

AUDIT COMMITTEE

AGENDA

28 November 2012 at 4.30 pm

Council Chamber, Williton

1. **Apologies for Absence**

2. **Minutes**

Minutes of the Meeting of the Committee held on 24 September 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. **Draft Annual Audit Letter**

To consider the draft Annual Audit Letter 2011/12 dated December 2012, to be presented by the Audit Commission – **SEE ATTACHED.**

8. Planned External Audit Fee Letter 2012/13

To consider the External Auditor's Fee letter for 2012/13 – **SEE ATTACHED.**

9. Hinkley Point C section106 (S106) Agreement (Site Preparation Works) – Financial Monitoring Progress Report

To consider Report No. WSC 158/12, to be presented by Councillor K V Kravis, Lead Member for Resources and Central Support – **SEE ATTACHED.**

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

10. Treasury Management Update 30 September 2012

To consider Report No. WSC 149/12, to be presented by Councillor K V Kravis, Lead Member for Resources and Central Support – **SEE ATTACHED.**

The purpose of the report is to update the Audit Committee on the Treasury Management position as at 30th September 2012.

11. Debt Analysis Report as at 30 September 2012

To consider Report No. WSC 157/12, to be presented by Councillor K V Kravis, Lead Member for Resources and Central Support – **SEE ATTACHED.**

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

12. Quarterly Review of Internal Audit Activity

The purpose of the report is to provide a review of Internal Audit activity for quarter 3, and to identify any level 4 and 5 control weaknesses – **SEE ATTACHED.**

COUNCILLORS ARE REMINDED TO CHECK THEIR POST TRAYS

RISK SCORING MATRIX

Report writers score risks in reports uses the scoring matrix below

Risk Scoring Matrix

| | | | | | | | |
|-------------------|---|----------------|------------|-------------|-------------|----------------|----------------|
| Likelihood | 5 | Almost Certain | Low (5) | Medium (10) | High (15) | Very High (20) | Very High (25) |
| | 4 | Likely | Low (4) | Medium (8) | Medium (12) | High (16) | Very High (20) |
| | 3 | Possible | Low (3) | Low (6) | Medium (9) | Medium (12) | High (15) |
| | 2 | Unlikely | Low (2) | Low (4) | Low (6) | Medium (8) | Medium (10) |
| | 1 | Rare | Low (1) | Low (2) | Low (3) | Low (4) | Low (5) |
| | | | 1 | 2 | 3 | 4 | 5 |
| | | | Negligible | Minor | Moderate | Major | Catastrophic |
| Impact | | | | | | | |

| Likelihood of risk occurring | Indicator | Description (chance of occurrence) |
|-------------------------------------|---|---|
| 1. Very Unlikely | May occur in exceptional circumstances | < 10% |
| 2. Slight | Is unlikely to, but could occur at some time | 10 – 25% |
| 3. Feasible | Fairly likely to occur at same time | 25 – 50% |
| 4. Likely | Likely to occur within the next 1-2 years, or occurs occasionally | 50 – 75% |
| 5. Very Likely | Regular occurrence (daily / weekly / monthly) | > 75% |

- Mitigating actions for high ('High' or above) scoring risks are to be reflected in Service Plans, managed by the Group Manager and implemented by Service Lead Officers;
- Lower scoring risks will either be accepted with no mitigating actions or included in work plans with appropriate mitigating actions that are managed by Service Lead Officers.

AUDIT COMMITTEE**Minutes of the Meeting held on 24 September 2012 at 4.30 pm
in the Council Chamber, Williton****Present**

Councillor A H Trollope-BellewChairman

Councillor M J Chilcott
Councillor R P LillisCouncillor S Y Goss
Councillor P H Murphy**Members In Attendance**

Councillor K V Kravis

Officers In AttendanceChief Executive (A. Dyer)
Section 151 Officer (S. Campbell)
Principal Accountant/Deputy Section 151 Officer (S. Plenty)
Finance Officer (P Disney-Walford)
Meeting Administrator (H. Dobson)**Also In Attendance**Peter Lappin, Audit Manager, Audit Commission
Alun Williams, District Auditor, Audit Commission
Chris Gunn, Group Audit Manager of South West Audit Partnership (SWAP)
Claire Hodgson, Audit Manager of South West Audit Partnership (SWAP)**A16 Apologies for Absence**

Apologies for absence were received from Councillors E May and K M Mills.

The Committee wished to record that they were sorry to see the Section 151 Officer, Graham Carne, leave the authority, and wished him luck for the future. However, they were pleased to welcome the new Section 151 Officer, Sharon Campbell, seconded from Somerset County Council for two days a week.

The Chairman read out a letter received from Rev. V Woods, Independent Member of the Audit Committee. He wished to tender his resignation with immediate effect due to recent health issues and the fact that he had perceived the Audit Committee to be much sharper and professional than before with a better understanding of what was required of them. He felt, therefore, that the need for an Independent Member was not required for the time being. He wished to thank the Council for giving him the opportunity to assist and the officers for their courtesy.

RESOLVED that the Audit Committee reply to Rev. V Woods thanking him for volunteering his time and assistance in his role as an Independent Member and for the complementary remarks relating to the Audit Committee.

Note: Due to the use of microphones interrupting the meeting held in Chamber 2 the Chairman decided to suspend recording the rest of the meeting.

A17 Minutes

(Minutes of the Meeting of Audit Committee held on 25 June 2012, circulated with the Agenda).

RESOLVED that the Minutes of the Meeting of Audit Committee held on 25 June 2012 be confirmed as a correct record.

A18 Declarations of Interests

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

| Name | Minute No | Description of Interest | Personal or Prejudicial | Action Taken |
|------------------------|------------------|--------------------------------|--------------------------------|---------------------|
| Cllr S Goss | All | Stogursey | Personal | Spoke and voted |
| Cllr A Trollope-Bellew | All | SCC | Personal | Spoke and voted |
| Cllr P H Murphy | All | Watchet | Personal | Spoke and voted |

A19 Public Participation

No members of the public had requested to speak.

A20 Audit Committee Action Plan

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

The Finance Officer advised Members that the Hinkley report would be presented at the next meeting of the Audit Committee and wished to reassure Members that work was progressing.

In response to questions the Chief Executive advised that the Project Implementation Officer had been in contact with parish and town councils with regard to the third bullet point relating to communities being given time to put together any bids for Section 106 monies.

RESOLVED that the Audit Committee Action Plan be noted, and that the third bullet point relating to communities being given time to put together any bids for Section 106 monies, be added to the Forward Plan.

A21 Audit Committee Forward Plan

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

The Chief Executive advised that the South West Audit Partnership were considering changing their form into a company limited by guarantee which would require approval by members, likely, in January 2013.

RESOLVED (1) that, subject to the changes listed, the Audit Committee Forward Plan be noted:

- (i) consideration of an Independent Member be added to the next meeting of the Audit Committee,
- (ii) clarification as to what has been done to help parishes maximise Hinkley Section 106 monies, be added to the next meeting of the Audit Committee,
- (iii) statement of the current Hinkley section 106 funding position, be added to each meeting.

RESOLVED (2) that the next meeting of the Audit Committee scheduled for 30 November 2012 be changed to an appropriate date, yet to be decided, to allow consideration of the proposed change to the governance arrangements of the South West Audit Partnership.

A22 Annual Governance Report

(Annual Governance Report, circulated with the Agenda).

The purpose of the report was to receive the draft Annual Governance Report from the Audit Commission and consider its content prior to approving the accounts. At the time of writing the report the audit is still ongoing, any changes to the Governance report will be tabled at today's meeting.

