of the Developer contribution (£16.9m) is due to be paid to WSC in instalments over the next two to three years. Some of this sum (£2.2m) will, in accordance with the approvals given by Council in January, be paid across to other bodies upon receipt, in accordance with the Agreement. As Members will be aware, a joint Board will be established to consider and make recommendations to Cabinet and Council about projects to be funded from £10.5m of contributions relating to the Community Impact Mitigation Fund, the Annual Community Impact Mitigation Fund, the Housing Fund and the contributions relating to Economic Development. This is likely to result in funding being made available to a range of both public and community led projects. As illustrated in Appendix B, the Board's recommendations will be submitted to WSC Cabinet (prior to Full Council, if in excess of £25,000) for approval.
- 4.3. As set out in the report approved by Council, a significant balance of section 106 funding (£4.2m) will remain to be allocated by WSC directly – either to external parties or to provide finance for qualifying revenue activity or capital projects within the Council. In some instances, these funds will directly support the additional identified revenue costs associated with managing the implications of the Hinkley project over the next two years (largely staffing costs). £1.5m will be available to support a range of initiatives to benefit local affected communities. Appendix E shows the proposed route for approving these

projects and Appendix G indicates the theme categories that these arrangements will apply to.

- 4.4. It should be noted that the Council's current arrangements set out in Financial Regulations for approving new expenditure will continue to apply to decisions relating to the use of Hinkley section 106 contributions. However, it would be sensible to review the appropriateness of these arrangements when the overall project governance framework is fully implemented. There will be opportunity to consider future amendments to the relevant Regulations.
- 4.5. The Council recognises the importance of sound financial governance and has taken steps to embed good practice throughout its operations. This includes regular review of budgets alongside service plan monitoring, to maintain essential links between financial resources and deliverability. Appendix H shows how Hinkley section 106 project and financial monitoring might be incorporated within the Council's current review and reporting arrangements. This approach is to be advised, as it should enable the additional monitoring to become established both swiftly and relatively efficiently, and to be viewed within the scope of ongoing service activity.
- 4.6. Given the scale and reach of the Hinkley section 106 funding streams, it is vital that financial management and control is totally effective. Comprehensive arrangements will need to be established corporately to manage the receipt and investment of Developer contributions and account for financial activity linked to these monies. This will encompass the monitoring of spending approvals agreed via the various mechanisms in place. Table 1 below sets out the identified requirements and proposed approach to achieving this. If accepted, these principles will be used to produce relevant documentation, including guidance notes and timetables to implement the agreed practices. It is intended that South West Audit Partnership will be asked to comment on the proposed approach, on behalf of the three signatory councils to the Agreement.
- 4.7. On a quarterly basis, a full statement of the current Hinkley section 106 funding position will be produced. This will comprise an overall summary, showing the current receipts, spending approvals and payments across all categories within the section 106 Agreement, including – for completeness - those managed by other bodies. This will provide an indication of progress being made, and can be supplemented with information on projects underway or under consideration for approval. This will complement reporting requirements set out in the Agreement.
- 4.8. On a monthly basis, CMT will receive a budget monitoring report covering all Hinkley section 106 spending under the control of Group Managers; where monies are earmarked corporately to meet the costs of Hinkley-related service activity, a separate cost centre *and notional budget* will be established to ensure that only valid expenditure is charged against the section 106 funding. The designated Responsible Officer (see Appendix A) will be accountable for ensuring that this is the case and regular budget monitoring reports and support will be available, as now. It will be important to identify any items wrongly charged against Hinkley funds as soon as possible, to enable corrections and ensure that the mainstream service revenue budget remains on course. Similarly, expenditure funded from Hinkley monies will need to be managed very closely. At the end of the financial year, valid expenditure charged against Hinkley-related cost centres will be financed from section 106 contributions held centrally, to remove any impact on the revenue budget (beyond any costs budgeted for as part of normal planned service activity). A new cost centre budget will be issued for the following year, based on the estimated spend figure and the approvals in place.
- 4.9. This overall approach will help facilitate sound financial governance, ensuring that effective control is maintained over Hinkley earmarked funding; managers with responsibility for operational delivery will have delegated powers to incur necessary expenditure, and will

receive sufficient monitoring information and support to enable them to manage the financial position on an ongoing basis.

**Table 1: Principles of Effective Financial Governance
Hinkley section 106 Contributions**

Requirement	How Addressed	Initial Responsibility
Implement appropriate procedures to ensure funding is approved according to agreed criteria	Criteria included in section 106 Agreement (and elsewhere, as appropriate) will be incorporated in bids and approvals processes	Major Projects Manager (James Holbrook)
Facilitate best use of resources in relation to section 106 contributions	<p>Bids and approvals process to consider Value for Money and opportunities for leveraging match funds as appropriate. Consider VAT position as part of disbursement arrangements.</p> <p>Underspends against approved projects should be identified to consider reallocation.</p> <p>Contributions received will be invested to optimise returns until required and interest earned will be added to the section 106 funds available. An appropriate investment strategy will be prepared, consistent with the Council's Treasury Management policy.</p>	<p>Major Projects Manager (JH) & Finance Officer (Patricia Disney-Walford)</p> <p>Finance Officer (PDW)</p> <p>Finance Officer (PDW)</p>
Evaluate proposals to establish that projects are capable of being delivered <u>and</u> within the funds allocated	Project / spending proposals should set out clear assessment of costs and intended delivery approach for validation	Major Projects Manager (JH) & Finance Officer (PDW)
Recognise any ongoing financial impacts which will fall to WSC as a consequence of the initial investment	Approvals process should specifically address this, as appropriate; relevant officers need to be involved on timely basis	Various – will need to be addressed via bid/approvals processes
Establish and maintain processes to ensure section 106 funds are only disbursed to meet qualifying expenditure	Basis for disbursing funds to external bodies must be established prior to approval (eg. presentation of supplier invoice). Strict charge-out procedures to apply for internally managed expenditure	Major Projects Manager (JH) & Finance Officer (PDW)

Requirement	How Addressed	Initial Responsibility
Undertake regular project monitoring and review of financial activity, to maintain a complete and accurate view of income, spend and future commitments, and ensure potential under/over spends are identified	Appropriate use of IT systems to record and manage data, coordinated timetables for updates/reviews, use of dedicated cost centres, timely provision of monitoring information and support. Ensure good financial housekeeping practices are the norm. Embed the implementation and monitoring of Hinkley section 106 projects and finance activity within the established Service Plan review framework	Finance Officer (PDW) with CMT
Regular financial reporting and appropriate use of escalation procedures to flag concerns and enable swift remedial actions to be taken	Reporting cycle established. Procedures in place to identify exception items and action as appropriate	Finance Officer (PDW) with CMT
Ensure both management and operational accountabilities are clear and appropriate to achieve effective financial governance	Budget responsibility is placed <u>at appropriate level</u> and reflects operational decision making; officers recognise the implications of applying section 106 resources	CMT
Sustain effective working relationships between the various parties to the section 106 Agreement, in relation to financial and other governance matters	Build on existing arrangements for Hinkley liaison between key bodies. Establish appropriate mechanisms and effective lines of communication	CMT

5. FINANCIAL/RESOURCE IMPLICATIONS

- 5.1 These are largely covered, in that the section 106 Agreement makes resources available to the Council towards the costs of providing finance and project staff resources. It will, however, be appropriate to consider any significant resource impacts arising from additional monitoring and related activity within service Groups managing section 106 monies.
- 5.2 The most significant resource implication would be the cost of failing to manage the Hinkley section 106 funds satisfactorily; these risks are covered in section 3 above. The Council must demonstrate the highest standards of financial governance to maximise the benefit of section 106 resources and avoid incurring any unplanned costs as a consequence of poorly managed projects.

6. SECTION 151 OFFICER COMMENTS

- 6.1. These arrangements demonstrate the seriousness with which West Somerset Council is treating its role in relation to this significant project and the governance of public monies. There will be consultation on our approach with partner bodies to the Agreement, including EDF, and an audit undertaken by the South West Audit Partnership, which is the internal auditor to the three councils.

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. Somerset County Council and Sedgemoor Council will have a legitimate stakeholder interest in the arrangements established by WSC for managing section 106 contributions. Officers are therefore consulting with finance staff in both authorities and with the South West Audit Partnership to ensure the proposed practices are acceptable.

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 25 JUNE 2012.

CONTACT OFFICERS: GRAHAM CARNE / TRISH DISNEY-WALFORD
TEL. NO.DIRECT LINE: 01984 635253 / 01984 635213
EMAIL: GCARNE@WESTSOMERSET.GOV.UK /
PDISNEY-WALFORD@WESTSOMERSET.GOV.UK

Summary of Hinkley section 106 Contributions payable to West Somerset Council

Appendix A

"Live" Status Key



All necessary funding and project approvals in place to enable progress
 Monitor closely to ensure funding and project approvals are in place & projects able to progress
 Funding approvals are outstanding - intervention needed

section 106 Category	WSC Delivery Officer	WSC CMT Member	"Live" Status (see key) Note 1	Description / Purpose Note 2	Payment Trigger Note 3	Due Date Note 4	Amount £	Date Received	Amount Received To Date Note 5 £	Allocations Approved Current Receipts Note 6 £	Allocations Approved Future Receipts Note 7 £	Balance not committed from Current Receipts Note 8 £	WSC Minute Reference Approvals
Housing	Heather Crockford	Ian Timms		Housing initiatives	Phase 2	08-Aug-12	4,000,000		0	0	240,000	0	WSC15/12 C76
Community Impact Mitigation	James Holbrook	Andrew Goodchild		Projects which promote or improve the economic, social or environmental well-being of affected local communities.	Phase 2	08-Aug-12	3,500,000		0	0	0	0	
	James Holbrook	Andrew Goodchild		Annual community impact mitigation measures	Phase 2 + 1 year	08-Aug-13	1,600,000		0	0	80,000	0	WSC15/12 C76
	James Holbrook	Andrew Goodchild		Annual community impact mitigation measures	Phase 2 + 2 years	08-Aug-14	1,600,000		0	0	0	0	
				Stogursey - community impact mitigation measures	Phase 2	08-Aug-12	500,000		0	0	0	0	
Community Safety	Pete Hughes	Steve Watts		Costs of security and safety measures associated with Development, incl staff costs	Phase 1	20-Mar-12	841,387	20-Mar-12	841,387	826,921	0	14,466	WSC15/12 C76
	Pete Hughes	Steve Watts		Costs of security and safety measures associated with Development, incl staff costs	Phase 1 + 1 year	20-Mar-13	670,180		0	0	643,848	0	WSC15/12 C76
Ecology	James Holbrook	Andrew Goodchild		Provide for planting, aftercare and management to conserve bats and ecology	Phase 1	20-Mar-12	250,000	20-Mar-12	250,000	0	0	250,000	
Economic Development	Corinne Matthews	Ian Timms		Employment of ED Officer	Phase 1	20-Mar-12	60,000	20-Mar-12	60,000	60,000	0	0	WSC15/12 C76
	Corinne Matthews	Ian Timms		Employment of ED Officer	Phase 1 + 1 year	20-Mar-13	60,000		0	0	60,000	0	WSC15/12 C76
	Corinne Matthews	Ian Timms		Costs of business support initiatives and relevant projects	Phase 1	20-Mar-12	64,470	20-Mar-12	64,470	0	0	64,470	
	Corinne Matthews	Ian Timms		Costs of business support initiatives and relevant projects	Phase 1 + 1 year	20-Mar-13	64,470		0	0	0	0	

Summary of Hinkley section 106 Contributions payable to West Somerset Council

"Live" Status Key



All necessary funding and project approvals in place to enable progress
 Monitor closely to ensure funding and project approvals are in place & projects able to progress
 Funding approvals are outstanding - intervention needed

Appendix A

section 106 Category	WSC Delivery Officer	WSC CMT Member	"Live" Status (see key) Note 1	Description / Purpose Note 2	Payment Trigger Note 3	Due Date Note 4	Amount £	Date Received	Amount Received To Date Note 5 £	Allocations Approved Current Receipts Note 6 £	Allocations Approved: Future Receipts Note 7 £	Balance not committed from Current Receipts Note 8 £	WSC Minute Reference Approvals
Health	Erica Lake	Ian Timms		Participation in Health Task & Finish Group	Phase 1	20-Mar-12	20,000	20-Mar-12	20,000	20,000	0	0	WSC15/12 C76
Landscape & Visual	Angela Lamplough	Steve Watts		Developing & implementing Landscape Art Schemes	Phase 1	20-Mar-12	80,000	20-Mar-12	80,000	0	0	80,000	
	Corinne Matthews	Ian Timms		Establishing & undertaking Land Management & Skills Scheme	Phase 2	08-Aug-12	120,000		0	0	0	0	
Leisure	Angela Lamplough	Steve Watts		Providing new or improved sport/leisure facilities in WS	Phase 2	08-Aug-12	250,000		0	0	0	0	
	Angela Lamplough	Steve Watts		Providing new or improved sport/leisure facilities in Stogursey	Phase 2	08-Aug-12	500,000		0	0	0	0	
Skills & Training	Corinne Matthews	Ian Timms		Employing Community Outreach Worker	Phase 1	20-Mar-12	60,000	20-Mar-12	60,000	60,000	0	0	WSC15/12 C76
	Corinne Matthews	Ian Timms		Employing Community Outreach Worker	Phase 1 + 1 year	20-Mar-13	60,000		0	0	60,000	0	WSC15/12 C76
	Corinne Matthews	Ian Timms		Community Outreach Worker Fund	Phase 1	20-Mar-12	7,500	20-Mar-12	7,500	7,500	0	0	WSC15/12 C76
	Corinne Matthews	Ian Timms		Community Outreach Worker Fund	Phase 1 + 1 year	20-Mar-13	7,500		0	0	7,500	0	WSC15/12 C76
	Corinne Matthews	Ian Timms		Fit to Work Programme	Phase 1	20-Mar-12	30,000	20-Mar-12	30,000	0	0	30,000	
	Corinne Matthews	Ian Timms		Fit to Work Programme	Phase 1 + 1 year	20-Mar-13	30,000		0	0	0	0	
Service Level Agreement	Andrew Goodchild	Graham Carne		Officer costs: PP to PP + 9 months	February 2012	01-Feb-12	800,000	01-Feb-12	800,000	800,000	0	0	WSC15/12 C76
	Andrew Goodchild	Graham Carne		Officer costs: PP + 9 to PP + 15 months	November 2012	01-Nov-12	440,000		0	0	440,000	0	WSC15/12 C76
	Andrew Goodchild	Graham Carne		Officer costs: PP + 15 to PP + 24 months	May 2013	01-May-13	570,000		0	0	570,000	0	WSC15/12 C76