The District Auditor for the Audit Commission, summarised the key messages: that he expected to issue an unqualified audit opinion, and the errors identified in the Movement in Reserves Statement for 2011/12 had been corrected. Further, with regard to Value for Money he confirmed that he would issue a qualified conclusion stating that the Council did have the financial arrangements in place to secure economy, efficiency and effectiveness in the use of its resources, except for the Council's arrangements for securing financial resilience when it was predicted there would be an excess of expenditure over income in the years 2013/14 to 2015/16.

He advised that the recommendations as set out in Appendix 4, attached to the agenda, had all been discussed and agreed with officers, there were no contentious items. Finally, he confirmed that the Letter of Representation was a standard part of the process and therefore he requested that the Audit Committee give its approval.

The Chief Executive confirmed that he, together with the Efficiencies and Performance Manager, would further develop the Council's benchmarking to inform its spending priorities and had sought assistance from SPARSE in this matter. He also advised that the Statement of Accounts for the following year would include the impact of Hinkley C.

Members thanked the finance team for their work in producing the Statement of Accounts by the required deadline.

RESOLVED (1) that, the Letter of Representation be signed by the Chief Executive.

RESOLVED (2) that the Annual Governance Report be noted.

RESOLVED (3) that the Action Plan at Appendix 4 of the report, attached to the agenda, be approved.

A23 Audited Statement of Accounts

(Report No. WSC 12812, circulated with the Agenda).

The purpose of the report was to request that the Audit Committee review the audited Statement of Accounts for the year ended 31 March 2012, prior to its signature by the Chair of the Committee and the Deputy Section 151 Officer.

The Lead Member for Resources and Central Support presented the report and advised that

Members raised concerns regarding the size of the pension deficit; the fact that as staff numbers reduce the pension costs would increase; and how the pension would be affected should the Council be considered not viable, in the future. In response the Section 151 Officer advised that she would make enquiries regarding the concerns raised with the Pensions Manager at Somerset County Council.

The Deputy Section 151 Officer confirmed that Hinkley Section 106 monies would be included the Accounts for 2012/13, in Table 22 or within the Movement of Reserves Statement.

The Chief Executive confirmed that thought would be given regarding how to make communities aware of the Section 106 monies available to them depending on restrictions put on the monies.

Members noted that the Scrutiny Committee would be looking at how Hinkley Section 106 monies were to be used.

The Chief Executive gave the necessary assurance that taking into account the current level of reserves and savings already achieved that were not included in the budget a balanced budget for 2013/14 could be put forward for approval.

RESOLVED (1) that the Audited Statement of Accounts be approved.

RESOLVED (2) that Chairman of the Audit Committee signs and dates the balance sheet.

RESOLVED (3) that the Council's Deputy Section 151 Officer re-signs and dates the Accounts.

RESOLVED (4) that the Accounts and relevant certificates be published on the Council's website.

RESOLVED (5) that the Section 151 Officer provide a verbal update on the concerns raised relating to pensions, at the next meeting of the Audit Committee.

A24 SWAP Governance Arrangements

The Group Audit Manager of South West Audit Partnership provided a presentation on the proposed changes to the SWAP governance arrangements.

Currently, the partnership was a Joint Committee operating under the Section 101, Local Government Act 1972, since 2005, which was suited to 2 – 3 partners. Over time the partners had increased to 12, covering five counties, which made reaching decisions difficult, as all partners must be represented. One of the proposed changes would be to become a Company limited by guarantee. He stressed there would be no changes in service delivery, and the company would remain a not-for-profit partnership.

The event to be hosted on 10 October 2012, to which members had been invited, would look at various issues for going forward. A Partnership Board meeting, scheduled in January 2013, would look further at the future governance arrangements, and it could be possible that the current partnership would be dissolved on 31 March 2013, with SWAP becoming a Company limited by guarantee on 1 April 2013.

During the course of the discussion the following main points were raised:

- Concern about any potential financial liability regarding pensions to the Council and what was the risk of the liability happening.
- Looking to the future what were the ambitions of the partnership; would it be growth?
- As a company would SWAP start increasing charges?
- What were the implications if West Somerset Council did not join the company? Would it be possible to walk away and buy services as a contract? The Group Audit Manager advised that he would make enquiries.

In response to questions raised the Group Audit Manager advised that the partnership would continue to operate as a 'not for profit' organisation and continue to be owned by the authorities, this would help to ensure that fees were kept as low as possible. As well as looking to save money the partnership would seek to provide training, which would generate some income. Many of the questions raised at this meeting would be explored at the event to be hosted on 10 October 2012.

RESOLVED that the SWAP Governance Arrangements update, be noted.

A25 Quarterly Review of Internal Audit Activity

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

Group Audit Manager of SWAP presented the report and advised that the completed audits, conducted in Quarter 2, 2012/13, all gave reasonable assurance hence there were no level 4 or 5 recommendations.

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

The meeting closed at 6.00 pm.

AUDIT COMMITTEE ACTION PLAN

| Date/Minute Number | Action Required | Action Taken |
|---|---|--|
| <p>25 June 2012 A7 - Hinkley Point C Section 106 Agreement – Financial Governance Arrangements</p> | <ul style="list-style-type: none"> • Concern was expressed that sufficient controls and checks might not be in place. The Finance Officer advised that as the framework was further developed the Council would need to look specifically at the risks and could put together a summary of the key risks and what procedures the Council had in place to mitigate those risks. This document could be included as part of the quarterly updates presented to the Audit Committee. | <p>This links the work being scoped by SWAP and the monitoring that the Audit Committee have requested. It is suggested that the scope of the SWAP review is presented to Audit Committee when it is available</p> |
| <p>A14 - Draft Accounts 2011/12</p> | <p>After discussion with the Audit Committee the Section 151 Officer noted that a refresher session on the draft accounts be held later in the next municipal year to accommodate the deadline for the draft accounts, and that the first Audit Committee meeting of the municipal year be held in July. RESOLVED that, subject to including an amendment above, the draft Statement of Accounts for 2011/12, be noted.</p> | <p>For future action</p> |
| <p>24 September 2012 A21 – Audit Committee Forward Plan</p> | <p>RESOLVED that, subject to the changes listed, the Audit Committee Forward Plan be noted:</p> <ul style="list-style-type: none"> (i) consideration of an Independent Member be added to the next meeting of the Audit Committee, (ii) clarification as to what has been done to help parishes maximise Hinkley Section 106 monies, be added to the next meeting of the Audit Committee, (iii) statement of the current Hinkley section 106 funding position, be added to each meeting. | <p>Points (i) and (ii) added to the Audit Committee Forward Plan for March 2013</p> |
| <p>A22 – Governance Report</p> | <p>RESOLVED (1) that, the Letter of Representation be signed by the Chief Executive. RESOLVED (2) that the Annual Governance Report be noted. RESOLVED (3) that the Action Plan at Appendix 4 of the report, attached to the agenda, be approved.</p> | <p>The letter was signed, no further action</p> |
| <p>A23 – Audited Statement of Accounts</p> | <p>RESOLVED (1) that the Audited Statement of Accounts be approved. RESOLVED (2) that Chairman of the Audit Committee signs and dates the balance sheet. RESOLVED (3) that the Council’s Deputy Section 151 Officer re-signs and dates the Accounts. RESOLVED (4) that the Accounts and</p> | <p>Resolutions 2 – 4 were carried out.</p> |