Summary of Hinkley section 106 Contributions payable to West Somerset Council

Appendix A

"Live" Status Key



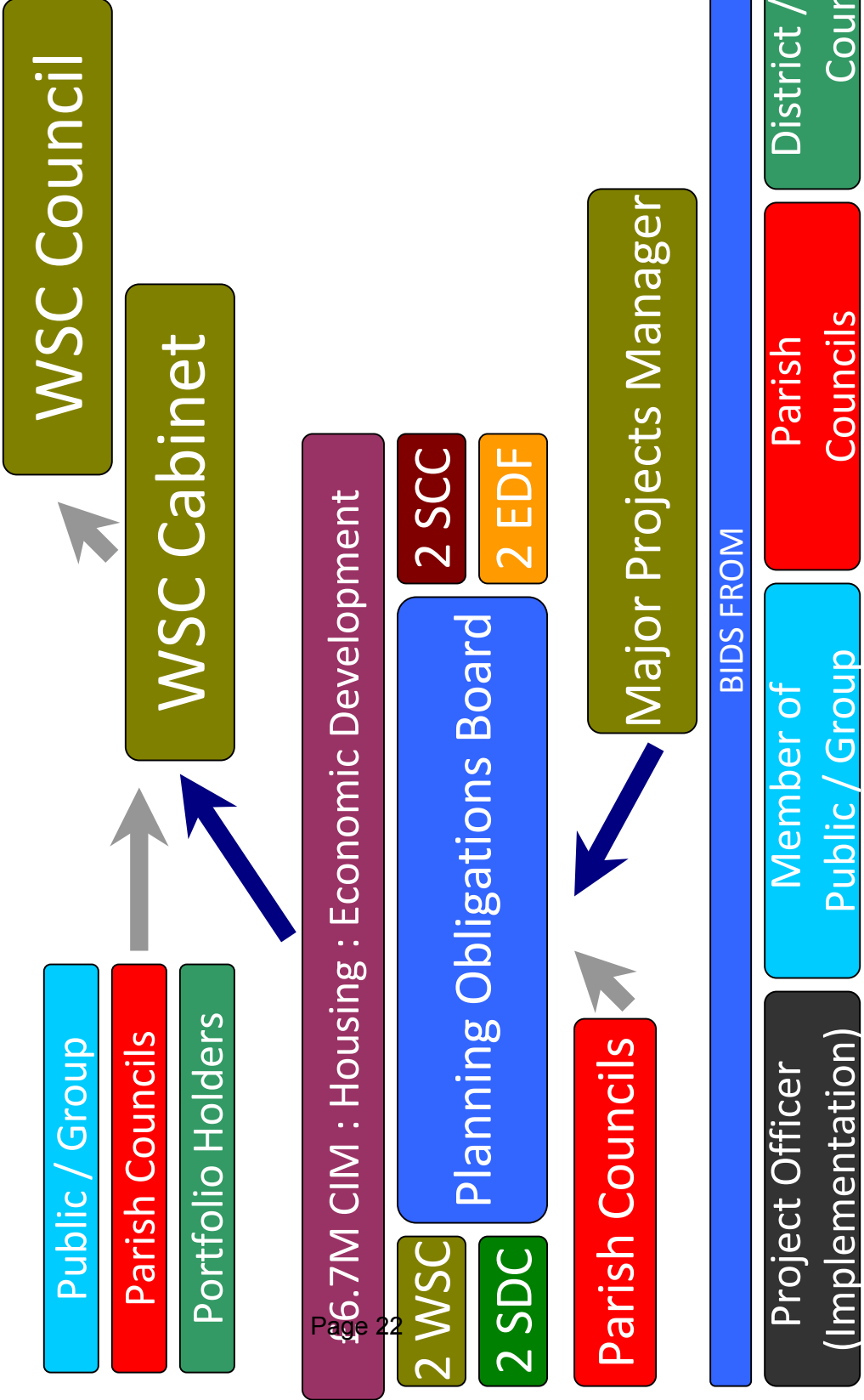
All necessary funding and project approvals in place to enable progress
 Monitor closely to ensure funding and project approvals are in place & projects able to progress
 Funding approvals are outstanding - intervention needed

section 106 Category	WSC Delivery Officer	WSC CMT Member	"Live" Status (see key) Note 1	Description / Purpose Note 2	Payment Trigger Note 3	Due Date Note 4	Amount £	Date Received	Amount Received To Date Note 5 £	Allocations Approved Current Receipts Note 6 £	Allocations Approved Future Receipts Note 7 £	Balance not committed from Current Receipts Note 8 £	WSC Minute Reference Approvals
Tourism	Corinne Matthews	Ian Timms		Delivering Tourism Strategy & Action Plan and providing officer resources	Phase 2	08-Aug-12	90,000		0	0	90,000	0	WSC15/12 C76
	Corinne Matthews	Ian Timms		Delivering Tourism Strategy & Action Plan and providing officer resources	Phase 2 + 1 year	08-Aug-13	90,000		0	0	90,000	0	WSC15/12 C76
	Corinne Matthews	Ian Timms		Marketing & Promotional Initiatives and Tourism Monitoring Survey	Phase 2	08-Aug-12	160,000		0	0	0	0	
	Corinne Matthews	Ian Timms		Marketing & Promotional Initiatives and Tourism Monitoring Survey	Phase 2 + 1 year	08-Aug-13	160,000		0	0	0	0	
	Corinne Matthews	Ian Timms		Supporting existing Tourist Information Centres	Phase 1	20-Mar-12	50,000	20-Mar-12	50,000	23,950	0	26,050	WSC 66/12 C112
	Corinne Matthews	Ian Timms		Supporting existing Tourist Information Centres	Phase 2	08-Aug-12	50,000		0	0	0	0	
	Corinne Matthews	Ian Timms		Supporting existing Tourist Information Centres	Phase 2 + 1 year	08-Aug-13	100,000		0	0	0	0	
Total section 106 monies payable to West Somerset Council							16,885,507		2,263,357	1,798,371	2,281,348	464,986	
							<i>Add Hinkley section 106 monies not due to West Somerset Council</i>						
							11,981,795						
							28,867,302						

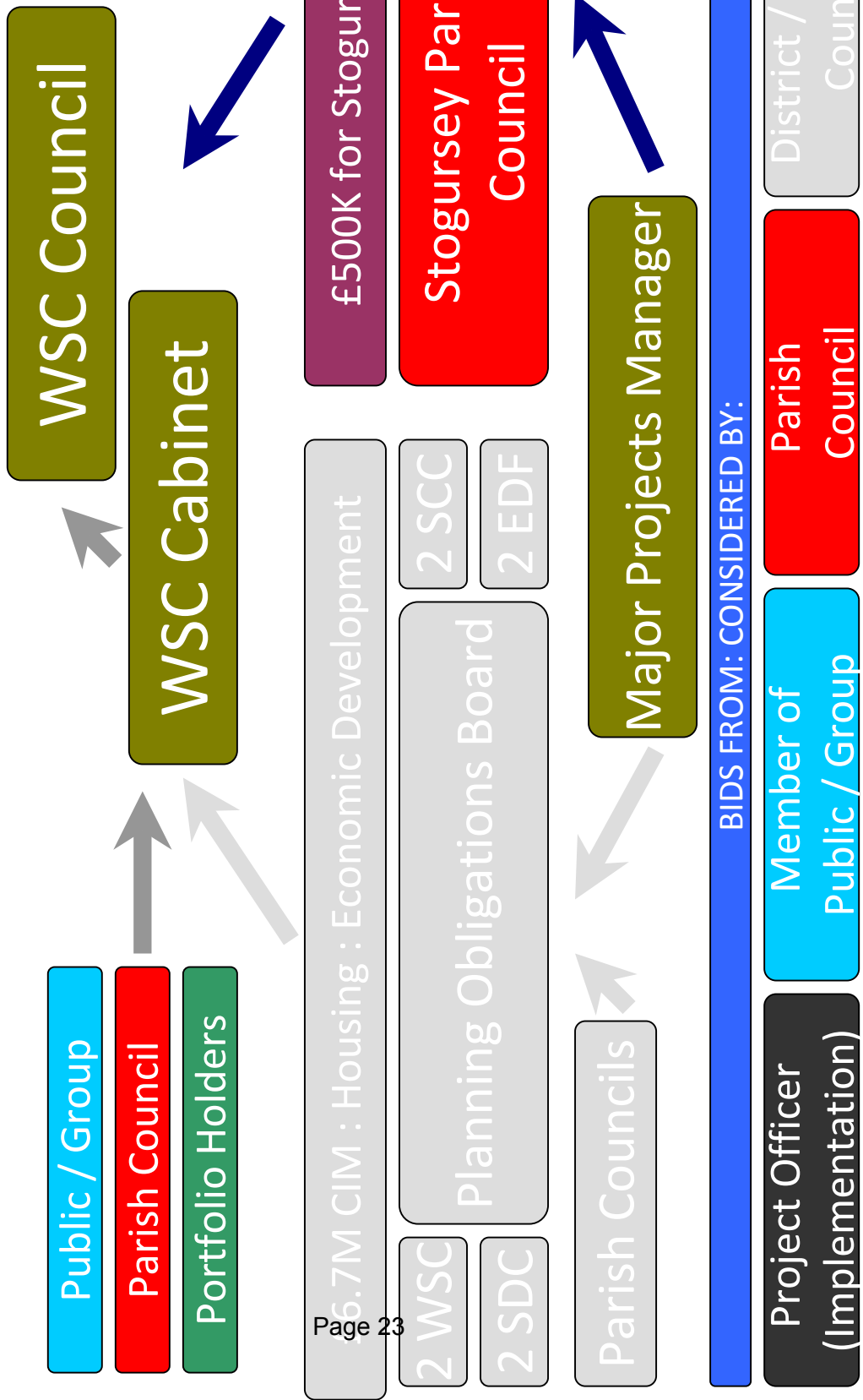
Notes to above table

1. Red/Amber/Green "traffic light" system used to indicate progress against each broad project category. Criteria will be developed further in due course
2. Contributions received can only be applied to projects in accordance with the purposes set out in the legal Agreement
3. The Payment Trigger is an event defined in the legal Agreement
4. The Due Date is generally the date when the specified Payment Trigger event is expected to occur. The date may be revised over time.
5. The Contribution payable will be updated by the appropriate inflation index at the due date and will attract interest if paid late (both as defined in the legal Agreement)
6. Spending allocations approved from contributions already received are fully funded.
7. In limited cases, spending allocations have been approved which represent a call against future section 106 resources. This will be because the use of the contribution is directly prescribed within the legal Agreement, and often relates to a commitment (such as a fixed term employment contract) which will be financed by two or more instalments under the Agreement. However, the liability will only be incurred if the future contribution falls due, to avoid any increased financial risk to the Council.
8. This balance represents the difference between contributions already received and spending allocations approved to date, which will be funded from these contributions

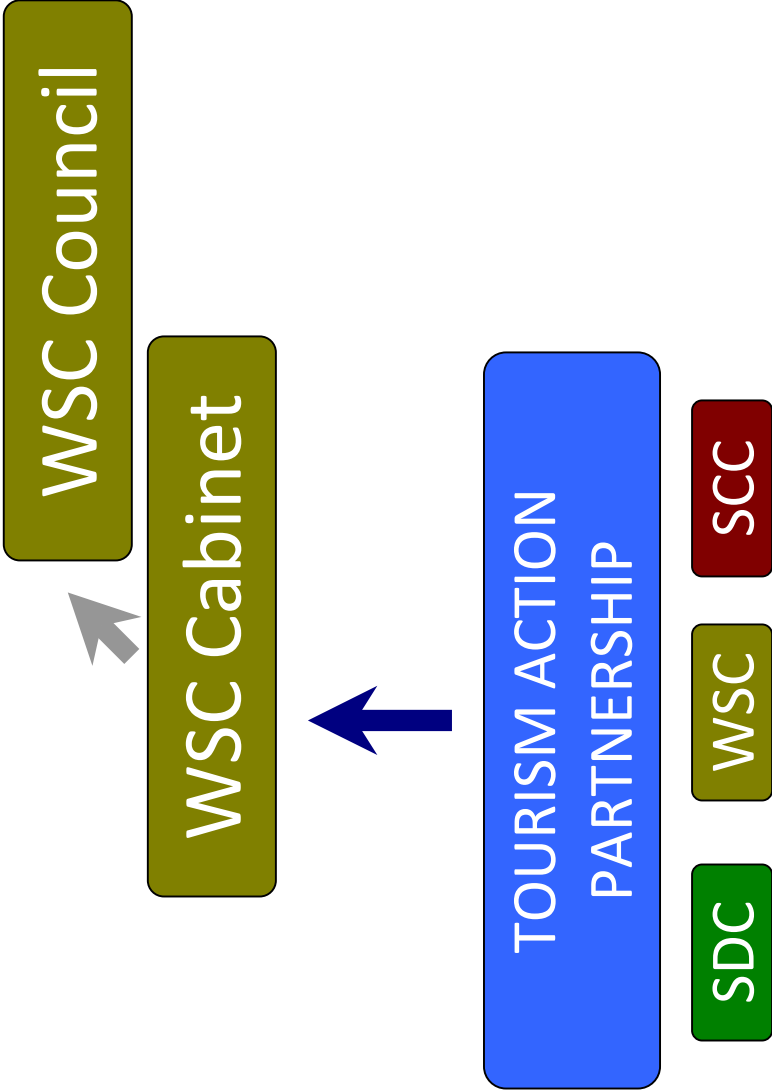
Governance for Community Impact Mitigation,
Housing & Economic Development Projects – APPENDIX B



Governance for Community Impact Mitigation (Stogursey) – APPENDIX C



Governance for Tourism
(Marketing and Promotion) – APPENDIX D



Governance for remaining s106 monies to be paid to West Somerset Council
(project / purpose to be defined) - APPENDIX E

WSC Council

WSC Cabinet

EXISTING WSC PLANNING
OBLIGATIONS GROUP

Major Projects Manager

BIDS FROM

Project Officer
(Implementation)

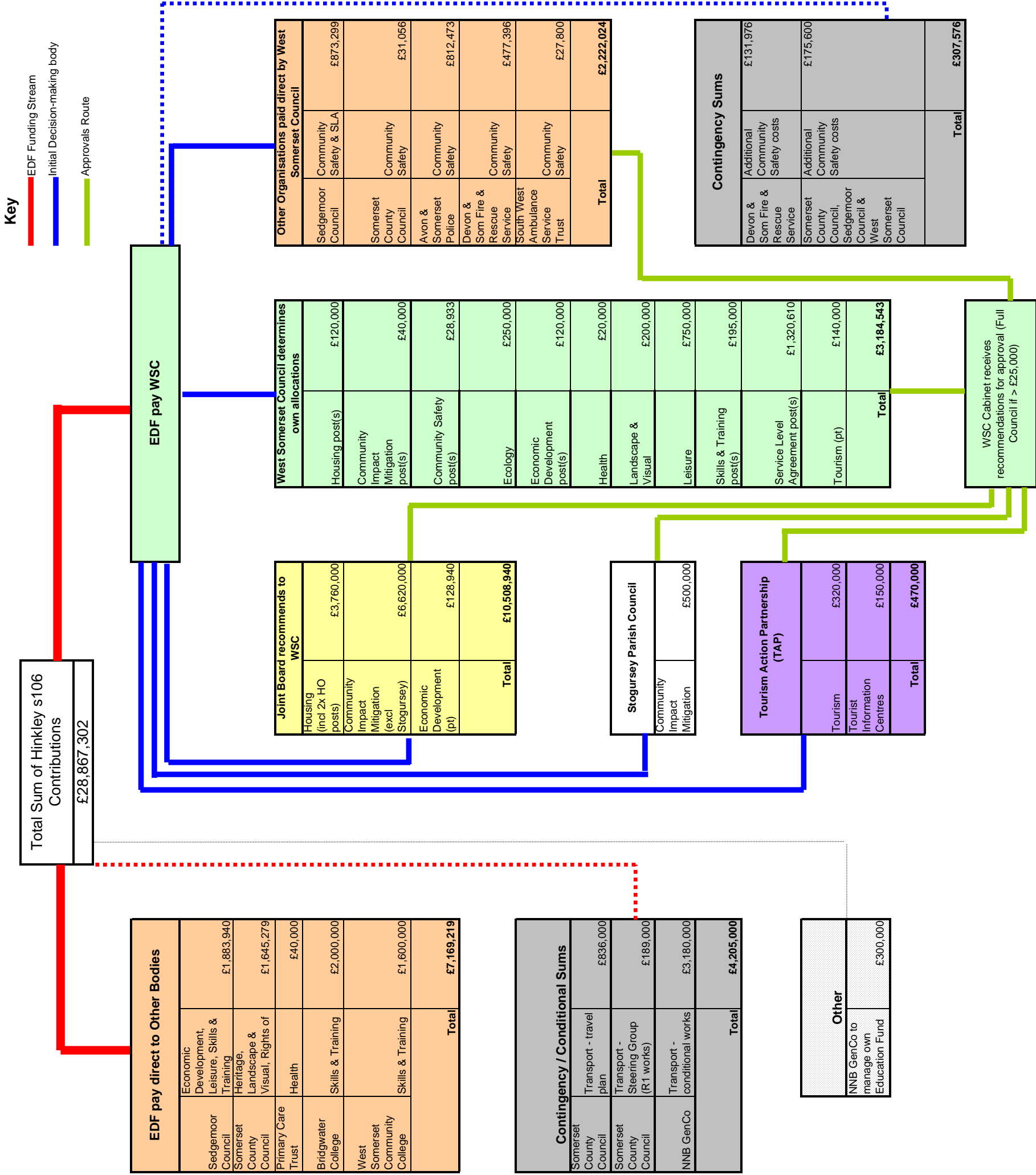
Member of
Public / Group

Parish
Councils

District / County
Councils

Hinkley section 106 Contributions: Shows Funding Route & Responsible Decision-Making Bodies

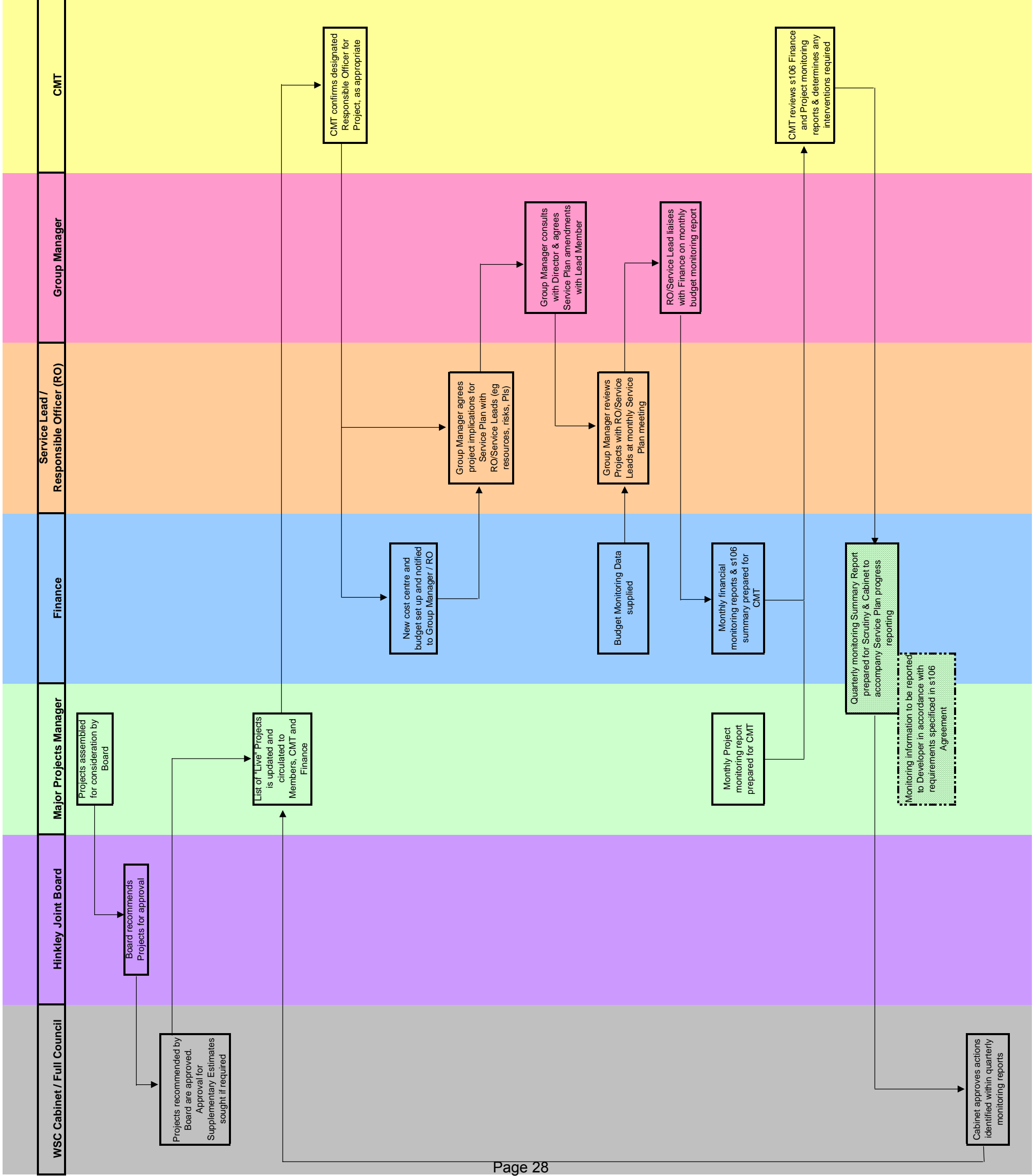
Appendix F



S106 Contributions to be Paid to West Somerset Council
 where Project / Purpose has not yet been defined – APPENDIX G

SUBJECT	AMOUNT	SPENT BY	PHASE
COMMUNITY SAFETYCONTRIBUTION	£60k	WSC	TBC
ECOLOGY	£250k	WSC	ONE
ECONOMIC DEVELOPMENT	£129k	WSC	ONE
LANDSCAPE AND VISUAL	£200k	WSC	ONE
LEISURE	£750k	WSC	TWO
TOURISM	£50k	WSC	ONE
COMMUNITY OUTREACH FUND	£15k	WSC	ONE
FIT TO WORK PROGRAMME (with SDC)	£60k	WSC/SDC	ONE

Hinkley Developer Contributions - Financial & Project Governance links with Service Plan Monitoring (where WSC is responsible for approved expenditure)



WSC Scheme of Delegation and Financial Regulations apply

Budget Book update required to reflect new approvals.

WSC is required to provide specific monitoring data under the s106 Agreement. Where appropriate, this will be synchronised with internal reporting requirements

Audit of financial controls

West Somerset District Council

Audit 2011/12

The Audit Commission is a public corporation set up in 1983 to protect the public purse.

The Commission appoints auditors to councils, NHS bodies (excluding NHS foundation trusts), local police bodies and other local public services in England, and oversees their work. The auditors we currently appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.

Contents

Summary report	2
Introduction	2
Audit approach.....	2
Main conclusions	3
Detailed report.....	6
Way forward.....	8
Appendix 1 Action Plan	9

Summary report

Introduction

- 1 My audit plan for 2011/12, which I presented to the Audit Committee on 26th March 2012 explained the work I would be carrying out to meet my Code of Audit Practice (the Code) responsibilities.
- 2 My responsibility as auditor of West Somerset District Council (the Council) under the Audit Commission Act 1998 and the Code is to give an independent assessment of whether the financial statements give a true and fair view of the financial position of the Council and the income and expenditure of the year.
- 3 It is the Council's responsibility to put in place arrangements to ensure proper conduct of its financial affairs, and to monitor their adequacy and effectiveness.
- 4 Under the International Standards on Auditing (UK and Ireland) (ISAs) I am required to gain an understanding of the Council's arrangements to identify and assess risks of material misstatement to its financial statements. This will comprise an assessment of audit risks for the organisation and the systems it uses to produce the financial statements.
- 5 My assessment of these arrangements will determine the approach required for the audit of the Council's financial statements later in the year.
- 6 In addition, ISA 265 specifically requires me to communicate deficiencies in internal control to those charged with governance; the Audit Committee.

Audit approach

- 7 My audit of the financial statements is undertaken in two phases:
 - during the year I review the systems that generate entries in the financial statements in excess of £440,000 (the materiality threshold) and, in particular, test the controls in these systems that prevent material errors in the statements; and
 - I test entries in the completed financial statements. This takes place after the year-end usually in August and September.
- 8 ISA 315 requires the auditor to document his/her understanding of the financial information systems that provide material balances in the accounts and to assess the risk of material misstatement arising from the activities and controls within these systems.

9 Under ISA330 'the auditor's procedures in response to assessed risk,' the auditor can rely on controls if they have not changed since they were last tested. The auditor should test the operating effectiveness of such controls at least every third year. Where there are a number of controls for which the auditor determines that it is appropriate to use audit evidence obtained in prior audits, the auditor should test the operating effectiveness of a sample of these controls each audit.

10 In this context, my 2011/12 work includes walk through testing on the material information systems to confirm my understanding of the key controls.

11 The material information systems for the Council are:

- General Ledger;
- Creditors;
- Debtors;
- Payroll;
- Property Plant and Equipment (fixed assets);
- Council Tax;
- National non domestic rates (NNDR);
- Housing Benefits;
- Car Park Income;
- Cash receipting; and
- Treasury Management.

12 As part of my cyclical plan for 2011/12 I undertook a review of key controls in the following material information systems:

- General Ledger;
- Creditors; and
- Debtors.

13 To support this review I have undertaken a detailed review of Internal Audit's working papers and supplemented its work with my own procedures for key controls of the above material information systems.

Main conclusions

14 I assessed the controls operating for each information system that lead to material balances in the financial statements (above £440,000). My conclusions are summarised in table 1.

Table 1: **Summary of results of controls testing**

This table summarises the conclusions of external audit on the reliance that can be placed on key financial controls

System	Findings	Conclusions
General Ledger	<p>It was identified in 2010/11 that some finance staff are able to input and authorise their own journals.</p> <p>The Council has now implemented a retrospective control where these journals are now reviewed.</p> <p>The Council's financial procedures require reconciliations to be reviewed. A number of control account reconciliations have not been reviewed by a supervisor.</p>	<p>I will review the Council's retrospective authorisation of journals.</p> <p>I will review the year-end reconciliations during my audit of the financial statements.</p>
Creditors	The Council had not reconciled creditor control accounts during the year. This was similar to 2010/11	I will review the creditor control account to assure myself that the Council has undertaken the year-end reconciliation.
Debtors	I have not identified any weaknesses in key financial controls.	I will place reliance on the key financial controls for my opinion.
Payroll	I have identified a weakness with the control requiring all General Managers to agree the quarterly establishment listing for all their staff. The control is not operating effectively because some returns were not confirmed.	I will review the manager confirmations for March (ie the year-end).
Property Plant and Equipment (fixed assets)	I have not yet reviewed the key controls as they only operate after the year-end.	I will review controls and test a sample of transactions for my opinion.
Council Tax	I have not identified any weaknesses in key financial controls.	I will assess the outcome of the Council's review of the Single Person Discount.
National non domestic rates (NNDR).	I have not identified any weaknesses in key financial controls.	I will place reliance upon the key controls for my opinion.
Housing Benefits	I have not identified any weaknesses in key financial controls.	I will place reliance upon the key controls for my opinion.
Car Park Income	I have not identified any weaknesses in key financial controls.	I will place reliance upon the key controls for my opinion.

System	Findings	Conclusions
Cash receipting	I have not identified any weaknesses in key financial controls.	I will place reliance upon the key controls for my opinion.
Treasury Management	I have not identified any weaknesses in key financial controls.	I will seek direct confirmation from counter parties for entries in the balance sheet.

Source: Internal Audit and External Audit

15 I have also reviewed the Council's progress in implementing the recommendations that I made to the Audit Committee in September 2011. I will review the results during my audit of the financial statements.

Table 2: **Review of progress with the recommendations from the Annual Governance Report 2010/11**

2010/11 Recommendation	Follow up finding
Investigate the unexplained movement in reserves.	The Principal Accountant is currently reviewing the movement in reserves statement to identify the differences and correct in time for the 2011/12 accounts.
Review processes for managing and accounting for grant income.	The Planning Obligations Group which meets quarterly now includes finance team members so that the correct accounting treatment for grants can be identified. The Council reconciles the obligations database to the ledger each quarter.
Confirm the existence of all assets on an annual basis.	Annual verification exercise will be undertaken as part of accounts closedown in order to verify the existence of its assets.
Review the capacity of the finance team, particularly with regards to the accounts closedown period, to ensure that deadlines are met.	The Council has reviewed its closedown plan and has additional support in the finance section to ensure that the Council produces draft financial statements by 30 June 2012.

Source: 2010/11 West Somerset District Council Annual Governance Report

Detailed report

General Ledger

16 I am able to place reliance on the key controls within the general ledger.

17 I reviewed the process for approving journal adjustments and found that access controls restricted the input of journals. However some staff are able to both input and authorise their own journals.

18 During the year the Council has carried out a retrospective review of journals processed during the financial year to provide assurance that the journals were correctly authorised. I will review this control again after the year-end to ensure this review has covered all journals processed during 2011/12.

19 The Council's financial procedures require reconciliations to be reviewed. A number of control account reconciliations have not been reviewed by a supervisor.

Recommendation

R1 The Council should ensure that control account reconciliations are reviewed.

Creditors

20 The Council is not reconciling its creditor control account. This weakness is mitigated by the fact that any information entered into the Purchase Ledger will automatically feed through to the relevant General Ledger code.

21 However, the reconciliation is part of the Council's procedural guidance notes, and as such should be prepared.

Recommendations

R2 The Council should ensure that the creditor control account is reconciled for 2011/12 as part of the year-end closedown processes.

R3 Creditor control account reconciliations should be completed as part of the Council's regular processes during the year.

Debtors

22 My review and testing of this system confirms that there have been no significant changes to the system in 2011/12.

23 In order to gain the required assurances I have undertaken a mixture of controls and substantive testing. My team tested a sample of debtor requests raised in 2011/12 to verify that they had been appropriately raised in-year and that they have been correctly classified within the accounts.

24 Subject to year-end controls testing I can place reliance upon these controls and substantive testing for my opinion.

Payroll

25 The Council has in place a control whereby General Managers are requested each quarter to confirm that staff costs have been charged to the correct services.

26 I found that not all establishment list confirmations have been returned to Human Resources (HR) during the year.

27 In order to provide me with the required assurances I request that for the Finance and Central Support Services a retrospective establishment check is completed to cover the whole of 2011/12.

Recommendations

R4 The Section 151 officer should review the establishment list of the Finance & Central Support Services section to provide assurances for the whole of 2011/12 that the payroll costs have been accurately recorded.

R5 All confirmations should be completed quarterly by General Managers and provided to HR to confirm the establishment listing.

Property, Plant & Equipment (Fixed Assets)

28 The Council only updates the asset register for additions, disposals and revaluations at the end of the financial year.

29 I will undertake audit procedures on a sample of transactions in the financial statements in August and September.

30 I will review the Council's year-end controls for verifying the existence of its assets.

Recommendation

R6 As part of the year-end closedown processes the Council should carry out an exercise to verify the existence of its assets.

Way forward

31 The Council should consider the recommendations in the action plan in appendix 1 so that controls can be further improved. I would like to thank the Section 151 Officer and his team for the assistance provided during the audit.

Appendix 1 Action Plan

Recommendations

Recommendation 1

The Council should ensure that control account reconciliations are reviewed.

Responsibility	Steve Plenty, Principal Accountant
Priority	Medium
Date	31 July 2012
Comments	2011/12 year-end reconciliations to be reviewed by 31 July and reviews to proceed in-year.

Recommendation 2

The Council should ensure that the creditor control account is reconciled for 2011/12 as part of the year-end closedown processes.

Responsibility	Steve Plenty, Principal Accountant
Priority	High
Date	30 June 2012
Comments	Agreed

Recommendation 3

Creditor control account reconciliations should be completed as part of the Council's regular processes during the year.

Responsibility	Steve Plenty, Principal Accountant
Priority	High
Date	31 July 2012
Comments	Agreed

Recommendation 4

The Section 151 officer should review the establishment list of the Finance & Central Support Services section to provide assurances for the whole of 2011/12 that the payroll costs have been accurately recorded.

Responsibility	Graham Carne, Group Manager, Finance, Section 151 officer
Priority	Medium
Date	Implemented
Comments	Agreed. This has now been done.

Recommendations

Recommendation 5

All confirmations should be completed quarterly by General Managers and provided to HR to confirm the establishment listing.

Responsibility	General Managers
Priority	Medium
Date	Each quarter
Comments	General Managers will be reminded.

Recommendation 6

As part of the year-end closedown processes the Council should carry out an exercise to verify the existence of its assets.

Responsibility	Steve Plenty, Principal Accountant
Priority	Medium
Date	31 July 2012
Comments	Agreed

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

© Audit Commission 2012.

Design and production by the Audit Commission Publishing Team.

Image copyright © Audit Commission.

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.



Audit Commission

1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

Telephone: 0844 798 3131

Fax: 0844 798 2945

Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk

June 2012

High and Medium / High Service Priorities identified from Internal Audits: 1 April 2010 to 31 March 2011

Weakness Found	Management's Agreed Action	Target Date / Responsible Officer	Follow up summary	Revised Date	Update for June Audit Committee
Health & Safety - Internal Awareness & Training (July 2010). Followed up July and November 2011.					
1.1 (5) Risk Assessments for Grounds Maintenance have not been updated since 2004.	We recognise that this action needs to be addressed and this is being done as a priority. We will then ensure an annual review process is put in place.	October 2010 H&S Officer A Groves October 2011 Parks & Open Spaces Manager A Turner	✓/✗ On further review it became apparent that this was a rather large job. We have now commenced the review with a scheduled meeting every Tuesday with 2 members of the grounds maintenance team. This commences with the 79 risk assessments for equipment. This will progress to places and be completed with safe systems of work. We believe this work should be complete by Christmas 2011. Status: Ongoing	December 2011	A significant proportion of this work has been completed. Due to the issues around SCC grass cutting and the planned transfer of Blenheim Gardens some work was rescheduled, but will now be completed by 31 July 2012.
1.2 (4) Risk assessments for Car Parks have not been completed since the team were relocated to the Brunel Way offices.	This action is in the process of being addressed and completed	October 2010 H&S Officer A Groves	✓ Risk assessments relating to cash collection have been completed with additional work generated by the recent introduction of sharing with Veolia ie new risk assessments for traffic management. These have been checked by the Principal Environmental Health Officer. Status: Completed		Now completed
1.3 (4) COSHH assessments have not been completed.	This action has already been recognised and is being addressed	October 2010 H&S Officer A Groves	✓/✗ COSHH assessments have been collated for the depot at Minehead. We plan to check these and sign off any other COSHH assessments by the end of January 2012. Status: Ongoing	January 2012.	This is an ongoing piece of work. The depot work has been completed and we are now reviewing the rest of the council environment
1.4 Grounds Maintenance staff felt inadequately trained in	Management recognises this high	December 2010	✓/✗ This training programme is in progress.	January 2012.	This training has now been completed. The

Weakness Found	Management's Agreed Action	Target Date / Responsible Officer	Follow up summary	Revised Date	Update for June Audit Committee
(4) several areas including; COSHH assessments, personal safety and conflict resolution and manual handling. In addition, it was felt that refresher training for high risk equipment was also overdue.	risk area and will work the team to review their training needs against the current training plan. We will then ensure that a revised training plan commences in the winter months.	2010 Parks & Open Spaces Manager A Turner	Status: Ongoing	2012.	recent Performance Development Review (PDR) process identifies new requirements and these are incorporated into the 2012/13 staff training plan.
Corporate Back Up Routines (July 2010). Follow up completed July 2011.					
2.1 (4) There are no off site locations used for tapes.	The Technology and Security Officer has agreed to review the back-up arrangements.	December 2010 Technology & Security Officer K Penfold	✓ The backup tapes are now removed weekly and stored offsite. They are kept in the fire proof safe which is locked every evening and keys are removed from the premises. Status: Completed		Now completed
Building Control (April 2010). Follow up completed June 2011.					
3.1 (4) The M3 Building Control and Crystal Management Reports do not reconcile with the national and Local Pls stated within the draft Building Control Service Plan.	To be addressed as a priority before end of 2010/2011 – this is dependent on conditions of existing contract with Northgate (software providers)	April 2011 Building Control Manager / IT J Hall K Penfold	✗ There have been frequent difficulties with the Northgate system. The latest version has now been obtained with an added module. Training was given on 29.06.10. However, the system is still not performing as intended and the upgrade was not completed on time. Status: Amended, not a Level 4 Priority	March 2012	There are ongoing discussions and a recent meeting has been held with the software provider over a number of issues. Discussed with the Group Manager and the issues are not affecting the day-to-day delivery of the service and are to be downgraded to a Level 3 recommendation.