| | | |
|--|---|--|
| | <p>relevant certificates be published on the Council's website.</p> <p>RESOLVED (5) that the Section 151 Officer provide a verbal update on the concerns raised relating to pensions, at the next appropriate meeting of the Audit Committee.</p> <p>'Members raised concerns regarding the size of the pension deficit; the fact that as staff numbers reduce the pension costs would increase; and how the pension would be affected should the Council be considered not viable, in the future. In response the Section 151 Officer advised that she would make enquiries regarding the concerns raised with the Pensions Manager at Somerset County Council'.</p> | <p>Added to the Audit Committee Forward Plan for March 2013</p> |
| <p>A24 – SWAP Governance Arrangements</p> | <p>RESOLVED that the SWAP Governance Arrangements update, be noted.</p> <p>Questions raised:</p> <ul style="list-style-type: none"> • what were the implications if West Somerset Council did not join the company? and, • would it be possible to walk away and buy services as a contract? | <p>The Group Audit Manager of SWAP to report back on questions raised.</p> |
| <p>A25 – Quarterly Review of Internal Audit Activity</p> | <p>RESOLVED that the update on Level 4 and 5 recommendations for 2010/11, be noted.</p> | <p>No action</p> |

AUDIT COMMITTEE FORWARD PLAN 2012/13

| March 2013 | June 2013 | September 2013 | December 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 |
| Internal Audit Plan 2013/14 | Update on Level 4 & 5 Recommendations | Statement of Accounts | Annual Audit Letter |
| Internal Audit Charter 2013-14 | Internal Audit Annual Report and Opinion | Annual Governance Report | Risk Management Update |
| Opinion Audit Plan 2012/13 | Annual Review of Internal Audit | Statement of the current Hinkley section 106 funding position | 6-month review of Treasury Management Update |
| Accounting Policies – 2012/13 Statement of Accounts | Draft Accounts 2012/13 | | Statement of the current Hinkley section 106 funding position |
| Treasury Management Strategy Statement, MRP Policy and Annual Investment Strategy 2013-14 | Annual Governance Report 2012/12 | | Fee Letter |
| Certification of Claims and Returns | Statement of the current Hinkley section 106 funding position | | |
| Risk Management Strategy 2013 update | | | |
| Statement of the current Hinkley section 106 funding position | | | |
| Consideration of an Independent Member | | | |
| To clarify what has been done to help parishes maximise Hinkley Section 106 monies | | | |
| Communities to be given time to put together bids for S106 monies | | | |
| Verbal update on the pensions deficit in relation to decreased numbers of staff. | | | |



2 October 2012

Members
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commission.gov.uk

Dear Member

West Somerset District Council Annual Audit Letter 2011/12

I am pleased to submit my Annual Audit Letter which summarises my 2011/12 audit of West Somerset District Council.

Financial statements

On 24 September I presented my Annual Governance Report (AGR) to the Audit Committee outlining the findings of my audit of the Authority's 2011/12 financial statements. I will not replicate those findings in this letter.

Following the Audit Committee on 24 September I:

- issued an unqualified opinion on the Authority's 2011/12 financial statements included in the Authority's Statement of Accounts;
- concluded that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources except that the medium-term financial plan predicts an excess of expenditure over income of up to £1.28m over the years 2013/14 to 2015/16. The Council has determined a budget setting strategy but it has not yet made a decision on how this funding shortfall will be met; and
- certified completion of the audit.

Closing remarks

I have discussed and agreed this letter with the Chief Executive. I wish to thank the finance staff for their positive and constructive approach they have taken to my audit. I also wish to thank senior management and the Audit Committee for their support and co-operation during the audit.

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Yours sincerely

Alun Williams
District Auditor



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14 November 2012

Dear Adrian

Planned audit fee for 2012/13

We are delighted to have been appointed by the Audit Commission as auditors to the Council and look forward to providing you with a high quality external audit service for at least the next five years. We look forward to developing our relationship with you over the coming months, ensuring that you receive the quality of external audit you expect and have access to a broad range of specialist skills where you would like our support.

The Audit Commission has set its proposed work programme and scales of fees for 2012/13. In this letter we set out details of the audit fee for the Council along with the scope and timing of our work and details of our team.

Scale fee

The Audit Commission defines the scale audit fee as “the fee required by auditors to carry out the work necessary to meet their statutory responsibilities in accordance with the Code of Audit Practice. It represents the best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment that ensures the auditor is provided with complete and materially accurate financial statements with supporting working papers within agreed timeframes.”

For 2012/13, the Commission has independently set the scale fee for all bodies. The Council's scale fee for 2012/13 is £55,800, which compares with the audit fee of £93,000 for 2011/12, a reduction of 40%.

Further details of the work programme and individual scale fees for all audited bodies are set out on the Audit Commission's website at: www.audit-commission.gov.uk/scaleoffees1213.

The audit planning process for 2012/13, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

Scope of the audit fee

Our fee is based on the risk based approach to audit planning as set out in the Code of Audit

Practice and work mandated by the Audit Commission for 2012/13. It covers:

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

Value for money (VFM) conclusion

Under the Audit Commission Act, we must be satisfied that the Council has adequate arrangements in place to secure economy, efficiency and effectiveness in its use of resources, focusing on the arrangements for:

- securing financial resilience; and
- prioritising resources within tighter budgets.

We undertake a risk assessment to identify any significant risks which we will need to address before reaching our value for money conclusion. We will assess the Council's financial resilience as part of our work on the VFM conclusion and a separate report of our findings will be provided.

Our planning has identified that the following additional work is required in order for us to reach our conclusions:

- review of how the Council closes the budget gap, identified in our qualified value for money conclusion issued in September 2012.

We will continue to assess the Council's arrangements and discuss any additional work required during the year.

Certification of grant claims and returns

The Audit Commission has replaced the previous schedule of hourly rates for certification work with a composite indicative fee. This composite fee, which is set by the Audit Commission, is based on actual 2010/11 fees adjusted to reflect a reduction in the number of schemes which require auditor certification and incorporating a 40% fee reduction. The composite indicative fee for grant certification for the Council is £14,300.

Billing schedule

Our fees are billed quarterly in advance. Given the timing of our appointment we will raise a bill for two quarters in December 2012 with normal quarterly billing thereafter. Our fees will be billed as follows:

| | |
|----------------------------|---------------|
| Main Audit fee | £ |
| December 2012 | 27,900 |
| January 2013 | 13,950 |
| March 2013 | 13,950 |
| Scale fee | 55,800 |
| Grant Certification | |
| June 2013 | 14,300 |
| Total | 70,100 |

Outline audit timetable

We will undertake our audit planning and interim audit procedures in December, January and February. Upon completion of this phase of our work we will issue our detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit and work on the VFM conclusion will be completed in June, July and August 2012 and work on the whole of government accounts return in September 2013.

| Phase of work | Timing | Outputs | Comments |
|----------------------------------|--------------------------------|---|--|
| Audit planning and interim audit | December 2012 to February 2013 | Audit plan | The plan summarises the findings of our audit planning and our approach to the audit of the Council's accounts and VFM. |
| Final accounts audit | June to Sept 2013 | Report to those charged with governance | This report will set out the findings of our accounts audit and VFM work for the consideration of those charged with governance. |
| VFM conclusion | Jan to Sept 2013 | Report to those charged with governance | As above |
| Financial resilience | Jan to Sept 2013 | Financial resilience report | Report summarising the outcome of our work. |
| Whole of government accounts | September 2013 | Opinion on the WGA return | This work will be completed alongside the accounts audit. |
| Annual audit letter | October 2013 | Annual audit letter to the Council | The letter will summarise the findings of all aspects of our work. |
| Grant certification | June to November 2013 | Grant certification report | A report summarising the findings of our grant certification work |