	Weakness Found	Management's Agreed Action	Target Date / Responsible Officer	Follow up summary	Revised Date	Update for June Audit Committee
3.2 (4)	There is no evidence to demonstrate Councillors are being appraised of the Building Control Service Units performance against national and local performance indicators each quarter because these indicators are being collated annually.	NOTED – on dependant successful enabling of BC data system (Northgate M3). Alternative reporting systems to be investigated.	April 2011 Building Control Manager / IT J Hall K Penfold	<p>✘ The BC Manager has not been able to extract information for reporting because the Northgate system is not currently functional. The BC Manager is in discussions whether alternative methods can be used to report. The BC Manager is due to report at the September 2011 meeting of Corporate Scrutiny and thereafter will be expected to report on a quarterly basis.</p> <p>Status: Amended, not a Level 4 Priority</p>	March 2012	In terms of benchmarking the service, the VFM Strategy (Cabinet, April 2012) identifies that costs and performance will be compared, where nationally collected indicators exist. For Building Control, there are no nationally collected indicators and so this will be compared on a 'cost per head' basis as an initial assessment of comparative cost. From there, additional work may be undertaken to drill into detail, but not in accordance with the recommendation originally made
3.3 (4)	Because the M3 Building Control system does not include access to the Diary & Events, GIS and Gazetteer modules Holding Team Meetings are held on a fortnightly basis.	Ensure that back office data system (Northgate M3) is capable of functioning as intended.	April 2011 IT Service / External Contractor (Northgate). K Penfold	<p>✘ This is currently unchanged. Despite upgrades to the M3 system these elements are still not working.</p> <p>Status: Amended, not a Level 4 Priority</p>	March 2012	See 3.1 above
3.4 (5)	There is no up-to-date Business Case which defines the requirements of a Building Control system.	A business case will be required if current software issues cannot be resolved with provider	March 2011 Building Control Manager J Hall	<p>✘ The BC Manager confirmed that the current contract for the BC system includes the relevant specification for the required system. However, the system is not working as intended. A meeting has been booked for July 2011 with the IT and Finance Service</p>	December 2011.	This is not now a relevant recommendation; there are ongoing discussions with the software provider to improve the current arrangements, but it is not

	Weakness Found	Management's Agreed Action	Target Date / Responsible Officer	Follow up summary	Revised Date	Update for June Audit Committee
		(Northgate M3).		Managers to discuss issues surrounding the contract. The BC Manager stated that a Business Case will be created if required from the actions of the July meeting. Status: Amended, not a Level 4 Priority		impeding the team's performance to the degree that warrants a Level 4 recommendation
3.5 (4)	Through discussion with one of the Surveyors it is understood filing pre 2003 is held in an industrial unit at Roughmoor Industrial Estate. He has several concerns about this location, which include the building may have been altered without appropriate authorisation, it has no fire alarm, but is immediately next door to the Refuse Collection garage, the roof is made of asbestos and it is overloaded.	Identify alternative storage & arrange for relocation of relevant files.	September 2010 Building Control Manager J Hall	<p>✓ The Roughmoor units are no longer in use. All files have been removed and are currently boxed and stored in Quaywest stores in Minehead. The BC Manager was not aware of any associated risks to these premises. Alternative offsite storage and retrieval systems are currently being investigated to minimise the amount of storage required.</p> <p>Status: Completed</p>		Now completed
3.6 (4)	The Building Control Procedures are work in progress and therefore in draft format.	Draw up formal Internal Procedures guidelines	October 2010 Building Control Manager J Hall	<p>✗ The BC Manager stated that procedures will need to adapt to changes in legislation.</p> <p>Status: Amended, not a Level 4 Priority</p>	March 2012.	Agreed that legislation will impact on any procedures but this is not a Level 4 recommendation in light of the ongoing performance of the team
3.7 (4)	A walk through test was performed with Building Control Manager on the M3 system. The test proved while looking at the validation screen the Manager was able to	Ensure that back office data system (Northgate M3) is capable of functioning as intended.	April 2011 IT Service K Penfold	<p>✗ The Northgate system is password protected but the upgrade to the system has not prevented Officers from being able to alter details on the system.</p> <p>Status: Amended, not a Level 4 Priority</p>	March 2012.	As 3.1 and 3.3 above

Weakness Found	Management's Agreed Action	Target Date / Responsible Officer	Follow up summary	Revised Date	Update for June Audit Committee
change the name of the Surveyor at will. A review of the M3 Guidance made no reference to an audit report.					
Main Accounting key control audit (October 2010). 2011/12 audit drafted November 2011.					
4.1 (4) Several shared usernames have high level access to the TASK system, the majority of which are for users which are unknown to the Authority.	This is currently being investigated by the IT Department. Any unnecessary access will be removed with immediate effect following the results of this exercise.	1 January 2011 Principal Accountant / IT Systems Liaison Officer. S Plenty K Penfold	<p>✓ The use of shared username access to TASK has been reviewed, and any that were not deemed necessary have been disabled.</p> <p>Status: Completed</p>		Now completed
4.2 (4) None of the recommendations made in the last internal audit report have been fully actioned.	Produce budget monitoring procedures Update relevant finance sections of BCP Reviewed TASK user access levels TASK refresher training Banking arrangements for car park income	1 April 2011 Sept 2011 Immediate March 2011 N/A	<p>These have been drafted.</p> <p>The Corporate BCP has been updated and an audit is currently underway.</p> <p>TASK access levels were reviewed, however the current audit has found some users with apparently excessive access rights. Provided on 11 March 2011.</p> <p>2011/12 audit of cash & bank found no issues relating to car parks income.</p>		Now completed

Weakness Found	Management's Agreed Action	Target Date / Responsible Officer	Follow up summary	Revised Date	Update for June Audit Committee
	Completing periodic checks across income locations	Reliance on SWAP audits. (Principal Accountant) S Plenty	Income to be included in annual internal audit plans. Status: Completed		
Treasury Management follow up (October 2010). 2011/12 audit in progress.					
5.1 (4)	Officers identified as having inappropriate Bankline access levels. We will contact our Bank to discuss the best option available to West Somerset given our particular circumstances.	Principal Accountant S Plenty	Super-user access has been restricted to the two Principal Accountants. Dual authorisation and financial limits have been explored but are thought to be too restrictive. Status: Completed		Now completed
Payroll key control audit (October 2010). Follow up completed November 2011.					
6.1 (4)	Of the 18 TASK users with access to the Payroll module, 11 were identified as having access at a higher level than appropriate. The Principal Accountant will ensure that all TASK users with inappropriate access to the Payroll module are removed or amended where necessary	January 2011 Principal Accountant S Plenty	✓ A review of access shows that there are 11 current users. 3 are shared usernames which have been confirmed as still required. 1 is an IT officer which is required to run the BACS file. The other users were current members of staff with Payroll or HR functions. Status: Completed		Now completed
6.2 (4)	There is no limit on the value of BACS payments which can be approved without additional authorisation. There is a list of authorised signatories for budget payments, this will be extended to include of authorisation	April 2011 Principal Accountant S Plenty	BACS release documents are authorised by the Principal Accountant, and Financial Regulation 13.4 requires that all payments over £10,000 are checked as part of this process. There are very few payments over £10,000 unless for redundancy. However they still don't require any additional authorisation over this		Now completed

Weakness Found	Management's Agreed Action	Target Date / Responsible Officer	Follow up summary	Revised Date	Update for June Audit Committee
	BACS sums. This will be undertaken as part of the new financial year process of producing a Budget Book.		limit. Cheques over £10,000 have a second signature because this is stipulated by the bank mandate. Status: Completed		
Council Tax & NNDR key control audit (October 2010). Follow up completed November 2011.					
7.1 (4)	Agree to regularly review previous Audit Reports & recommendations.	April 2011 Benefits Manager P Lamb	5 of the 6 outstanding 09/10 issues have been addressed and one has been partially addressed. Furthermore only 2 issues from the 10/11 review have not yet been fully implemented. Status: No Level 4 recommendations		Now completed
Housing Benefits key control audit (October 2010). Follow up completed November 2011.					
7.2 (4)	Need to check with DF – What is available from IEG4 product, and how can we fit this into procedure.	May 2011 Benefits Manager P Lamb	System went live in November 2010– this is now a standard feature of the e-claim system. Claimants tick a box to confirm they agree to a declaration that they have supplied correct information and changes must be notified. No further signature is obtained. The approved methods are documented in a signed statement by the Executive Director. Status: Completed		Now completed
Register of Interests – Staff (January 2011). Follow up completed June 2011.					
8.1 (4)	A Declaration of Interests combined with Related Party	June 2011 Group Manager – Corporate	✓ A reminder letter has now been created which includes a statement informing Members of their need to update and sign on an annual basis.		Now completed

Weakness Found	Management's Agreed Action	Target Date / Responsible Officer	Follow up summary	Revised Date	Update for June Audit Committee
	Transactions have been drafted and will be sent to all staff annually with a note advising that if an interest arises after the declaration form has been completed staff must notify the Monitoring Officer immediately.	Corporate Services B Lang G Carne	Status: Completed		
8.2 (4)	There is no formal guidance available to staff on declaring interests. Guidance will be produced as part of the register of interests. There is no guidance as yet although the form gives examples of what sort of interests should be declared	June 2011 Group Manager – Corporate Services B Lang / G Carne	<p>✓ An email has been sent to staff explaining the requirements of staff disclosure in the register of interests. The declaration form itself also provides additional information and examples of what to declare.</p> <p>Status: Completed</p>		Now completed
Pest Control (January 2011). Follow up completed November 2011.					
9.1 (4)	Having benchmarked the Council's contract specification and contract against Sedgemoor and Mendip District Councils, there are many benefits offered by the latter model.	April 2011 Group Manager (Housing & Community) I Timms	<p>✓ Contract re-issued to include these elements and fees. Report to Full Council in May at which this was approved.</p> <p>Status: Completed</p>		Now completed

Weakness Found	Management's Agreed Action	Target Date / Responsible Officer	Follow up summary	Revised Date	Update for June Audit Committee
9.2 (4) For 7 out of 8 categories reviewed the figures charged by West Somerset Council were found to be in the lowest tier of charges.	Negotiation with contractor underway utilising data from audit. Preliminary agreement in place to increase charges.	April 2011 Group Manager (Housing & Community) I Timms	✓ Addressed for all areas. Status: Completed		Now completed
Dog Wardens (January 2011). Follow up completed November 2011.					
10.1 (4) The combined dog wardens service and pest control contract was first awarded to SDK Environmental Ltd in 2001 for 5 years. It has since been rolled on year-by-year and is now reaching its ten-year anniversary. This could potentially be viewed as anti-competitive, a breach of European Union procurement law and not best value.	The contract has been renewed for 2011-12 based on this advice. The recommendation to tender is recognised and will be actioned during 2011-12.	October 2011 Group Manager (Housing & Community) I Timms	✓/✗ Group Manager still plans to run a tendering exercise. In the meantime a contract variation has been issued to address some of the recommendations. Status: Completed	March 2012.	The Group Manager is reviewing the options relating to provision and will therefore address this recommendation as part of the savings for 2013/14. This also applies to 10.2 below. A decision on provision will need to be made by September 2013 on order to ensure appropriate arrangements for 2013/14.
10.2 (4) The Council pays for 21 days kennel fees instead of the seven statutory days plus a re-homing fee.	I am aiming to renew the kennel contracts within the next three months in order to implement this recommendation.	July 2011 Group Manager (Housing & Community) I Timms	✗ A meeting has been booked with Pitleigh Kennels in November but not yet with St Giles. Status: Completed		Environmental Health Manager has been tasked with this work. A meeting has been held with Pitleigh and changes agreed. St Giles to be visited as part of the above actions.
Recovery and Accounting of Homeless Debt (January 2011). Follow up in progress November 2011.					

	Weakness Found	Management's Agreed Action	Target Date / Responsible Officer	Follow up summary	Revised Date	Update for June Audit Committee
11.1 (4)	The Council is currently exposed to an un-quantified financial liability by offering a deposit scheme with no fixed term.	We are willing to try the introduction of a fixed term bond scheme but do expect to encounter some resistance.	July 2011 Principal Housing Officer P Maddocks	Landlords have been resistant to this change because they argue that most damage is only identified after a tenant has vacated the property and in this case the fixed term bond scheme would leave the Landlord out of pocket. For private landlords, they are being steered towards the existing bond scheme where possible, as this is preferable to the deposit scheme in terms of likelihood of recovery. For long-term tenancies, WSC are also now offering a deposit loan scheme to the tenant. There is a maximum term of two years, which addresses the risk of open-ended agreements and liability. Status: Completed		Now completed
11.2 (4)	There is no reporting on outstanding debts.	Group Manager - F&CSS to discuss practicalities of introducing a narrative field to all sundry debts, to record debt type.	September 2011 Group Manager – Finance & Central Support Services G Carne	✘ This has not yet been instigated but the Accountancy team believe this to be practical and possible. Revised implementation date of end April 2012. Status: Ongoing	April 2012	Email sent to all staff responsible for raising debts to remind them to use the 'Type' field in the debtors system.

West Somerset Council

► Council Tax and NNDR Managed Audit Follow up

Issued to: Steve Farmer
*Revenues, Benefits & Debt
Recovery Manager*

Chris Summers
Principal Revenues Officer

Graham Carne
*Group Manager - Finance &
Central Support Services*

Ian Loveys
Audit Commission

Gerry Cox
*Head of Internal Audit
Partnership*

Working in partnership with:



Date of Report: 28th November 2011

Issued by: Jenny Watts
Lead Auditor

Claire Hodgson
Audit Manager

Management Summary

As part of the WSC 2010/11 audit plan a key control review was carried out to assess the adequacy of controls and procedures in place for Council Tax & NNDR. The key controls identified for this audit are attached as Appendix 'A'.

The audit process focused primarily on the following key risks to the service;

- Transaction or event has not occurred or does not relate to the audited body.
- Not all transactions have been accurately recorded.
- Opportunity for fraud, error or corruption exists in the system.

In 2010/11 an opinion of reasonable assurance was given for these risks. WSC have requested that where areas of key control receive reasonable or comprehensive assurance and are not required to have a full review as part of the Audit Commission cyclical plan, only a follow up audit is done. Therefore for 2011/12 only the recommendations made in last year's action plan have been followed up.

The purpose of follow up audits is to provide some assurance to the S151 Officer, Corporate Management Team and Audit Committee, that agreed actions to mitigate risk exposure have been implemented.

The following table identifies a summary of the progress made in regards to implementing controls to mitigate the risks established.

Original Priority Score	Complete	In progress	Incomplete
Priority 5	-	-	-
Priority 4	1	-	-
Priority 3	8	2	-
Priority 2	1	1	-

For all recommendations scored 3 or below conclusions have been based upon Management assessment of progress only and evidence may not have been sought to verify implemented actions. Further details regarding actions taken to mitigate risks can be identified within the updated Action Plan.