Our team

The key members of the audit team for 2012/13 are:

| | Name | Phone Number | E-mail |
|--------------------|---------------|---------------------|---------------------------|
| Engagement Lead | Alun Williams | 0117 305 7797 | alun.g.williams@uk.gt.com |
| Engagement Manager | Peter Lappin | 0117 305 7865 | peter.lappin@uk.gt.com |
| Audit Executive | Rachel Bishop | 0117 305 7891 | rachel.a.bishop@uk.gt.com |

Additional work

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

Quality assurance

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

Yours sincerely

Alun Williams
For Grant Thornton UK LLP

REPORT NUMBER WSC 158/12

PRESENTED BY COUNCILLOR KATE KRAVIS – LEAD MEMBER, FINANCE

DATE 28 NOVEMBER 2012

Hinkley Point C section106 (s106) Agreement (Site Preparation Works) – Proposed Financial Governance Progress Report

1. PURPOSE OF REPORT

- 1.1 In June, the Committee considered a report on financial governance arrangements in respect of the Hinkley Point C s106 Agreement (Site Preparation Works). The report was broadly accepted and it was agreed that a quarterly monitoring report would be presented in future, to enable Members to receive regular updates on the financial position, in addition to issues relating to risk and financial governance.
- 1.2 A verbal update was provided at the Committee's September meeting, pending a full report being presented at this meeting. This paper provides an overview of the Terms of Reference set for the joint audit review of the governance arrangements relating to the Hinkley s106 Agreement. The review is being undertaken by the South West Audit Partnership (SWAP) and commenced this month. The report also covers future joint monitoring arrangements across the three Councils and indicates how the planned approach supports the production and interpretation of the Annual Statement, which must be submitted to the Developer in accordance with the s106 Agreement. The final element relates to the planned inclusion of Hinkley s106 resources and activity within West Somerset's existing performance management framework. This enables finance, performance and risk management to be monitored and reviewed across the Council's Hinkley s106 programme, and reported to Scrutiny Committee and Cabinet in accordance with the current previously approved arrangements.
- 1.3 The report also addresses members' interest in the work being undertaken with local Communities, to raise awareness of the Community Impact Mitigation funds provided under the Developer Agreement. A summary of the current financial position is also included, although it should again be noted that the underlying position is relatively unchanged, due to the delay in commencement of Phase 2 on-site.
- 1.4 It should be noted that all references to the Hinkley s106 Agreement in this report apply to the current Site Preparation Works Deed of Agreement only.

2. RECOMMENDATIONS

- 2.1. That the Audit Committee notes and where felt appropriate comments on:
- 2.1.1 the actions underway with regard to the audit review of the three Councils' financial governance arrangements in respect of the management of Hinkley C s106 monies, and, in particular, the intention to review the recommendations and implement any changes before April 2013
- 2.1.2 the proposed production of an Interim Financial and Performance Statement to support the pre-requisite Annual Statement to EDF, and preparation of joint quarterly financial monitoring summaries, as set out in para 4.8 – 4.9

2.1.3 the Council's approach to engaging with local communities affected by the Hinkley C Development, with regard to future opportunities for bidding for Community Impact Mitigation funds (para 4.18 – 4.21)

2.2. The Audit Committee is recommended to agree, for recommendation to Cabinet, the governance arrangements proposed by the Corporate Management Team (CMT), which will ensure future Hinkley s106 financial, performance and risk monitoring is reported to the Scrutiny Committee and Cabinet, in accordance with the Council's standard approach (see para 4.10 – 4.12)

2.3. The Audit Committee is also requested to consider the information set out in the latest Hinkley C s106 financial monitoring summary provided at Appendix A.

3. RISK ASSESSMENT

| Description | Likelihood | Impact | Overall |
|---|-------------------|------------------------|----------------|
| If financial management is poor, there is a risk that funds will be misspent, that projects will be overspent or funds clawed back by the Developer under the terms of the section 106 Agreement. The Council could face severe financial consequences and suffer loss of reputation. | 3 Possible | 5 Catastro- phic | 15 High |
| <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 West Somerset, Sedgemoor and Somerset County Council are all signatories to the Hinkley Point C s106 Agreement. Individually, each of the Councils has similar responsibilities in terms of ensuring that the Contributions secured under the Agreement is fully and correctly accounted for, and is used directly in accordance with the obligations set out in the Deed.

4.2 As the Planning Authority, West Somerset Council (WSC) is charged with additional responsibilities, including overseeing the creation and operation of a joint Planning Obligations Board and managing a significant amount of s106 funding, which is subject to the recommendations of the Board and approval of West Somerset Cabinet and/or Council. Under the Agreement, WSC is also required to transfer certain approved Contribution elements to other bodies, including Sedgemoor and Somerset County Council.

Financial Governance Audit

4.3 Finance Officers across the three Councils have already opted to develop a joint approach to financial monitoring and reporting, in order to minimise the management overhead and benefit from shared working practices and resolution of issues arising. It also makes it possible to compile a single, comprehensive view of progress and expenditure across each of the s106 categories, which will potentially enhance overall delivery of the programme. A

similar approach is being considered with regard to collecting, analysing and reporting on performance information across workstreams.

4.4 Each of the Councils has earmarked resources within its current annual Audit Plan to enable Hinkley s106 finance and governance arrangements to be reviewed by the South West Audit Partnership (SWAP). The joint Planning Obligations Board (see para 4.13 below) is also required to establish a financial monitoring and Audit Plan in respect of its specific operations under the s106 Agreement. The Terms of Reference agreed for the SWAP audit review therefore address the individual and collective requirements of each of the Councils and also provide the necessary assurance for the Planning Obligations Board to take forward. The Audit focuses on two main objectives:

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

4.5 The audit is structured around six main identified risk areas, which are directly relevant to the objectives above. Each key risk poses potentially serious financial and/or reputational consequences for the Councils, in the event they are not adequately addressed and managed accordingly. The key risks identified are:

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

4.6 It is anticipated that the final SWAP report will be available early in the new year, enabling recommendations to be considered and implemented by the end of the financial year. Given that the s106 programme is still in its early stages, and recognising that the higher-level Governance framework is still developing, it is likely that SWAP will be engaged to perform a second part to the assurance review during 2013/14. This will be targeted on assessing the effectiveness of key processes that are as yet non-operational. The Audit Committee will receive a further report on the audit at its next meeting in March 2013.

Monitoring and Reporting

4.7 The Councils must report annually to the Developer (EDF) in August, with a statement setting out how the s106 funding has been used. This is in effect the minimum reporting requirement, prescribed in the legal agreement. The first such report was submitted in August 2012. Although it is relatively early days in the life of the current s106 Agreement, the exercise provided a valuable opportunity to develop the joint working between the Councils, and also to engage with EDF in determining their expectations relating to the type and level of information provided in the Annual Statement. The results of this engagement have been very positive and have enabled greater clarity in understanding how and where the monitoring requirements of each of the Councils and EDF correspond.