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer & Implementation Date	Follow-up action to date
<p>Objective: To ensure key system controls are operating effectively and to ensure that the opportunity for fraud is minimised.</p>					
<p>Risk 1: Transaction or event has not occurred or does not relate to the audited body.</p>					
<p>1.1 Cover arrangement for updating Valuation Office Schedules.</p>	<p>I recommend that the Revenues, Benefits & IS Manager should ensure suitable cover arrangements are in place for updating the NNDR Schedules.</p>	<p>2</p>	<p>To discuss with LA partners re cover. Plus procedures to be developed concerning updating schedules</p>	<p>Steve Farmer October 2011</p>	<p>✓/✗ Issues with data sharing and resource have prevented this from progressing. The Revenues Manager is trying to establish a link with Mid Devon District Council but this is still in early stages and the feasibility has not yet been confirmed. Internal VO procedures have changed – there is now one appointed expert responsible for updating schedules but still need to complete documented procedures. Revised implementation date March 2012</p>
<p>1.2 There is no comparison or monitoring of historic trends in collection at Scrutiny meetings.</p>	<p>I recommend that the Revenues, Benefits & IS Manager ensures notes to put the collection figures in perspective and provided in the quarterly performance reports to Scrutiny.</p>	<p>2</p>	<p>Notes from Sparnet to be added to Scrutiny Committee Reports</p>	<p>Sam Rawle April 2011</p>	<p>✓ Reasons are now given for any discrepancies in trend data and are annotated on the committee report.</p>

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer & Implementation Date	Follow-up action to date
1.3 No reconciliation between the number of bills produced and sent out was performed for either Council Tax or NNDR.	I recommend that the Revenues, Benefits & IS Manager ensures that reconciliation is performed between the annual bills sent out and those produced by the system for both Council Tax and NNDR. Evidence of this should be retained.	3 - Medium	Risk partially accepted. However, reconciliation procedure will be implemented	Chris Summers & Steve Farmer March 2011	<p>✓ The Revenues Manager does a visual reasonableness check at the time of annual billing as part of process of controlling costs. Royal Mail provide evidence of bills posted and this is compared to reports of bills printed from Northgate.</p> <p>The first billing reminder run would identify a significant problem with bill distribution.</p>
Risk 2: Not all transactions have been accurately recorded.					
1.4 The revenues procedures are not fully complete.	I recommend that the Revenues, Benefits & IS Manager ensure comprehensive procedures are developed and reviewed periodically.	3 - Medium	Procedures currently ongoing. Current emphasis is on Recovery procedures.	Steve Farmer By May 2011	<p>✓/x Recovery procedures are almost complete as they now include corporate debt. Internal office procedures are now complete.</p> <p>The overall project is still in progress – procedures need to be linked to Benefits. Revised implementation date March 2012</p>
1.5 There are no cover arrangements in place for recovery.	I recommend that the Revenues, Benefits & IS Manager ensures additional officers are trained to provide a basic level of cover for the Debt Recovery Officer.	3 - Medium	To be reviewed as part of the development of Recovery procedures.	Steve Farmer By May 2011	<p>✓ One recovery officer is now part time but works their hours across 4 days rather than 3, which has improved the situation. There are also more streamlined procedures in recovery which has helped.</p>
1.6 Access to Northgate seems excessive.	I recommend that the Revenues, Benefits and IS Manager ensure that a complete review of user access is completed and is reviewed periodically.	3 - Medium	To be built into Operational Plan to review 6 monthly.	Steve Farmer & Tim Rawlings June 2011	<p>✓ Access levels have been rationalised. They were reviewed with the Revenues Manager and he believes these could be revisited again with a view to reducing further. This will be built into the operational plan and looked at each quarter.</p>

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer & Implementation Date	Follow-up action to date
3. Risk: Opportunity for fraud, error or corruption exists in the system.					
1.7 There is a lack of separation in duties between collection and administration of Council Tax and NNDR.	I recommend that the Revenues, Benefits & IS Manager ensures suppressed accounts are reviewed monthly and evidence is retained.	3 - Medium	Bill suppressions are monitored monthly but not evidenced. Business Objects report to be created to use in monitoring both bill and recovery suppressions. Reports will be saved as to evidence that monitoring has taken place.	Chris Summers & Steve Farmer August 2011	✓ Suppression reviews are taking place annually as part of annual billing routine.
1.8 Not all previous Internal Audit actions have been implemented. Page 57	I recommend that the Revenues, Benefits & IS Manager ensure that audit recommendations, including those from previous Managed Audits are implemented as agreed, or acknowledge where risk accepted.	4 - Med/High	Agree to regularly review previous Audit Reports & recommendations.	Chris Summers & Steve Farmer April 2011	✓/x Six of the 2009-10 recommendations were identified as having not been completed in 2010-11 review. As of November 2011 it was found that 5 have been fully addressed and 1 partially addressed. See below.
2009/10 Action Plan					
3.1a There are no timescales for completion of the reconciliation to the General Ledger.	The Revenues Manager will ensure that a reconciliation target is agreed with the Principal Accountant and completed reconciliations are sent to Revenues for review.	3 - Medium	Agreed	Steve Farmer April 2010	✓/x Included within the Financial Controls Monitoring system held within Finance, the balancing of Council Tax and NNDR payments between the SX3 system and the General Ledger is a task that is scheduled to be completed monthly. However, reconciliations are not sent to Revenues for review.

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer & Implementation Date	Follow-up action to date
3.1b	The Principal Accountant has agreed to ensure that each of the month end reconciliations are signed off by an authorised signatory and checked for accuracy and timeliness.	3 - Medium	Agree to implement with effect from the beginning of the 2010-2011 Financial Year.	Steve Plenty July 2010	✓ As above, this is now being reconciled on a monthly basis, reviewed by a second officer and is included in the Financial Controls Monitoring system.
6.1a	The Revenues Manager has agreed to ensure more comprehensive procedures are developed and reviewed periodically.	4 - Med/High	More comprehensive procedures are currently being developed.	Steve Farmer Ongoing	✓ Office procedures have now been completed to reflect the new Northgate version in use.
11.1 b a e 58	The Revenues Manager has agreed to set a target for completing the refund reconciliation and agree this with the Principal Accountant.	3 - Medium	Agree	Steve Farmer/ Steve Plenty April 2010	✓ Refund reconciliations are carried out on a quarterly basis. Again, this is included within the Financial Control procedures.
11.1 c	The Principal Accountant has agreed to ensure quarterly refund reconciliations are signed off by an authorised signatory and checked for accuracy and timeliness.	3 - Medium	Agree to implement with effect from the beginning of the 2010-2011 Financial Year.	Steve Plenty July 2010	✓ The Principal Accountant confirmed this is now in place.
14.1 a	The Revenues Manager has agreed to consider whether a review of discounts and exemptions for Council Tax should be completed more frequently.	3 - Medium	Single person discount review recently undertaken. Other discounts & exemptions to be reviewed.	Steve Farmer September 2010	✓ The SPD review is now due to be run again. Long term empty homes have recently been reviewed in line with launch of a new Government grant.

Audit Framework Definitions

Control Assurance Definitions

Comprehensive	▲ ★★★	I am able to offer comprehensive 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.

Key Controls : Council Tax / National Non-Domestic Rates

- CT Debit is reconciled to Valuation List & District Valuer's amendment schedules. Amendments to the list are input and reviewed.
- Collection rates regularly monitored.
- All bills sent out by mid-March each year.
- Bills are generated from the system and are accurate.
- Documented procedures are in place to guide staff in the performance of their duties.
- Non-payers and missed payments are followed up promptly and appropriate action taken.
- Amendments to bills are authorised.
- Only authorised staff are able to amend the system parameter files. Adequate password controls are in place and kept under review.
- Suspense account is regularly reviewed and cleared.
- Overpayments are independently reviewed and refunds are authorised.
- Targets are set for processing data and workloads are regularly monitored.
- Any agreed actions, to enhance controls, from Internal or External Audit reviews have been or are in the process of being actioned.
- Claims for discounts are correctly and promptly processed.
- There is separation of duties between administration and collection.
- Write offs are processed in line with Financial Procedure Rules.
- NFI Compliance.

West Somerset Council

Internal Audit Plan – Review of 2011 / 12

AGENDA ITEM 12

Contents

The contacts at SWAP in connection with this report are:

Gerry Cox
Head of Internal Audit Partnership
Tel: 01935 462371
gerry.cox@southwestaudit.gov.uk

Chris Gunn
Group Audit Manager
Tel: 07917 628779
chris.gunn@southwestaudit.gov.uk

Claire Hodgson
Audit Manager
Tel: 01823 355530
claire.hodgson@southwestaudit.gov.uk

Purpose and Background	Page 1
<u>Summary of Internal Audit Activity:</u>	
Operational Reviews	Page 2
Information Systems	Page 3
Key Controls	Page 4
Governance and Fraud	Page 5
Themed Audits	Page 6
Comparison of 2011/12 with 2010/11	Page 7
SWAP Performance	Page 8
Group Audit Manager's Annual Opinion	Page 9 & 10



Annual Opinion:

The Group Audit Manager is required to provide an annual opinion report to support the Annual Governance Statement.

Purpose of Report and Recommendation

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

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

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

Background

The Internal Audit service for West Somerset Council is provided by the South West Audit Partnership (SWAP). SWAP has adopted and works to the Standards of the Institute of Internal Auditors. The Partnership is also guided by the Internal Audit Charter which is reviewed annually. Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work of the Unit is based on the Annual Plan agreed by Senior Management and this Committee. This report summarises the activity of SWAP for the year April 2011 to March 2012.

Summary of Work 2011/12

The agreed Annual Audit Plan covers the following key areas of Activity:

- OPERATIONAL AUDITS
- INFORMATION SYSTEMS
- KEY CONTROLS
- GOVERNANCE & FRAUD
- THEMED AUDITS

Audits Completed - Operational

Operational Audits are a detailed evaluation of a service or functions control environment. A risk evaluation matrix is devised and controls are tested; risks are assessed against the risk appetite agreed with the SWAP Management Board. Where weaknesses or areas for improvement are identified, actions are agreed with management, prioritised and target dated. Based on the findings of each review, an overall Control Assurance is offered. Where recommendations with a priority of 4 or 5 are made details and updates on action taken are reported to this Committee through to satisfactory completion. Appendix A shows all priority 4 and 5 recommendations made during 2011/12, along with updates on progress provided by management.

Operational Audits completed by SWAP for the period April 2011 to March 2012, together with the Control Assurance offered, are summarised in the following table:

Audit Area	Audit Opinion	Audit Area	Audit Opinion
Housing Benefit Fraud	▲ ★★ Reasonable	Food Safety	▲ ★★★ Comprehensive
Insurances	▲ ★★ Reasonable	Community Safety	▲ ★★ Partial

Community Safety received partial assurance as we felt that more could be done to raise awareness and engagement amongst staff at the Council. In addition to these we also followed up operational audits which received partial assurance in 2010/11; Dog wardens, Pest control, Building Control and Homelessness Debt. An update of progress made against 4 and 5 priority actions from 2010/11 was given to this Committee in December 2011. For a summary of Control Assurance Definitions, Categorisation of Recommendations and Definitions of Risk Levels, please refer to Appendix B.

Summary of Work 2011/12

Continued.....

Audits Completed – Information Systems

Information Systems—IS audits are completed to provide the Authority with assurance with regards to their compliance with industry best practice. The following IS audits were in the plan for 2011/12:

Audit Area	Audit Opinion	Audit Area	Audit Opinion
Software Licensing & Asset Management	▲★★★ Partial	Information System Regulatory Compliance	▲★★★ Reasonable

Government Connect and Payment Card Industry Compliance were reported within the single report on Information Security and Regulatory Compliance.

Software Licensing and Asset Management received no priority 4 or 5 recommendations for improvement, however as 12 priority 3 recommendations were made partial assurance was given. These related mainly to the control of software licences and this audit will be followed up during 2012/13.

We also followed up Corporate Back up routines which received partial assurance in the previous year.

Summary of Work 2011/12

Continued.....

Audits Completed – Key Controls

The Key Control Audit process focuses 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. The findings from these reviews are considered by the External Auditors when they assess the Council’s Financial Statements at year end. For systems not scheduled for review by the External Auditors in the year only issues identified in the previous year’s report are followed up.

Key Control Audits completed by SWAP during the period April 2011 to March 2012 and previously reported to Committee are as follows:

Audit Area	Audit Opinion	Audit Area	Audit Opinion
Capital Accounting	▲ ★★ ★ Reasonable	Main Accounting	▲ ★★ ★ Reasonable
Creditors	▲ ★★ ★ Reasonable	Debtors	▲ ★★ ★ Reasonable
Treasury Management	▲ ★★ ★ Reasonable	Payroll	Follow up only
Council Tax & NNDR	Follow up only	Housing Benefit	Follow up only

In all there were 24 actions resulting from these reviews of which none were a level 4 Service priority action. These have been assigned to responsible officers and target dates for completion have been agreed. It is likely that the External Auditors will focus on these findings when they carry out their work to sign off the Council’s Accounts. It was pleasing to find that the vast majority of key controls were operating effectively and reasonable assurance was given in each case.

Summary of Work 2011/12

Continued.....

Audits Completed — Governance and Fraud

Governance and Fraud Reviews — The Governance, Fraud and Corruption Audit process focuses primarily on 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. 8 of these were done as themes (see overleaf) and the remaining 7 reviews of this type were completed:

Audit Area	Audit Opinion	Audit Area	Audit Opinion
Business Continuity	▲★★★ Partial	Officer Claims & Allowances	▲★★★ Reasonable
Cash and Bank / Income Collection	▲★★★ Reasonable	Related Party Transactions	▲★★★ Partial
Health & Safety at Work	▲★★★ Reasonable	Maximising Income	▲★★★ Partial
Partnership arrangements	▲★★★ Partial		

We also followed up Staff Register of Interests and Health & Safety - Internal Awareness and Training from 2010/11.

Summary of Work 2011/12

Continued.....

Audits Completed — Governance and Fraud Themed Audits

In addition to completing the work reported above, the following reviews were also covered at other sites across the Partnership. The majority of these reviews were identified in conjunction with Partner Client Officers at a Control and Risk Self-Assessment session. The findings from these reviews are summarised into a Partnership report and shared with the SWAP Management Board. These reports provide an opportunity to identify control weaknesses experienced by all, but more importantly to share best practice across the Partnership:

Audit Area	Audit Opinion	Audit Area	Audit Opinion
Annual Governance Statement Review	▲ ★★ Reasonable	Contract Management	▲ ★★ Partial
Managing Complaints	▲ ★★ Reasonable	Scheme of Delegation	▲ ★★ Reasonable
Medium Term Financial Planning	▲ ★★ Reasonable	Managing with Reduced Resources	▲ ★★ Reasonable
Threat from Fraud or Corruption - Analytical review	▲ ★★ Reasonable (Draft)	Threat from Fraud or Corruption - Policy review	▲ ★★ Reasonable

These reviews resulted in 70 identified improvements to Internal Control. 16 were Service priority level 4.

Summary of Work 2011/12

Continued.....

Comparison of 2011/12 with 2010/11

At the last quarterly review of Internal Audit activity, the Audit Committee requested a summary of the higher priority recommendations made throughout the year. The table below shows a comparison of the number of recommendations at each priority level for the different types of audit for 2010-11 and 2011-12.

Review Area	Priority 3		Priority 4		Priority 5	
	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12
Operational 2010/11 = 5 reviews 2011/12 = 4 reviews	46	6	12	2	1	0
Information Systems 2010/11 = 2 reviews 2011/12 = 2 reviews	12	15	1	1	0	0
Key Controls 2010/11 = 6 reviews 2011/12 = 5 reviews	20	24	7	0	0	0
Governance & Fraud 2010/11 = 9 reviews 2011/12 = 15 reviews	17	54	5	16	1	0
Totals	95	99	25	19	2	0

Performance:

The Head of Internal Audit Partnership reports performance on a regular basis to the SWAP Management and Partnership Boards.

SWAP Performance

During the year we saw the introduction of Wiltshire, the largest Unitary Council in the South West into the Audit Partnership. SWAP now covers the three counties of Somerset, Dorset and Wiltshire, the five Somerset Districts, two District Council's in Dorset, one District in Devon and one District Council in Gloucester. In addition to these 12 key partners, SWAP also provides an internal audit service to a number of subsidiary bodies, including the Somerset Waste Partnership.

With regards to the 2011/12 Annual Plan for West Somerset Council, there were a total of 27 reviews planned. It was necessary to remove 1 of these audits in order to meet the SWAP Management Board's approved 5% reduction, resulting from resource issues across the Partnership, not least the loss of our IT Audit Manager, who has now been successfully replaced. In total we have undertaken 26 reviews.

Most audits have been completed to report stage with 1 draft to be finalised at the time of this report. This is targeted to be finalised before the end of June 2012.

At the close of each audit review a Customer Satisfaction Questionnaire is sent out to the Service Manager or nominated officer. The aim of the questionnaires is to gauge satisfaction against timeliness, quality and professionalism. As part of the Balanced Scorecard presented to the SWAP Boards, a target of 85% is set where 75% would represent good. The latest Scorecard for the Partnership shows the current average feedback score to be 83%. For West Somerset the average feedback score was 83%.

Annual Opinion:

The Group Audit Manager is required to provide an annual opinion report to support the Annual Governance Statement.

Group Audit Manager's Opinion

Of the 27 Audits originally planned in 2011/12 there was 1 that was agreed with the S151 Officer to be removed as all SWAP partners agreed to a 5% reduction. For the remaining 26 all were given an audit opinion, we were pleased to provide the highest level 'Comprehensive Assurance' to 1, we gave 18 'Reasonable Assurance' and 7 have been afforded 'Partial Assurance'.

The reviews that received Partial Assurance are;

- Partnerships
- Business Continuity
- Community Safety
- Contract Management
- Maximising Income
- Related Party Transactions
- Software Licensing / Asset Management

A summary of all Very High Corporate Risks would have been attached as Appendix C, however, our audit work in 2011/12 found no issues that required us to raise such concerns with Management. This is testament to an effective internal control environment at West Somerset.