4.8 Whilst the Councils are only required to provide an Annual Statement setting out the purposes to which the s106 monies have been applied, it is anticipated that an interim (6-

month) report will be produced early in the New Year. The benefit of this approach is that it provides a more meaningful view of progress and outputs resulting from the s106 investment. In keeping with the agreed format for the Annual Statement, the interim report will include high-level performance information on the key outputs and/or outcomes achieved through the investment to mitigate the impacts of the Hinkley development. The inclusion of this information fulfils the requirement to show *how* the monies are being spent, not just the level of expenditure incurred to date.

- 4.9 A single financial monitoring summary will be produced jointly by the Councils' Finance Officers on a quarterly basis. This will be based on the standard format and content of monitoring information that is routinely prepared for budget management purposes, and so will not require significant additional effort to produce. The summaries will be shared at joint finance liaison meetings with EDF and the forward-looking position will also be considered – such as planned payment of scheduled contributions to the Councils. The benefit of this joined-up approach is that it helps maintain the momentum and value of the financial monitoring process throughout the period of the Agreement. It further builds on the joint working fostered by the Councils and supports a productive working relationship with the Developer.
- 4.10 Within West Somerset, as a result of discussions through Audit Committee, CMT has approved a draft Governance process that enables Hinkley s106 expenditure and performance to be monitored within the normal management process. As indicated in the June report to this Committee, the Council is well-placed to build on existing processes, ensuring that financial and performance monitoring is efficiently incorporated within the current framework for budget monitoring and service planning. Going forward, Hinkley s106-related resources, actions, outcomes and risks will be included within the respective Group Service Plan and budgets, but a stand-alone Hinkley s106 “Service Plan” will be extrapolated from the Group Plans.
- 4.11 Managers will monitor progress through a dedicated Hinkley Governance Group, which will meet at regular intervals to review finance, performance and risk management across the WSC Hinkley programme. In keeping with the existing performance management framework, future reports will be presented to Scrutiny Committee and Cabinet.
- 4.12 This approach acknowledges that the Hinkley s106 funding and corresponding obligations placed upon the Council are particularly significant, as reflected in the risk profile presented at the head of this report. Importantly, however, it minimises additional work or duplication and ensures the focus is firmly on delivering future outcomes that benefit the affected communities.
- 4.13 Financial Monitoring – Current Position
- 4.14 The Audit Committee has previously received a financial summary of the Council's Hinkley s106 monies. The current position is attached at Appendix A, which shows the overall position for West Somerset in terms of contributions received, allocated and spent as at 30 September, 2012. In accordance with Financial Regulations, approval to incur expenditure has previously been given by Cabinet and/or Council.
- 4.15 Under the proposed governance arrangements set out above, financial updates will in future be presented to Scrutiny and Cabinet.

Joint Planning Obligations Board

- 4.16 The joint Planning Obligations Board comprises representatives from EDF, West Somerset, Sedgemoor and Somerset County Council. West Somerset's Board members are Cllr Kate Kravis and Ian Timms, Corporate Manager Housing, Welfare and Economy. Within the terms of the Hinkley s106 Agreement, the Board has a very specific remit. Most

significantly, it is directly responsible for recommending funding allocations to Community groups under the Community Impact Mitigation (CIM) fund. It is also responsible for making recommendations in respect of contributions received for Housing and Economic Development initiatives. In total, these sums exceed £10m, with the CIM Fund contributing £6.6m (due to be received at the start of Phase 2 of the Development). The Board will receive regular updates on the financial and progress status of approved allocations, which will be produced as an output of the internal monitoring arrangements set out above.

- 4.17 The Board met for the first time in September and is due to hold a second meeting towards the end of November. A key initial output from these meetings will be the finalisation of guidance, application forms, evaluation criteria and processes related to the filtering and appraisal of bids for CIM funding received from Community organisations. It is likely that the SWAP governance audit will include a review of the proposed approach to be adopted by the Board, as part of its assurance work.
- 4.18 Members of the Audit Committee have previously expressed their interest in the steps that are being taken to engage and support affected Communities that may wish to apply for CIM funding. Sara Morgan-Broom was appointed Project Implementation Officer earlier this year. The post has since been re-designated as Community Development Officer, as this better reflects the intended role within the community. Sara has been attending Parish Council meetings and regularly meets with community voluntary organisations and strategic partners and partnerships in the area, to provide updates regarding the CIM fund and to raise awareness of the Community Development role.
- 4.19 The Planning Obligations Board is keen to ensure that guidance notes and application forms for seeking CIM funding are legible and clear to understand. The Community Development Officer has provided input to help ensure the process is accessible and relatively straightforward for organisations, whilst being sufficiently robust to enable transparent decision-making. Information will also be distilled through a dedicated webpage and social media and an FAQ is also being produced. Once agreed by the Board, this will be uploaded on to the various organisations' websites to ensure that local Communities access information that is accurate and up to date.
- 4.20 The Community Development Officer has supported a number of organisations in accessing other funding sources. This has resulted in more than £60,000 being raised thus far. Funding priorities have also been discussed with over forty local organisations. A volunteer project in Minehead has been established, and the highly successful Royal visit to Watchet further demonstrated the Council's commitment to serving the interests of Communities. Strategic work is also underway to create baseline information relating to community planning in West Somerset, working closely with the Somerset Sports Partnership to represent West Somerset Communities and lead the sport and leisure agenda within the Council.
- 4.21 These ongoing activities are focussed on effective and sustainable community development, helping to build awareness of the support and funding potentially available to make a difference to local communities impacted by the Hinkley C Development.

5. FINANCIAL/RESOURCE IMPLICATIONS

- 5.1 The most significant resource implication is the cost of failing to manage the Hinkley section 106 funds satisfactorily; inevitably, the financial consequences would be extremely severe in the event of action being taken against the Council for non-compliance with the Agreement. Additionally, the Council has a clear responsibility to ensure that the resources provided under the s106 Agreement are targeted effectively, so as to deliver maximum benefits to those communities affected by the proposed Development.

- 5.2 This Council has a good track record for its management of s106 monies, with soundly tested procedures in place to cover all aspects of the process. The complexity, scale and materiality of the Hinkley s106 programme should not be overlooked. This advocates a particularly rigorous approach to all aspects of its governance – not least, to manage the risks to the Council, which are apparent.
- 5.3 Whilst there are resource implications attached to this, it should be noted that the Service Level Agreement with EDF provides adequate funding for officers involved in delivering the s106 Agreement. The commitment to ensuring that Hinkley Governance procedures are based on existing practices wherever possible minimises any impacts; the test in all cases is that any additional processes (or workload) should directly contribute to the organisation's ability to manage and monitor resources efficiently and to monitor their effectiveness in terms of the outputs and outcomes achieved.

6. SECTION 151 OFFICER COMMENTS

- 6.1. The Hinkley C s106 contributions managed by the Council represent a very significant level of funding. The Council recognises the importance of establishing appropriate arrangements to safeguard the management of these funds and minimise the risks associated with non-compliance or other consequences of poor financial stewardship.
- 6.2. The link between resource and performance management is now well established across public sector organisations. The Governance processes being developed should continue to place equal emphasis on the ability to monitor outputs and outcomes secured through the s106 funding, alongside the control of financial resources. This is vitally important to enable the Council to monitor that monies are being spent in accordance with its obligations under the Agreement and to demonstrate its commitment to accountability.
- 6.3. The Council's existing service planning and budget monitoring processes will be integral to providing these assurances in respect of the Hinkley s106 monies. However, the role of the Hinkley Governance Group will facilitate an essential "programme-level" overview of finance and performance, further strengthening the Council's approach in this regard.

7. EQUALITY & DIVERSITY IMPLICATIONS

- 7.1. None directly in this report.

8. CRIME AND DISORDER IMPLICATIONS

- 8.1. None directly in this report.

9. CONSULTATION IMPLICATIONS

- 9.1. Somerset County Council and Sedgemoor Council will have a legitimate stakeholder interest in the arrangements established by WSC for managing section 106 contributions. Officers therefore continue to work closely with finance staff in both authorities and with the South West Audit Partnership to ensure developing practices are effective and appropriate to the requirements of all.

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 28TH NOVEMBER 2012.

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Hinkley C: Summary of s106 Contributions, Allocations & Expenditure

Status Key

- CND - exp Contribution not due, but allocations approved & exp incurred
- CND - allo Contribution not due, but allocations approved
- CR - exp Future contribution due, no sums allocated to date
- CR - exp Contributions received, allocated & expenditure being incurred
- CR - allo Contributions received, allocated
- CR Contributions received, but not allocated
- Cont Contingent or conditional sums

| Responsible Officer | Status (see key) | s106 Category (Schedule & Phase) | Payment Trigger | Due Date | Purpose | s106 Basic Amount £ | Date Received | Total Amount Received £ | Contributions Received & Managed by WSC £ | Allocations Approved (WSC Managed) £ | Expenditure to Date (incl Overhead rate) £ | % Approved Allocations Spent | Balance Allocated but not Spent £ |
|--------------------------------|------------------|---|-----------------------------------|-----------|---|---------------------|------------------|-------------------------|---|--------------------------------------|--|------------------------------|-----------------------------------|
| Heather Crockford / Ian Timms | CND - exp | Housing (2) | Phase 2 - prior to implementation | 01-Apr-13 | Employment of Housing Officer | 240,000 | 00-Jan-00 | 0 | 0 | 120,000.00 | 17,219 | 14 | 102,781 |
| Heather Crockford / Ian Timms | CND - exp | Annual Community Impact Mitigation (2 + 1 yr) | Phase 2 + 1 year | 01-Apr-14 | Contribution costs of Community Safety Officer | 80,000 | 00-Jan-00 | 0 | 0 | 40,000 | 10,000 | 25 | 30,000 |
| Pete Hughes / Steve Watts | CR - exp | Community Safety (1) | Phase 1 - prior to implementation | 20-Mar-12 | Costs of security and safety measures associated with Development, incl staff costs | 841,387 | 20-Mar-12 | 841,387 | 14,470 | 14,466 | 7,233 | 50 | 7,233 |
| Andrew Goodchild | CR | Ecology (1) | Phase 1 - prior to implementation | 20-Mar-12 | Provide for planting, aftercare and management to conserve bats and ecology | 250,000 | 20-Mar-12 | 250,000 | 250,000 | | | | |
| Corrinne Matthews / Ian Timms | CR - exp | Economic Development (1) | Phase 1 - prior to implementation | 20-Mar-12 | Employment of ED Officer | 60,000 | 20-Mar-12 | 60,000 | 60,000 | 60,000 | 32,039 | 53 | 27,961 |
| Corrinne Matthews / Ian Timms | CR | Economic Development (1) | Phase 1 - prior to implementation | 20-Mar-12 | Costs of business support initiatives and relevant projects | 64,470 | 20-Mar-12 | 64,470 | 64,470 | | | | |
| Erica Lake / Ian Timms | CR - allo | Health (1) | Phase 1 - prior to implementation | 20-Mar-12 | Participation in Health Task & Finish Group | 20,000 | 20-Mar-12 | 20,000 | 20,000 | 20,000 | | 0 | 20,000 |
| Angela Lamplough / Steve Watts | CR | Landscape & Visual (1) | Phase 1 - prior to implementation | 20-Mar-12 | Developing & implementing Landscape Art Schemes | 80,000 | 20-Mar-12 | 80,000 | 80,000 | 24,000 | | | 24,000 |
| Corrinne Matthews / Ian Timms | CR - exp | Skills & Training (1) | Phase 1 - prior to implementation | 20-Mar-12 | Employing Community Outreach Worker | 60,000 | 20-Mar-12 | 60,000 | 60,000 | 60,000 | 14,111 | 24 | 45,889 |
| Corrinne Matthews / Ian Timms | CR | Skills & Training (1) | Phase 1 - prior to implementation | 20-Mar-12 | Community Outreach Worker Fund | 7,500 | 20-Mar-12 | 7,500 | 7,500 | | | | |
| Corrinne Matthews / Ian Timms | CR | Skills & Training (1) | Phase 1 - prior to implementation | 20-Mar-12 | Fit to Work Programme | 30,000 | 20-Mar-12 | 30,000 | 30,000 | | | | |
| Andrew Goodchild / Adrian Dyer | CR - exp | Service Level Agreement (PP) | Planning Permission | 01-Feb-12 | WSC & SDC Officer costs: PP to PP + 9 months | 696,270 | 01-Feb-12 | 696,270 | 525,687 | 525,687 | 351,476 | 67 | 174,211 |
| Andrew Goodchild / Adrian Dyer | CR - exp | Service Level Agreement (PP) | Planning Permission | 01-Feb-12 | Technical Support costs: PP to PP + 9 months | 103,730 | 01-Feb-12 | 103,730 | 103,730 | 103,730 | | 0 | 103,730 |
| Andrew Goodchild / Adrian Dyer | CR - allo | Service Level Agreement (PP + 9) | Planning Permission + 9 months | 01-Nov-12 | WSC & SDC Officer costs: PP + 9 to PP + 15 months | 440,000 | 24-Oct-12 | 448,660 | 342,190 | 335,585 | | 0 | 335,585 |
| Corrinne Matthews / Ian Timms | CND - exp | Tourism (2) | Phase 2 - prior to implementation | 01-May-13 | WSC & SDC Employment of Tourism Officer | 90,000 | 00-Jan-00 | 0 | 0 | 45,000 | 29,793 | 66 | 15,207 |
| Corrinne Matthews / Ian Timms | CR - exp | Tourism (1) | Phase 1 - prior to implementation | 20-Mar-12 | Supporting existing Tourist Information Centres | 50,000 | 20-Mar-12 | 50,000 | 50,000 | 37,100 | 18,750 | 51 | 18,350 |
| GRAND TOTALS | | | | | | 3,113,357 | 2,712,017 | 1,608,047 | 1,385,569 | 480,620 | 904,948 | | |

REPORT NUMBER WSC 149/12

PRESENTED BY COUNCILLOR K V KRAVIS, LEAD MEMBER FOR RESOURCES
& CENTRAL SUPPORT

DATE 28TH NOVEMBER 2012

TREASURY MANAGEMENT UPDATE – 30TH SEPTEMBER 2012

1. PURPOSE OF REPORT

- 1.1. The purpose of the report is to update the Audit Committee on the Treasury Management position as at 30th September 2012.

2. RECOMMENDATIONS

- 2.1. To note the Treasury Management position as at 30th September 2012.

3. RISK ASSESSMENT

Risk Matrix

| Description | Likelihood | Impact | Overall |
|---|-------------|--------------|------------|
| The Council fails to maintain an adequate system of internal control <i>The Council has in place suitable arrangements</i> | Rare (1) | Major (4) | Low (4) |

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. On 21st March 2012 the Council approved the Treasury Management Strategy Statement, Minimum Revenue Policy and Annual Investment Strategy for 2012-2013 in line with the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").
- 4.2. The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These reports are

required to be adequately scrutinised by committee before being recommended to the Council. This role is undertaken by the Audit Committee.