Over the year SWAP have found the Senior Management of West Somerset Council to be supportive of SWAP findings and responsive to the recommendations made. In addition there is a good relationship with Management whereby they feel they can approach SWAP openly into areas where they perceive potential problems and again welcome the opportunity to take on board recommendations for improvement.

Annual Opinion:

Continued.....

Group Audit Manager's Opinion Continued

I have considered the balance of audit work and outcomes against this environment and I am able to offer reasonable assurance, in respect of the areas reviewed during the year, as the majority were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.



APPENDIX A

Medium / High Service Priorities identified from Internal Audit work in the period 1 April 2011 to 31 March 2012

Weakness Found	Risk Identified	Recommended Action	Management's Agreed Action / Update	Agreed Date of Action
Contract Management				
Contract Standing Orders update	There is a risk that inconsistent or not best practice procedures could be adopted by managers due to the Contract Standing Orders lacking detail in some areas.	I recommend that the Group Manager - Finance and Central Support arranges for the current Contract Standing Orders to be enhanced to include additional or clearer guidance on all aspects of contract management procedures as suggested by audit and provided in Appendix A.	Unfortunately the revised Standing Orders have recently been approved by Council but the recommendations in Appendix A will be put forward as part of next year's update. <i>Update as at 13/6: This will be considered as part of the update to CSOs as part of the review of the constitution.</i>	31/12/2012
Contracts Register	There is a risk that without central monitoring of contracts, the Council may encounter the following issues: <ul style="list-style-type: none"> • It may not be able to answer queries or respond to complaints from members of the public or councillors. • Responsibility for contract management may be unclear (for example if a partnership exists) or unassigned (for example if an officer ceases to work for the council.) 	I recommend that the Group Manager - Finance and Central Support ensures that the contracts register is complete, accurate and regularly updated.	A cleanse of the contracts register is proposed but I don't believe this is a high priority as it is not an operational document. It is for checking that we have arrangements in place and for strategic use. <i>Update as at 13/6: As part of a refresh of the procurement strategy the use of the contracts register to demonstrate that spending is 'controlled' is pivotal. Revised implementation date of 31 August 2012</i>	30/06/2012 Revised to 31/8/12

Weakness Found	Risk Identified	Recommended Action	Management's Agreed Action / Update	Agreed Date of Action
	<ul style="list-style-type: none"> Contracts may not be renewed in a timely fashion, leading to costly extensions having to be negotiated, or breaks in service. <p>Management are less able to review information to identify synergies or areas where multiple contracts could be combined for best value.</p>			
Contract Documentation	<p>Unless there is a robust system for managing contract information centrally, there is a risk that contracts and other relevant information cannot be located easily and are unavailable for consultation in the event of query or as part of an audit. There is also a risk that contracts may exist but that legal services or Senior Management are unaware of them.</p>	<p>I recommend that the Group Manager - F&CSS ensures that Contract Standing Orders are updated to include specific instructions regarding the recording of contracts, the information to be retained on file by the responsible officer, taking into account the Brentwood Council example, (such as selection criteria and scoring, and adverts), and the information to be held centrally, either in the strong room or recorded on the Contracts Register. It should be clear that this applies to contracts let by the Council, contracts let by the Council on behalf of another entity, and contracts let elsewhere on behalf of WSC.</p>	<p>To be included in update of CSOs</p> <p><i>Update as at 13/6: This will be considered as part of the update to CSOs as part of the review of the constitution.</i></p>	31/12/2012

Weakness Found	Risk Identified	Recommended Action	Management's Agreed Action / Update	Agreed Date of Action
Tender Opening Records - errors and amendments	Without signatures against changes made to tender opening records, it is difficult to assess whether all tenders have been treated fairly.	I recommend that the Group Manager - F&CSS ensures that tender opening records are signed and dated by the witnesses present and initialled by them to confirm that due procedure has been followed. Contract Standing Orders should be updated to include this.	Noted, should be added to CSOs update <i>Update as at 13/6: This will be considered as part of the update to CSOs as part of the review of the constitution.</i>	31/12/2012
Maximising Income				
Budget setting (Current year)	If cost centres and detailed codes are not populated with reasonable predictions of projected income based on previous patterns of expenditure and benchmarking/ forecasting data, this increases the risk that budgets will not be achieved and any shortfalls will have to be found elsewhere later in the year.	The Principal Accountant has agreed to ensure the finance team highlight variances in the 2011/12 budget during their meetings with budget holders, with a view to informing the 2012/13 budget.	This will be undertaken by the finance team as part of their meetings with budget holders to identify variances in the 2010/11 budget and therefore inform the 2012/13 budget as well. <i>Update as at 13/6: This has been done as part of the budget setting for 2012/13</i>	31/03/2012
Budget setting (Future years)		The Group Manager F&CSS has confirmed the finance team are engaged earlier in the budget setting process for 2012-13, beginning with their meetings with budget holders and more detailed work in updating their budget data.	The finance team are engaged earlier in the process this year, starting with the meetings and more detailed work in updating their budget data. <i>Update as at 13/6: This has been done as part of the budget setting for 2012/13</i>	31/03/2012
Partnership Arrangements (followed up Q1 2012/13)				





Weakness Found	Risk Identified	Recommended Action	Management's Agreed Action / Update	Agreed Date of Action
Classification of partnerships	If the Council does not have a methodology for classifying partnerships, whether they are significant or not is open to debate. There is a further risk the level of governance, financial arrangements, performance management and resource will be disproportionate for the significance of the partnership.	The Group Manager F&CSS has agreed to utilise the partnership classification used by South Somerset District Council as detailed in appendix A to form a corporate approach.	The internally developed guidance was applied to the identified partnerships and scores for 11 partnerships were produced.	N/A
Partnership guidance	Without corporate guidance there is a risk of inconsistent practices taking place, which either only partly or do not cover key areas.	The Group Manager F&CSS has agreed to use appendices A,C and D in drafting corporate guidance for the management of partnerships.	Corporate guidance has been produced.	N/A
Partnership checklist	Without a checklist there is a risk all key areas will not be considered.	The Group Manager F&CSS has agreed to use appendices C, D and E when drafting a corporate checklist for the management of partnerships.	The guidance developed also addresses the requirement for guidance when setting up a new partnership.	N/A
Partnership framework review	If a framework for reviewing partnerships is not developed which, allows for an annual review there is a risk value for money might not be achieved and the Council continues to engage in a partnership that is not efficiently delivering a service in line with its aims and objectives.	The Group Manager F&CSS has agreed to use the content of appendix B when drafting a review framework that can be used to evaluate each partnership on an annual basis.	The Group Manager F&CSS proposes to add the checklist to determine if WSC should remain in the partnership, and for this to be reviewed annually.	N/A

Weakness Found	Risk Identified	Recommended Action	Management's Agreed Action / Update	Agreed Date of Action
Monitoring partnership performance	Without an annual review of significant partnerships by members, there is reduced assurance they are satisfied partnerships continue to provide value for money and contribute towards its aims and objectives.	The Group Manager F&CSS has agreed to ensure that risks, costs and performance of significant partnerships will be embedded as part of the performance management framework.	Performance will be assessed as per the review arrangements which address the required assessment criteria.	N/A
Partnership risk register	If the responsible officers for each partnership do not maintain a risk register, there is reduced assurance those risks which may affect the Council will be identified.	The Group Manager F&CSS has agreed to raise at corporate management team the need to ensure the risks associated with partnerships are captured in the risk registers, which are part of each service plan.	The only significant partnership included in Risk Registers is in the Environment plan, noting the threat of increasing cost of refuse disposal / SWP costs - WSC has limited control of costs. Other plans were reviewed and none appeared to include risks relating to any of the other specific significant or key partnerships.	N/A
Corporate risk register	If the corporate risk register does not acknowledge the risk of significant partnership failures there is reduced assurance the necessary controls are in place to prevent this from happening. There is a further risk services which the general public rely upon will be disrupted.	The Group Manager F&CSS has agreed to ensure that all significant partners of the Council are recorded on the corporate risk register.	All significant partners of the Council have not been individually recorded on the corporate risk register. However, the 'detrimental impact of cuts by partner organisations' has been included in the Corporate Management risk register and has been scored as a likely and major impact risk.	N/A
Business Continuity Planning				
Insurance Policy	There is a lack of clarity as to whether the Council is insured in the event of an incident at Hinkley and may suffer significant	I recommend that the Principal Accountant with responsibility for insurance obtain assurances from the	<i>Hinkley Point - I can confirm that there is no cover for a nuclear leak as radiation is a specific exclusion under the general</i>	N/A

Weakness Found	Risk Identified	Recommended Action	Management's Agreed Action / Update	Agreed Date of Action
	financial loss as a result.	insurer that the Council is covered for 'contamination' as a reason for business disruption. If the Council is not covered, arrangements should be made to extend the terms of the policy to include 'contamination' as a stated peril. Given the proximity of the Hinkley Point Nuclear Power Station, this is a remote possibility.	exclusions so will apply with any insurers. As a result the denial of access Business Interruption extension would not apply. If there were an incident then the Council will have to apply under the Bellwin Scheme as the risk is NOT insurable although the Council will bear a certain amount which is linked to turnover.	
Maximum Tolerable Period of Disruption priorities	If current tolerances are left unchallenged, implementation of the plan may be difficult to achieve and harder still to justify to hard pressed more public facing services at WSC. Furthermore, valuable time may be wasted in attempting to defend it to the public and the media rather than with just focusing upon the plan's implementation.	I recommend that MTPD returns are re-examined based on corporate priorities and consistent criteria. Any changes made to MTPDs should then be agreed by the BCP Management Team and reflected in the appendices.	This is being actioned as part of the plan revision. CMT will agree changes through a "reality check" and the plan will be amended accordingly. <i>Update as at 13/6: The MTPD were reassessed as part of the refresh of the Business Continuity plan. These changes were incorporated in the version adopted in January 2012.</i>	31/03/2012
Related Party Transactions				
Disclosure returns	There is a risk that the annual 'Statement of Accounts' may not accurately reflect the Council's position in regards to disclosure of Members related party transactions	I recommend that the Principal Accountant and Group Manager-Corporate Services monitor the receipt of disclosure forms from Members for 2011/12, and where necessary issue reminders promptly. In the event of any non returns alternative methods of establishing related party transactions	Although not an excuse, Member elections took place in May 2011 and therefore this contributed to the non-return of some of the forms. It is agreed that a more robust monitoring regime is put in place for receipt of the 2011-2012 forms.	29/02/2012

Weakness Found	Risk Identified	Recommended Action	Management's Agreed Action / Update	Agreed Date of Action
		should be explored and disclosed in the notes to the accounts.	<i>Update as at 13/6: The collection of Related Party returns and comparison to declarations of interests is being undertaken as part of the closedown processes for 2011/12</i>	
Community Safety				
An introduction to Community Safety and the individual's responsibility to Section 17 of the Crime & Disorder Act is not automatically covered at induction or followed up at appraisal.	There is a risk that the individuals responsible to Section 17 of the Crime & Disorder Act is not fully understood or embedded within the Council.	I recommend that an overview of Community Safety is included at part of the induction and training process for new members of staff. (All staff to have access to training material) And that an understanding of Community Safety is confirmed at appraisal to ensure all members of staff are aware of their responsibility and are able to discharge their duty should the need arise.	<input checked="" type="checkbox"/> Update Induction and training packages to include material for new staff to take account of the proposal to recruit new staff for Hinkley <input checked="" type="checkbox"/> Update Appraisal material and provide guide for line managers to use at annual appraisals. <input checked="" type="checkbox"/> Recruitment material will need to be updated in time for the new posts as a result of the Hinkley S106 monies. <i>Update as at 13/6: see below</i>	30/04/2012
Community Safety is not fully embedded within service planning at WSC and is not fully considered in papers presented to officers and members when taking decisions.	Community Safety implications may not be considered during decision making.	I recommend that 'main streaming' - Community Safety is recognised across all Council service areas and includes; administrative processes, decision-making processes, strategic processes and implementation /delivery processes. This to provide consideration and action to tackle crime, disorder, anti-social	<p>We will need to review how this is delivered in practice and how community safety can be considered in committee reports. In terms of service plans this will be considered for inclusion in the planning process for 2013/14.</p> <p><i>Update as at 13/6: The requirement to mainstream and to provide induction and</i></p>	30/06/2012

Weakness Found	Risk Identified	Recommended Action	Management's Agreed Action / Update	Agreed Date of Action
		behaviour, substance misuse and any other behaviour that adversely affects the local environment.	<i>promotional materials were met by the production of a leaflet that has been approved by CMT and the Portfolio Holder and CMT. It has been circulated to all staff and is being included in the induction packs for new staff. Regular updates are being made at CMT and the Community PAG.</i>	
Information Systems Regulatory Compliance				
PCI DSS submission	There is a risk that the Council could incur transactional fines from the bank should a security breach occur. The greatest risk is that the Council could lose the ability altogether to process card payments if a serious incident was to occur.	I recommend that the IS Manager completes a PCI Data Security Standard Self-Assessment questionnaire for the Council. This will help determine their compliance with the Payment Card Industry Data Security Standard and once completed this should be submitted to a PCI recognised independent assessor for verification.	Agreed. A Working Group has been set up to address this.	21/12/2012

Comprehensive	 I am able to offer comprehensive 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.

REPORT NUMBER WSC 86/12
 PRESENTED BY GRAHAM CARNE, GROUP MANAGER – FINANCE & CENTRAL
 SUPPORT SERVICES
 DATE 25 JUNE 2012

ANNUAL REVIEW OF INTERNAL AUDIT

1. PURPOSE OF REPORT

- 1.1. To inform the Audit Committee of the review of the effectiveness of Internal Audit, as delivered through SWAP (South West Audit Partnership) during 2011/12.

2. RECOMMENDATIONS

- 2.1. That the Audit Committee notes the findings of the review in order to fulfil the accounts and audit regulations, and also;
- 2.2. To conclude that the findings of the review are that the system of internal audit is effective.

3. RISK ASSESSMENT

Risk Matrix

Description	Likelihood	Impact	Overall
The council fails to maintain an adequate system of internal control, monitored and informed my internal audit	1	4	4
<i>The council has in place suitable internal audit arrangements</i>			

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.

4. BACKGROUND INFORMATION

- 4.1. The South West Audit Partnership (SWAP) is a partnership that provides the Internal Audit service to all of the six Somerset authorities, Dorset County Council, Weymouth and Portland Borough Council, West Dorset District Council, Forest of Dean District Council, East Devon District Council and Wiltshire Council as well as a number of related bodies such as the Somerset Waste Partnership.
- 4.2. Internal audit forms a part of the Corporate Governance and Internal Control Framework that provides accountability to stakeholders. The opinion on the adequacy and effectiveness of the Council's internal control framework forms a part of the evidence used in preparing the corporate Annual Governance Statement (AGS) for 2011-12, which will be published as part of the Council's Statement of Accounts in September 2012.
- 4.3. There is a requirement under Regulation 6 of the Accounts and Audit (Amendment) (England) Regulations 2006 for authorities to review the effectiveness of their system of internal audit once a year and for the findings of the review to be considered by a committee such as the Audit Committee as a part of the consideration of the system of internal control. This review has to be carried out by someone independent of SWAP.

4.5. Compliance with CIPFA Code

The 2006 CIPFA Code of Practice for Internal Audit sets out how an internal audit function should be fulfilled. The main focus is the internal audit service itself, but the Code does also refer to the wider elements of the “system of internal audit”, including the role of an Audit Committee. The Code covers:

- scope and terms of reference of internal audit
- independence
- ethics and competence
- audit committees
- relationships
- staffing
- audit strategy and planning
- how audit work is undertaken
- due professional care
- reporting
- performance, quality and effectiveness.

SWAP signs-up to all aspects of the Code through the Audit Charter, which is reviewed by the Audit Committee on an annual basis.

4.6. The Review of SWAP

The Group Manager (Finance & Central Support Services) – The Council’s Section 151 Officer – has undertaken the review on behalf of West Somerset Council. The findings have been reported to Corporate Management Team as part of the overall evaluation and supporting evidence for the Annual Governance Statement. It was found that overall the Audit team performed well and that this view was supported by the comments of external auditors – their triennial review undertaken in March 2010 is not appended to this report but is available via this link – <http://www.westsomersetonline.gov.uk/getattachment/Council---Democracy/Council-Meetings/Audit-Committee-Meetings/Audit-Committee---28-June-2010/Item-7-Appendix.pdf.aspx> – and client satisfaction questionnaires, gathered following the conclusion of audits.

4.6.1. The Audit Commission’s findings were (page 8 of the triennial review): -
 “During our review we found that SWAP complies in general with the CIPFA Code, and we can rely on their work for the purposes of our external audit. There were some departures from the Code, but these are not serious in nature and will not require significant work to ensure full compliance in the short term. Details of the work required to achieve full compliance are set out in the following sections of the report.”