5. FINANCIAL/RESOURCE IMPLICATIONS

5.1. As set out in the report.

6. SECTION 151 OFFICER COMMENTS

6.1. Performance to date is, at 0.75%, above the benchmark of 0.40% but is below the expected budget of £17,500 for the first six months. Assets sales were originally forecast for 2011/12 and 2012/13 and this would generate capital receipts and create an investment return, but these have not yet occurred.

7. EQUALITY & DIVERSITY IMPLICATIONS

7.1. None in respect of this report.

8. CRIME AND DISORDER IMPLICATIONS

8.1. None in respect of this report.

9. CONSULTATION IMPLICATIONS

9.1. None in respect of this report.

10. ASSET MANAGEMENT IMPLICATIONS

10.1. None in respect of this report.

11. ENVIRONMENTAL IMPACT IMPLICATIONS

11.1. None in respect of this report.

12. LEGAL IMPLICATIONS

12.1. None in respect of this report.

REPORT TO THE AUDIT COMMITTEE MEETING TO BE HELD ON 28 NOVEMBER 2012.

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Treasury Management Update

Half-Year Ended 30th September 2012

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Treasury Management Update

Half-Year Ended 30th September 2012

The CIPFA (the Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that Members be updated on treasury management activities regularly (TMSS, annual and mid year reports). This report therefore ensures this council is implementing best practice in accordance with the Code.

1. Economic background:

- During the quarter ended 30 September:
 - Indicators suggested that economic growth returned after three quarters of recession;
 - Retail sales held up well and spending off the high street strengthened;
 - Employment continued to rise at a strong pace;
 - Inflation failed to make further downward progress;
 - The Monetary Policy Committee (MPC) announced more asset purchases;
 - UK equity and government bond prices rose;
 - The US economy continued to recover, but at a disappointingly slow pace.
- GDP growth in quarter ended September looks set to be positive for the first quarter in a year. Although the CIPS/Markit business surveys weakened in July, they recovered in August to a level consistent on past form with quarterly GDP growth of about 0.2%.
- In addition, the surveys seem to have been unaffected by the impact of the lost working day for the Queen's Jubilee, which will have shifted some production from June to July. Indeed, the official data improved significantly at the start of Q3. Following its 2.4% monthly drop in June, industrial production rose by 2.9% in July. The overall trade deficit shrank from £4.3bn in June to £1.5bn in July.
- Furthermore, the CIPS surveys exclude the retail sector and high street spending has held up relatively well. The official measure of retail sales volumes grew by 0.3% in July. And while sales volumes fell by 0.2% in August – suggesting that the Olympics Games did not provide much of a boost to retail spending – retail sales should still support overall GDP growth in Q3. Even if sales volumes just hold steady in September, then sales will be 0.9% higher than in the second quarter.
- Spending off the high street has also shown signs of recovering. In particular, private new car registrations were 26% and 12% higher than a year ago in July and August respectively. Moreover, Olympics ticket sales that occurred in previous quarters will be counted as household spending in the third quarter.
- As a result, GDP growth could show a healthy quarterly rise to +0.6% in Q3. However, given that the level of GDP is likely to have been boosted by both the Queen's Jubilee and the Olympics, a renewed fall in output in Q4 seems likely.

- Meanwhile, the labour market has continued to recover. The Labour Force Survey measure of employment rose by 236,000 in the three months to July and the claimant count measure of unemployment fell by 15,000 in August – the biggest fall since June 2010. That said, most of the rise in employment was driven by growing self and part-time employment, rather than full-time. Moreover, 91,000 of the new jobs that were created were in London – around 40% of the total – despite the fact that the capital accounts for only 15% or so of overall employment. The Olympics would therefore seem to have provided a temporary boost to the national employment figures.
- Pay growth has remained modest. Annual growth of overall average earnings ticked up from 1.3% in June to 1.4% in July. Given the rate of inflation over this period, real pay continued to fall on an annual basis.
- The underlying trend in house prices still seems to be broadly down. The Halifax measure of house prices fell by 0.7% in July and a further 0.4% in August. The Nationwide's measure fared better – although it fell by 0.8% in July, it then rose by 1.3% in August. Mortgage approvals for new house purchases have also remained weak. The total of 47,300 in July was below the average of 50,700 seen in the first half of 2012.
- Banks' funding costs continued to ease over the quarter. This reflects the Bank of England's continued provision of low cost liquidity to banks in tranches of up to £5bn a month, the start of the Funding for Lending Scheme and the easing of tensions in Eurozone debt markets to which UK banks are exposed. But so far, quoted borrowing rates on most types of new mortgages have held broadly steady.
- Meanwhile, the trend in public borrowing has continued to deteriorate. A continuation of the pattern seen in the first five months of the fiscal year (since April) would mean that borrowing in 2012/13 as a whole would come in at around £145bn, compared to the Office for Budget Responsibility's March forecast of £120bn. And while the Government announced some new measures to get credit flowing around the economy – including a £10bn guarantee to help housing associations and private developers raise funds to build new homes, and plans for a "business bank" – this largely amounted to tinkering at the edges of the fiscal austerity plans.
- Inflation struggled to make further downward progress in Q3. Indeed, CPI inflation rose from 2.4% in June to 2.6% in July, before falling back to 2.5% in August. While inflation should drop to around 2% in September on the anniversary of last year's chunky rises in utility prices, further falls in inflation over the next few months look unlikely as a result of the recent increase in commodity prices. Oil prices rose from \$97 per barrel at the end of June to around \$113 per barrel at the end of September, while global agricultural prices have risen by around 25%.
- The MPC voted in July to undertake £50bn additional asset purchases over the following four months. Although interest rate markets are pricing in a decent chance of a cut in official interest rates within the next few months, Mervyn King is opposed to this.
- Asset prices in the UK and overseas largely continued to rise over the course of the third quarter. 10-year gilt yields fell from about 1.85% to 1.70% (although prices were volatile during this period), while the FTSE 100 recovered from 5,570 to 5,760. The pound also strengthened against both the euro and the dollar, from €1.23 to €1.25 and from \$1.56 to \$1.62 respectively.
- The US economy's recovery has remained fairly weak. A weighted average of the manufacturing and non-manufacturing ISM indices points to annualised GDP growth of no more than 2.0% in the third quarter. Increases in total non-farm payroll employment were disappointing, up only 97,000 in July and 120,000 in August, compared to an average increase of 142,000 in the second quarter.

- In the Eurozone, market sentiment improved following the ECB's pledge to buy "unlimited" quantities of peripheral government's sovereign debt in early September, provided that those countries have formally requested a bail out. However, peripheral Eurozone bond yields began to rise again at the end of the quarter due to Greece increasingly looking as if it will now have to ask for a third bail out and Spain continued prevaricating over making a formal request for a bail out when all the evidence indicates that this will be unavoidable. As for GDP growth, the composite Eurozone PMI points to a quarterly drop in GDP of about 0.4% in Q3.