4.6.2. The table below shows some of the overall performance of the service during the year compared to the two previous years:

Performance Measure	2007/08	2008/09	2009/10	2010/11	2011/12
Audits completed in year compared to plan (all at least to final draft stage) ¹	9 out of 14 (64%), 2 additional reviews completed during the year.	13 out of 14 (93%)	26 out of 29 (90%)	26 out of 27 (96%)	24 out of 26 (92%) ¹
Managed audits completed in year compared with plan	9 out of 9 (100%)	2 out of 2 (100%)	9 out of 9 (100%)	6 out of 6 (100%) – moved to cycle	5 out of 5 (100%)
Cost of audit service to WSC	£85,290	£85,290	£85,290	£76,890	£68,300

Value for Money – average cost of audit day compared to private sector (benchmarking)	No private sector data available	No private sector data available	SWAP = £280 Private Sector = £320	SWAP = £280 Private Sector = £320	SWAP = £287 Private Sector varies ²
SWAP outturn on spend compared to budget – (brackets indicate net income) ²	Budget £(27,670) Actual £(47,819)	Budget £(31,640) Actual £(11,763)	Budget £0 Actual £(76,117)	Budget £(48,943) Actual £(142,928)	Budget £(26,830) Actual £(99,256)
Customer Satisfaction ³	No feedback provided by WSC	No feedback provided by WSC	95% (based on 2 responses)	83% (based on 8 responses out of 16 sent)	83% (based on 15 responses out of 24 sent)

1. The remaining 2 audits were in-progress at the end of March 2012.
2. Daily rates obtained from private sector audit providers varies to the degree that it is unfortunately not a useful benchmark.

4.7. **Opinion**

It is the opinion of the Group Manager – Finance and Central Support and the Corporate Governance Group that the system of internal audit is effective.

5. **FINANCIAL/RESOURCE IMPLICATIONS**

- 5.1. None – the costs of internal audit are fully budgeted in 2011/12. The audit fee in 2011/12 was 20% lower than the original agreed fee in 2010/11 following a reduction in the number of days purchased from the partnership.
- 5.2. SWAP is undertaking two pieces of work that may have a bearing on the review of effectiveness in the future; firstly there is a quality assessment review being undertaken by the Devon Audit Partnership. The purpose of this review is to assess the effectiveness of the service, identify opportunities for improvement and to provide an opinion on compliance with Standards.
- 5.3. The second initiative is a review of the Partnership's governance structure. The need to change the current arrangements has been accepted by the Management and Partnership Boards, and there is a project underway to identify improvements to the present governance model, including arrangements for decision-making, majority voting and accountability of officers.
- 5.4. As members of the Partnership Board, West Somerset's representatives will be part of the decision-making process to move to a new governance structure for SWAP.

6. **SECTION 151 OFFICER COMMENTS**

- 6.1. It is the opinion of the Council's Section 151 Officer and the Corporate Governance Group (which is the three Statutory Officers and the two other Group Managers that make up the Management Team) that the system of internal audit is effective.
- 6.2. It is important that an adequate internal audit service is maintained, to prevent and prevent and detect fraud, irregularity and weaknesses in control. The Audit Committee recommended in March 2010, and Cabinet subsequently approved the continuation of the council's membership of SWAP. Whilst this is for a 5 year period, it is important that the

council ensures it receives value for money from this arrangement; annual reviews such as this help to inform that decision, plus we have negotiated the 20% reduction, contributing to our savings target whilst maintaining the service.

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 proposed changes were all discussed initially with the staff working at the VIIC.

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 MEETING OF THE AUDIT COMMITTEE TO BE HELD ON 25 JUNE 2012.

CONTACT OFFICER: GRAHAM CARNE
TEL. NO.DIRECT LINE: 01984 635253
EMAIL: GCARNE@WESTSOMERSET.GOV.UK

Explanatory Foreword

Introduction to West Somerset

Bordering the Bristol Channel, West Somerset benefits from some of the most scenic landscape in England. Two thirds of Exmoor National Park lies within its boundary, as do the Quantock Hills; an Area of Outstanding Natural Beauty. Large amounts of both areas are designated sites of special scientific interest due of their value to wildlife.

Whilst West Somerset covers a large area (740 square kilometres), just 35,000 people share it with the wildlife, making West Somerset one of the most sparsely populated districts in England. Half of those people live along the narrow coastal strip in the settlements of Minehead, Watchet and Williton. The remainder live in small villages and hamlets dispersed throughout the district and the town of Dulverton situated in the Exmoor National Park.

The economy of West Somerset is heavily dependant upon tourism and during the peak season, the population of the district swells considerably with the influx of many hundreds of thousands of visitors.

According to the Office of National Statistics' publication 'Older People's Day 2011', in 2010 West Somerset had the highest median age in the UK at 52.7 years 2010. 30% of its population is over 65, being one of only 4 such areas in the UK.

This diverse profile of service users gives West Somerset Council an almost unique customer base. As it develops services over time, the council continuously needs to take account of this special blend of residents and visitors.

The Council employs 80 full-time equivalent staff that work together with 28 Councillors, many newly elected in May 2011, to deliver a wide range of services to people in West Somerset. West Somerset District Council currently collaborates with a variety of organisations to ensure services are delivered as efficiently as possible. The number of partnerships and contracted services in operation mean the council is an example of a 'commissioning' organisation, that relies on a central core of officers to coordinate and monitor services. Services delivered in this way include: -

- Waste collection and recycling
- Street Cleansing
- Public convenience cleaning
- Housing benefit processing
- Legal services
- Tourist information
- Harbour and marina operations
- Strategic Housing services
- Internal Audit
- Private Sector Housing and Environmental Health

An explanation of which statements follow, their purpose and the relationship between them

Movement In Reserves Statement (Page X)

This statement shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement.

Comprehensive Income and Expenditure Statement (Page X)

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

Balance Sheet (Page X)

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority.

Cash Flow Statement (Page X)

The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

Notes to the Financial Statements (Pages XX)

The notes provide more information on some of the figures within the main statements listed above. They also include the accounting policies, which guide the treatment of income and expenditure and disclosures relating to the assets and liabilities of the council.

Service Expenditure compared to the budget

Service	Budget £m	Actual Spend £m
Resources	1,207,007	982,161
Housing and Economy	659,242	657,881
Corporate Director	1,119,634	1,069,630
Environment and Community	1,898,898	1,886,928
Total	4,884,781	4,596,600

A more detailed breakdown of the income and expenditure is shown in Note XX on page XX.

Pensions

In accordance with financial reporting standards, West Somerset District Council has to disclose its long-term liability to pay retirement benefits to its current and former employees. This liability will eventually be discharged through increased contributions, as calculated by the Pension Scheme's Actuary. Statutory arrangements for funding this shortfall means that the Council's own financial position is not weakened by the disclosure. The liability that the Council recognises is £16.994m as shown in the Balance Sheet on page XX.

Any material and unusual charge or credit in the accounts

During 2011/12 an exercise was undertaken in relation to the value of the Authority's Information Technology (IT) assets. Historically during the implementation of major IT projects additional costs had been capitalised as part of the overall project and therefore included in the value of the asset carried within the Balance Sheet. Results of this exercise have concluded that an amount of £0.598m has been removed from the value of IT assets resulting in an impairment charge being made in 2011/12 within the Statement of Accounts.

Council Borrowing

The Council currently has one loan of £3.50m, which is owed to the Public Works Loans Board. This is repayable in February 2014.

Sources of funds to finance capital

The council retains residual useable capital receipts from the sale of Vulcan Road Car Park in 2010 which, combined with a modest capital programme designed to support the existing estate and infrastructure, should support the council's asset management plan for the next three years. Within the capital strategy and asset management plan is the planned sale of surplus council assets, notably a temporary coach park on Seaward Way in Minehead. Additional capital receipts will be used to fund ongoing capital expenditure, including any requests to capitalise revenue costs.

Significant provisions or contingencies and material write-offs

There have been no significant provisions, contingencies or material write-offs during 2011/12.

Any material events after the reporting date

There have been no material events to report after the reporting date.

The impact of the current economic climate on the authority and the services it provides

Reduction in government grant / forecast balances

The council's financial support from Central Government (known as the 'Formula Grant') is set to fall again in 2013/14, but the amount of the reduction is presently unknown and unlikely to be released until November 2012 at the earliest. We are anticipating a 7.5% reduction but there is some risk that this could be higher – we are taking a prudent view that the New Homes Bonus will compensate for any further reduction in grant, and therefore not be 'a bonus' until we know the true level of Formula Grant.

The council has used reserves to support its budget for 2011/12 and 2012/13, to the order of £250,000 and £600,000 respectively. This cannot continue as ongoing expenditure is being currently financed by one-off support. The council will need to deliver significant cuts or increases in income in its next budget, in order to be sustainable in the future.

The Cabinet approved a 'budget strategy' in April 2012 that includes the possibility of a referendum on levels of council tax, combined with significant levels of service reduction designed to close the shortfall in funding that the council is experiencing. As the 'strategy' develops, we will keep the public informed through our council meetings.

Major Changes During 2011/12

One of the most significant processes the council undertook during the year was to consider in its role as planning authority, permission for site preparation works relating to a potential new Nuclear power station to commence at Hinkley Point near Stogursey. At a meeting of the Planning Committee, which was held in public in July 2011, permission was granted for the works, which are expected to take 2 years to complete. As part of the permission, a planning mitigation payment totaling £32.0m will be paid to a number of organisations, principally West Somerset Council but also Sedgemoor District Council, Somerset County Council, Devon Fire and Rescue Services and Avon & Somerset Police Constabulary, to offset the impact of the work and allow the bodies to cope with the additional workloads directly created by the project. Payments have also been agreed for local colleges and tourist information centers to capitalise on the opportunities afforded by such a large-scale development.

A planning application for the physical reactors has been lodged with the Planning Inspectorate; West Somerset Council will not be the authority that approves or rejects the application, but the Council is actively seeking to ensure that the impact on local communities by such a project is adequately mitigated.

Revenue Income and Spending in 2011/12

XXXX

Capital Income and Spending in 2011/12

Our capital expenditure and capital financing note on page XX shows the income and expenditure transactions we make when we –

- Buy or improve property, plant and equipment
- Finance revenue expenditure from capital under government rules, and
- Use a combination of capital receipts and borrowing to pay for it

The significant projects delivered during 2011/12 included: -

- An updated footbridge over the West Somerset Railway at Watchet to replace the original Victorian bridge that had fallen into disrepair
- Almost £250,000 of grants to help residents with disabilities to stay in their own homes through aids and adaptations
- Extension of the council's Recycling service and the provision of wheeled bins throughout the district of West Somerset

- A new free parking area for coaches in Minehead, adjacent to the railway terminus and funded from contributions from Morrison's Supermarket

Future Developments

XXXX

Further Information

Further information about these accounts is available from: Corporate Finance, West District Somerset Council, West Somerset House, Killick Way, Williton, Somerset, TA4 4QA. Email: customerservices@westsomerset.gov.uk

The rights of interested persons to view the accounts are statutorily defined and the dates on which the accounts are available for inspection are advertised in the local press and on the Council's website.

For the 2011/12 Statement of Accounts the inspection period commences on XXXXXX.

Movement In Reserves Statement

This statement shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting purposes. The Net Increase / Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the council.

	Notes	General Fund Balance £000	Earmarked General Fund Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2010		432	1,011	9,515	0	10,958	(9,005)	1,953
<u>Movement in Reserves during 2010/11</u>								
Surplus (or deficit) on the provision of services		547				547		547
Other Comprehensive Income and Expenditure		(7)				(7)	2,791	2,784
Total Comprehensive Income and Expenditure		540	0	0	0	540	2,791	3,331
Adjustments between accounting basis and funding basis under regulations	8	15		(8,063)	524	(7,524)	7,524	0
Net Increase/Decrease before Transfers to Earmarked Reserves		555	0	(8,063)	524	(6,984)	10,315	3,331
Transfers to /(from) Earmarked Reserves	9	(56)	56			0		0
Increase/Decrease in 2010/11		499	56	(8,063)	524	(6,984)	10,315	3,331
Balance at 31 March 2011 Carried forward		931	1,067	1,452	524	3,974	1,310	5,284
<u>Movement in Reserves during 2011/12</u>								
(Surplus) or deficit on the provision of services		(606)				(606)		(606)
Other Comprehensive Income and Expenditure		0				0	(4,254)	(4,254)
Total Comprehensive Income and Expenditure		(606)	0	0	0	(606)	(4,254)	(4,860)
Adjustments between accounting basis and funding basis under regulations	8	1,728		59	(260)	1,527	(1,527)	0
Net Increase/Decrease before Transfers to Earmarked Reserves		1,122	0	59	(260)	921	(5,781)	(4,860)
Transfers to /(from) Earmarked Reserves	9	(834)	834					
Increase/Decrease in 2011/12		288	834	59	(260)	921	(5,781)	(4,860)
Balance at 31 March 2012 Carried forward		1,219	1,901	1,511	264	4,895	(4,471)	424

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

2010/11			2011/12			Notes	2011/12		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000	Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
3,916	(3,551)	365	3,895	(3,469)	426				
809	(103)	706	770	(534)	236				
2,312	(367)	1,945	2,539	(412)	2,127				
853	(748)	105	359	(548)	(189)				
14,165	(13,873)	292	14,812	(14,196)	616				
1,911	(1,400)	511	1,883	(1,605)	278				
1,432	0	1,432	1,361	(24)	1,337				
0	0	0	0	0	0				
260	(2,521)	(2,261)	151	0	151				
25,658	(22,563)	3,095	25,770	(20,788)	4,982				
		Costs of Services							
766		766	762		762	10			
0	(50)	(50)			0				
2,364	(97)	2,267	473	(94)	379	11			
	(6,625)	(6,625)		(5,517)	(5,517)	12			
		(547)			606				
		(10)			0	22			
		7			0				
		(2,776)			4,254	22			
		(2,779)			4,254				
		(3,326)			4,860				
		Total Comprehensive Income and Expenditure							

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves, are those that the authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

31 March 2011 £000		Notes	31 March 2012 £000
16,120	Property, Plant & Equipment	13	15,266
4,730	Investment Properties	15	2,780
	Intangible assets		
0	Assets Held for Sale	17	0
23	Long-term Debtors	18	21
20,873	Long Term Asset		18,067
213	Asset Held for Sale	17	2,046
1,172	Short Term Debtors	19	1,389
837	Cash and Cash Equivalents	20	1,860
2,222	Current Assets		5,295
(1,506)	Short Term Creditors	21	(2,200)
(253)	Provisions	22	(6)
(1,759)	Current Liabilities		(2,206)
(3,506)	Long Term Creditors	23	(3,506)
(12,340)	Other Long Term Liabilities	23	(16,994)
(206)	Capital Grants Receipts in Advance	23	(232)
(16,052)	Long Term Liabilities		(20,732)
5,284	Net Assets		424
(3,974)	Usable Reserves		(4,895)
(1,310)	Unusable reserves	24	4,471
(5,284)	Total Reserves		(424)

Collection Fund

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

2010/11 £000	Notes	2011/12 £000
Income		
(7,152) Business Rates		(9,537)
(18,212) Council Tax		(18,361)
(3,238) Council Tax Benefits : Transfer from General Fund		(3,166)
<u>(28,602) Total Income</u>		<u>(31,064)</u>
Expenditure		
<u>Precepts and Demand:</u>		
15,086 - Somerset County Council		15,154
2,468 - Avon and Somerset Police Authority		2,479
1,054 - Devon and Somerset Fire and Rescue Authority		1,059
1,952 - West Somerset District Council		1,961
711 - Parish Councils		776
<u>Business Rates</u>		
7,042 - Payment to National Pool		9,452
75 - Costs of Collection		75
<u>Bad and doubtful debts/appeals</u>		
55 - Write offs - Council Tax / NNDR		26
(20) - (Decrease)/Increase in provision for bad debts - Council Tax NNDR		40
<u>Distribution of Council Tax element of surplus on fund:</u>		
44 - Somerset County Council		116
7 - Avon and Somerset Police Authority		19
3 - Devon and Somerset Fire and Rescue		8
8 - West Somerset District Council		20
<u>28,485 Total Expenditure</u>		<u>31,185</u>
(117) Deficit / (Surplus) for the year		121
(212) (Surplus) / Deficit brought forward		(329)
(329) (Surplus) / Deficit carried forward		(208)

REPORT NUMBER WSC 85/12
 PRESENTED BY CLLR KATE KRAVIS, LEAD MEMBER FOR RESOURCES &
 CENTRAL SUPPORT
 DATE 25 JUNE 2012

ANNUAL GOVERNANCE STATEMENT 2011/12

1. PURPOSE OF REPORT

- 1.1. The Audit Committee is asked to review the Annual Governance Statement prior to its signature by the Leader of the Council and the Chief Executive.

2. RECOMMENDATIONS

- 2.1. Members of the Audit Committee are asked to consider the content of and approve the Annual Governance Statement, as appended (**Appendix A**).

3. RISK ASSESSMENT (IF APPLICABLE)

Risk Matrix

Description	Likelihood	Impact	Overall
None in respect of this report			

4. BACKGROUND INFORMATION

- 4.1. The Accounts and Audit (England) Regulations 2011 came into force on 31 March 2011. This means that they apply to the preparation, approval and audit of statements of accounts prepared in respect of the year ending 31 March 2011 and later years.
- 4.2. Regulation 4 reads as follows –
 The relevant body is responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk.
- (2) The relevant body must conduct a review at least once in a year of the effectiveness of its system of internal control.
- (3) The findings of the review referred to in paragraph (2) must be considered—
 (a) in the case of a larger relevant body, by the members of the body meeting as a whole or by a committee, and
 (b) in the case of a smaller relevant body, by the members of the body meeting as a whole, and following the review, the body or committee must approve an annual governance statement, prepared in accordance with proper practices in relation to internal control.
- (4) The relevant body must ensure that the statement referred to in paragraph (3) accompanies —
 (a) any statement of accounts it is obliged to prepare in accordance with regulation 7, or
 (b) any accounting statement it is obliged to prepare in accordance with regulation 12.

- 4.3. In June 2009, CIPFA launched its *Statement on the Role of the Chief Financial Officer in Public Service Organisations*, which recommended that organisations benchmark their existing arrangements and report publicly on compliance. Further, in 2010 CIPFA issued its *Statement on the Role of the Chief Financial Officers (CFO) in Local Government*, which applies the principles and roles in the 2009 *Statement* to local government.
- 4.4. Following extensive research and consultation, the CIPFA / SOLACE Joint Working Group issued *Delivering Good Governance in Local Government: Framework* and accompanying guidance. The principles and standards set out in the Framework are aimed at helping local authorities to develop and maintain their own codes of governance and discharge their accountability for the proper conduct of business.
- 4.5. Good governance means:
1. Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area
 2. Members and officers working together to achieve a common purpose with clearly defined functions and roles
 3. Promoting the values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour
 4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk
 5. Developing the capacity and capability of members and officers to be effective
 6. Engaging with local people and other stakeholders to ensure robust public accountability.
- 4.6. The Framework urges local authorities to test their structures against these principles by:
- Reviewing their existing governance arrangements against the Framework
 - Developing and maintaining an up to date local code of governance including arrangements for ensuring its ongoing application and effectiveness
 - Preparing a governance statement in order to report publicly on the extent to which they comply with their own code on an annual basis, including how they have monitored the effectiveness of their annual governance arrangements in the year, and on any planned changes in the coming period.
- 4.7. The local code is incorporated into West Somerset Council's Annual Governance Statement that is attached to this report at **Appendix A**.
- 4.8. In March 2010, CIPFA developed an application note to help local authorities apply the Statement under the *Delivering Good Governance in Local Government* framework. The note shows: -
- How the governance requirements which support the principles in the CFO statement build on the governance requirements that need to be reflected in an authority's local code set out in the CIPFA/SOLACE Framework and guidance note
 - How the annual governance statement can reflect compliance with the CFO statement for reporting purposes
- 4.9. In implementing the 'comply or explain' concept, CIPFA recommends that organisations report publicly on compliance.
- 4.10. The annual review of internal audit activity will also assist the Committee in assessing the effectiveness of the systems of internal control.

5. FINANCIAL/RESOURCE IMPLICATIONS

- 5.1. None in respect of this report.

6. SECTION 151 OFFICER COMMENTS

- 6.1. In addition to the notes above, the Annual Governance Statement has been reviewed by the Corporate Management Team and the three statutory officers of the council, being the Head of Paid Service (Chief Executive), Monitoring Officer (Corporate Director) and Section 151 Officer (Group Manager – Resources).

7. EQUALITY & DIVERSITY IMPLICATIONS

- 7.1. None directly in respect of this report.

8. CRIME AND DISORDER IMPLICATIONS

- 8.1. None directly in respect of this report.

9. CONSULTATION IMPLICATIONS

- 9.1. None directly in respect of this report.

10. ASSET MANAGEMENT IMPLICATIONS

- 10.1. None directly in respect of this report.

11. ENVIRONMENTAL IMPACT IMPLICATIONS

- 11.1. None directly in respect of this report.

12. LEGAL IMPLICATIONS

- 12.1. None directly in respect of this report.

REPORT TO THE MEETING OF THE AUDIT COMMITTEE TO BE HELD ON 25 JUNE 2012

CONTACT OFFICER: GRAHAM CARNE
TEL. NO.DIRECT LINE: 01984 635253
EMAIL: GCARNE@WESTSOMERSET.GOV.UK

ANNUAL GOVERNANCE STATEMENT**Scope of responsibility**

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

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

In discharging this overall responsibility, WSC is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

WSC has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the code can be obtained on request.

This statement explains how WSC has complied with the code and also meets the requirements of regulation 4 (2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment)(England) Regulations 2006 in relation to the publication of a statement on internal control.

The purpose of the governance framework

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

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of WSC's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at WSC for the year ended 31 March 201~~2~~⁴ and up to the date of approval of the statement of accounts.

The governance framework

The key elements of WSC's governance arrangements are outlined in the Local Code of Corporate Governance. The main areas and the key evidence for delivery are as follows:

Core Principle 1: focusing on the purpose of West Somerset District Council and on outcomes for the community and with partners creating and implementing a vision for the local area;

- The Corporate Plan sets out the purpose and Vision for West Somerset Council and was updated in 2011/12 to cover the period to March 2015
- ~~The Sustainable Community Strategy is currently being refreshed in consultation with our partners and will set out the long-term goals for the community and the key issues that need to be addressed in the future~~
- A Strategic Delivery Partnership has been formed as a replacement of the Local Strategic Partnership; it will develop outcomes for the benefit of the wider communities in West Somerset
- Service Planning has further improved ~~further~~ during 20110/12~~14~~, and these the plans are clearly linked to the Corporate Plan and Medium-Term Financial Plan. They Plans identify the performance measures and targets that will be used to ensure the services achieve their agreed objectives
- ~~The Council has undertaken a series of service and management reviews that have driven efficiency and delivery of value for money services.~~
- Improvements to performance monitoring ~~have been implemented to give~~ s cost, performance and customer satisfaction indicators for key council services.
- The council approved a treasury management strategy and an annual investment strategy during the year, which included ~~its~~ prudential indicators, in accordance with the CIPFA code
- The Council was instrumental in securing significant developer's financial contributions relating to site preparation works at Hinkley Point in the north-east of the district

Core Principle 2: Members and Officers work together to achieve a common purpose with clearly defined functions and roles:

- The roles and responsibilities of the Cabinet, Scrutiny Committee, Members in general and senior officers are clearly set out within the council's constitution
- The Council's Chief Financial Officer is a Group Manager with responsibility for the finance team, a member of the Corporate Management team and reports directly to the Chief Executive.
- The Chief Financial Officer is a member of the Association of Chartered Certified Accountants, and is responsible for maintaining a robust system of internal control
- The three statutory officers (Head of Paid Service, Monitoring Officer and Chief Financial Officer) meet every week as part of the Management Team
- Regular weekly meetings between the Leader and Chief Executive in order to maintain a shared understanding of roles and objectives
- Portfolio Holders meet at least monthly with their appropriate lead officers to discuss current and future issues affecting the services and the public and to monitor performance under the service planning framework.
- There is a clear scheme of delegation for officers and members within the Constitution
- The council has robust financial planning processes, including the preparation of a medium-term financial plan and an annual budget that is monitored regularly throughout the year

- The Cabinet meets with the Corporate Management Team, both as a whole where possible, on a monthly basis to discuss matters relevant to the delivery of the Corporate Plan and other matters arising in the intervening periods
- Every Corporate Management Team agenda is accompanied by a list of its delegated powers

Core Principle 3: promoting the values of West Somerset District Council and demonstrating the values of good governance through upholding high standards of conduct and behaviour:

- The Standards Committee promotes high standards of behaviour by members, reviewing policies and laws relating to members' behaviour.
- ~~During 2010/11 13 formal complaints were received or being processed, 11 of which have been completed and 2 are still ongoing. During the year the Committee also held its first local Hearings.~~
- ~~The Standards Committee submitted an entry to the LGC 2010 Standards and Ethics Awards and was one of six entries nationally to be a short listed finalist~~
- Managers are responsible for making sure members of staff keep to policies, procedures, laws and regulations. The financial management of the council is conducted in accordance with its financial regulations and contract standing orders – part of the constitution and updated in each year.
- The Management Team has set up a regular 'Governance Group' meeting, with the intention of meeting twice a year (it met at the end of May 2012) to discuss matters relating to corporate governance, including preparation of this Statement and assurances by Managers that they are operating within the framework identified above
- The Council maintains an Internal Audit Service through the South West Audit Partnership (SWAP) that operates to standards specified by the Institute of Internal Auditors (IIA) and the Chartered Institute of Public Finance Accountants (CIPFA).
- The Standards Committee reviews the Annual Governance Statement as part of its business throughout the year.
- The future of the Standards Committee is being reviewed by Council; in accordance with the Local Government Act 2011 there is a proposal to adopt a revised code of conduct
- The Council has improved arrangements relating to the declaration of employee and member interests and disclosure of interests in related parties, following audit recommendations

Core Principle 4: taking informed and transparent decisions that are subject to effective scrutiny and risk management arrangements:

- The Council has adopted a Constitution that sets out how it operates, how decisions are taken and the procedures to follow.
- All council meetings are open to the press and public, except where personal or confidential matters are discussed. Members of the public are allowed to speak at meetings and have done so regularly throughout the year. The public element of all formal meetings are normally subject to audio recording.
- The Cabinet and Scrutiny Committee have forward plans that are available on the council's website via the recording of minutes and agenda
- The Council has an approved risk management strategy (refreshed in December 2011¹⁰) that identifies how risks are identified and monitored

- In order to ensure that day-to-day business of the Council considers risk within its decision-making processes each committee report must include risk management comments to help inform members' decisions
- Non-executive members can 'call-in' Cabinet decisions; this was last utilised during 2009/10. Many issues pass through Scrutiny in order for comments to be passed to Cabinet. This improves transparency.
- ~~– Although not called-in by West Somerset councilors, the Scrutiny Committee considered the wider call-in of decisions made by the Waste Board as part of its business during the year.~~
- The council has an effective internal audit function provided by SWAP
- The Audit Committee receives presentations from Group Managers and Service Lead Officers throughout the year on service issues.
- Regular budget monitoring reports are sent to budget holders; monthly reports are made to Corporate Management Team and quarterly reports to members through the performance report
- Financial training has been provided to officers and members during the year
- The CFO has direct access to the Chair of Audit Committee and the Audit Commission and regularly meets with both, at least 4 times a year

Core Principle 5: developing the capacity and capability of members and officers to be effective in their roles:

- The Council has a personal development review (PDR) process in place for managers to discuss with each member of staff their capacity and capability to carry out their role and future roles. They are then responsible for identifying appropriate training and development opportunities
- Job descriptions are in place for all posts, and the council completed the introduction of its 'job evaluation' scheme in 2009/10
- There is a new member induction programme which will be rolled-out for newly elected councilors following the May 2011 elections.
- New Members were given the opportunity to attend financial training in 2011 and 9 attended.
- Sector advisor attended meetings to help Members scrutinise the Treasury Management Strategy
- Members of the Audit Committee receive dedicated sessions to help them understand the layout and content of the statement of accounts, to assist with scrutiny of the figures

Core Principle 6: engaging with local people and other stakeholders to ensure robust public accountability:

- Area panels ensure local accountability and local access – these are attended by the Chief Executive or Corporate Director
- As a result of budget savings proposed by the Cabinet, representations were received from a number of organizations that were potentially impacted by the proposals, particularly in relation to equalities issues-
- A summarised statement of accounts is available on the council's website
- Regular 'under the spotlight' staff briefings undertaken by the Chief Executive

- The Council has created a Community Liaison post, which exists to improve relations with parishes and towns and acts as editor for the 'Community Matters' communiqué with these partner bodies.
- Two surveys have been undertaken during the year; there is an Annual Satisfaction Survey that informs the council's Value for Money arrangements, and in addition a 'West Somerset Residents Consultation' was carried out.

The authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government.

Review of effectiveness

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

The review of effectiveness is informed by the work of SWAP, the council's internal auditors, and the Corporate Management Team who have responsibility for the development and maintenance of the governance environment. SWAP has been able to offer 'Reasonable Assurance' in 2009/10 ~~and~~ 2010/11 and 2011/12 that the system of internal control is in place and working well.

The process that has been applied to maintaining and reviewing the effectiveness of the governance framework include:

- The monitoring officer has a duty to monitor and review the operation of the Constitution to ensure its aims and principles are adequate. The Council reviews the constitution annually through its Standards Committee.
- The Audit Committee reviews the effectiveness of Internal Audit, and the Annual Governance Statement. It receives reports from internal audit on a quarterly basis and agrees Internal and External Audit Plans. It also has a call in role for any service that receives a "partial" or "no assurance" audit opinion
- Internal Audit through SWAP is responsible for monitoring the quality and effectiveness of systems of internal control. The Audit Service has a Charter approved by the Council and there are no restrictions on the scope of their work. A risk model is used to formulate the plan and approved by the Audit Committee. The reporting process for Internal Audit requires a report of each audit to be submitted to the service lead officer with copies to the relevant Group Manager. All audit reports include an 'opinion' that provides management with an independent judgement on the adequacy and effectiveness of internal controls. Reports include recommendations for improvement that are detailed in an action plan that is agreed with the service lead officer
- Internal Audit (SWAP) is subject to regular inspection by the Council's external auditors who place reliance on the work carried out by Internal Audit
- The Council's Financial Regulations are kept under continuous review and revised periodically – the last review was approved in July 2010

In its review of effectiveness, the Authority has assessed its overall governance arrangements as adequate.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the audit committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

Significant governance issues

A number of actions were identified during audits undertaken in the last review undertaken year; an update on progress is noted here –

- ~~– **Establish a programme to review the constitution on an annual basis, amend as required and update staff & members about any significant changes** – This is currently being done following the election of new members (e.g. to recognise the reduction in number of members to 28). As part of this process, Financial Regulations and Contract Standing Orders are being updated through Scrutiny Committee, Cabinet and Council. Following Annual Council each May, the Constitution is reviewed to pick up any changes.~~
- ~~– **Equality Impact Assessments to be completed according to a schedule that covers a three-year period** – The emphasis has changed to focus on savings and undertaking EIAs as a result of proposed budget reductions or income increases. These are available to councilors at the time of the annual budget set. This process was used in February 2011 for the 11/12 Budget.~~
- ~~– **Ensure that effective arrangements for whistle-blowing are in place to which Officers and all those contracting with or appointed by the Council have access** – The council has adopted a ‘Confidential Reporting Policy’ which has been considered by UNISON and staff representatives. The Policy will shortly be available on the Council’s website.~~
- ~~– **Integration of the GIS system with the Asset Management Database** – This is ongoing. A project team has been established and officers identified that need to be trained in order to roll-out GIS use across the council; the integration is one aspect of these improvements.~~
- ~~– **Work underway to detail support proposals for top team development** – Two members of the Corporate Management Team attended the LGIDs Academy for Executive Leadership (funded by Improvement monies) with plans for two further officers to attend, subject to funding.~~
- ~~– **Improving the council’s reputation by working in partnership to improve the local environment** – In connection with the proposed development at Hinkley Point, the council has been working closely with local communities and partner organizations to ensure that environmental issues are considered. In addition, the Council has developed a devolution strategy which focuses on working with parish and town councils in order to deliver local services.~~
- ~~– **Develop a customer access strategy informed by consultation and research** – Work has been carried out to provide supporting data to help develop a strategy. This work is ongoing.~~
- ~~– **Improve governance arrangements for significant partnerships** – Internal Audit have helped by providing clear guidance on how to define and manage significant relationships with third parties. The implementation of their action plan will help to meet this requirement, and is subject to resource pressures.~~
- **Continue to improve risk management arrangements** – With the implementation of ‘lighter touch’ service plans, the arrangements for risk management are now clearer and the strategy (approved by Audit Committee in December 2010) has been amended accordingly. At the 2011 refresh of the service plans a greater focus will be placed on managing risk.

- **Contract Management** – A number of improvements to the council’s record keeping relating to contracts and tendering were identified and will be taken into account in the refreshed Procurement Strategy and the annual update of the Council’s Constitution
- **Maximising Income** – Improvements identified for the budget-setting process and the involvement of the finance team have been implemented as part of the 2012/13 budget procedures
- **Partnership Arrangements** – A number of changes to the management of partnerships, including classification, guidance and monitoring were agreed and an update given to the Audit Committee in September 2011 which addressed the issues raised
- **Business Continuity** – The Council’s business continuity arrangements have been refreshed in January 2012 and take account of recommendations made following an internal audit report
- **Community Safety** – Staff have been reminded of their responsibilities under Crime and Disorder legislation as part of a ‘mainstreaming’ exercise, and the induction process updated
- **Internal Processes** – Recommendations made in relation to compliance with relevant guidance and improvements to processes have been identified and implemented

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

On behalf of WSC:

Signed:

Leader of the Council

Signed:.....

Chief Executive