2. Interest rate forecast

The Council's treasury advisor, Sector, provides the following forecast:

| | Dec-12 | Mar-13 | Jun-13 | Sep-13 | Dec-13 | Mar-14 | Jun-14 | Sep-14 | Dec-14 | Mar-15 |
|----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Bank rate | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% | 0.75% | 1.00% |
| 5yr PWLB rate | 1.50% | 1.50% | 1.50% | 1.60% | 1.70% | 1.80% | 1.90% | 2.00% | 2.10% | 2.30% |
| 10yr PWLB rate | 2.50% | 2.50% | 2.50% | 2.60% | 2.70% | 2.80% | 2.90% | 3.00% | 3.20% | 3.30% |
| 25yr PWLB rate | 3.70% | 3.70% | 3.70% | 3.80% | 3.80% | 3.90% | 4.00% | 4.10% | 4.20% | 4.30% |
| 50yr PWLB rate | 3.90% | 3.90% | 3.90% | 4.00% | 4.00% | 4.10% | 4.20% | 4.30% | 4.40% | 4.50% |

Sector undertook a review of its interest rate forecasts following the issue of the Bank of England Inflation Report for August 2012. Consequently, it pushed back the first rise in Bank Rate from Q1 2014 to Q4 2014, as well as lowering the pace of rises in gilt yields.

The Bank of England forecasts of the speed and strength of recovery and rate of reduction of CPI inflation over the last four years had been attracting increasing criticism for being consistently over optimistic. In this latest Inflation Report, the Bank changed its position significantly in as much as it markedly downgraded its forecasts for the strength and speed of recovery in GDP growth. Whereas previously it had consistently been forecasting a strong recovery to over 3% p.a., it was now only forecasting growth to recover to around 2% during the period from early 2013 to the end of 2015.

SUMMARY ECONOMIC OUTLOOK

Eurozone

- A new storm is brewing as Greece, yet again, is failing to meet the demands of the austerity programme in cutting government expenditure, increasing tax revenue and selling off public sector assets. German patience with this situation must be close to breaking point and without German support Greece will run out of cash within the next couple of months. Markets are currently predicting an end game where Greece is eventually forced to exit (dubbed "Grexit") the Eurozone and return to the drachma.
- More worryingly, sovereign bond yields for both Spain and Italy rose sharply to levels previously deemed unsustainable. Spain is now actively looking at what might be acceptable terms for receiving a bailout and surrendering national sovereignty to external oversight by the IMF and Eurozone paymasters.
- One possible, but very unlikely, solution to the Eurozone debt crisis would be the issue of Eurobonds. These would collectivise all debt in the Eurozone and reduce the Greek element in total Eurozone debt to an almost insignificant percentage.
- Austerity programmes in various countries are reducing GDP growth rates.

US

- GDP is weakening alongside the recovery in jobs growth.
- The Federal Reserve predicts that current ultra-low interest rates may be warranted until at least mid-2015.
- There is political gridlock ahead of the November 2012 Presidential elections, for major fiscal action.
- The new President is unlikely to make a significant fiscal impact on the US economy in 2013 as the unsustainably high budget deficit will need to be urgently addressed.
- The housing market is at last beginning to show tentative signs of picking up.
- Confidence figures among US consumers rose to a seven-month high in September as the Conference Board's index of optimism rose from 61.3 to 70.3.

China

- There are increasing concerns that efforts to stimulate the economy could fail to avoid a hard landing. There are now many parts of the economy flashing distress signals.
- A fresh round of support is widely expected. This could coincide with the change in the party hierarchy which is due to take place at the 18th Party Congress which begins in early November.

UK

- The UK has suffered its worst and slowest recovery from recession of any of the five recessions since 1930.
- The Bank of England August 2012 Inflation Report again pushed back the timing of a return to trend growth and the rate at which inflation will fall back towards the target rate of 2%.
- 40% of UK GDP is dependent on overseas trade; high correlation of UK growth to US and EU GDP growth means that the UK economy is likely to register weak growth in the next two years.
- Consumers are likely to remain focused on paying down debt; weak consumer sentiment and job fears will all act to keep consumer expenditure suppressed.
- It is likely to take a lot longer to eliminate the structural budget deficit than in the current plans of the Coalition government. These plans will need to be updated to incorporate the impact of weak growth in the Eurozone and US depressing UK GDP growth, and thus lower expectations for increases in tax revenues.
- The Coalition Government and the Bank of England have put in place a programme of action to improve the availability of credit in the economy. However, it will take time for this to feed through into a significant positive impact on GDP growth in the economy.
- There is little sign of a coordinated strategy for the private sector to finance a major expansion of infrastructure investment to boost UK growth.

- Eurozone concerns and the potential for further QE to stimulate GDP growth are likely to keep gilt yields depressed during the next twelve months.
- UK gilts are likely to retain safe haven status from Eurozone worries for some time. Eurozone politicians struggle to reach agreement on how to replace impressive sounding words with actually implementing an effective platform of measures to conclusively subdue the debt crisis
- However, there are improvements in the prospects for the UK economy, though there is still a long way to go.
 - UK banks have made huge progress since 2008 in correcting their over-extended balance sheets, though credit availability still remains weak.
 - Consumers have also made progress in correcting their personal over-borrowed balance sheets so that personal debt relative to incomes is now down to the lowest level since 2004. However, at 146%, it still remains the highest of any G7 nation.
 - The car industry is well on track to increase production. This is expected to see an increase from about 1m cars per annum in 2009 to 2.25m by 2016, much of which will be exported. In addition, car component firms are moving production to the UK in order to cost effectively meet the consequent increase in demand for their products. The car industry has also made steady progress in reducing its labour costs to be below those of Germany, France, Italy and even Spain.
 - The fall in price inflation relative to increases in pay inflation meant that household disposable income was less affected in quarter ended June, the biggest improvement in three years.
 - Recent increases in employment also strengthen consumer expenditure, tax receipts and reduce Government expenditure on benefits.
 - The UK is less encumbered to hindrances to new investment and new employment than countries in the Eurozone and has a competitive currency.
 - The UK has a more effective approach to stimulating growth than in the Eurozone in the areas of monetary policy and direct action to improve the supply of liquidity to the real economy

Sector's forward view

Economic forecasting remains difficult with so many external influences weighing on the UK. Key areas of uncertainty include:

- The impact of the Eurozone crisis on financial markets and the banking sector;
- The impact of the UK Government's austerity plan on confidence and growth;
- Monetary policy action failing to stimulate growth in western economies;
- The potential for weak growth or recession in the UK's main trading partners - the EU and US;

The overall balance of risks remains weighted to the downside. Sector believes that the longer run trend is for gilt yields and PWLB rates to rise due to the high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries. However, near-term, QE is likely to depress yields and further QE thereafter may lead to a reassessment of Sector's central forecast

Given the weak outlook for economic growth, Sector sees the prospects for any interest rate changes before early 2014 as very limited indeed. There is potential for the start of Bank Rate increases to be even further delayed if growth disappoints.

3. Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2012/13, which includes the Annual Investment Strategy, was approved by the Council on 21 March 2012. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield

The Council will also aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. In the current economic climate and the heightened credit concerns it is considered appropriate to keep investments short term with a maximum duration of 3 months.

This limit will apply to all entities on the suggested Sector Credit List with the following exceptions:

1. UK Government and related entities such as Local Authorities. Their suggested duration limit will remain at 5yrs.
2. UK semi-nationalised institutions (Lloyds / RBS). We continue to view the current significant UK ownership of these entities as providing significant comfort to investors.
3. Money Market Funds.

Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 30th September 2012.

Investment rates available in the market have continued at historically low levels. The average level of funds available for investment purposes during the quarter was £2.581m. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme. The Council holds no core cash balances for investment purposes (i.e. funds available for more than one year). The internally managed funds earned an average rate of return of 0.75%. The comparable performance indicator is the average 7-day LIBID rate, which was 0.40%.

As illustrated, the Council outperformed the benchmark by 0.35 bps. The Council's budgeted investment return for 2012/13 is £0.035m, and performance for the year to date is £0.009m below budget.

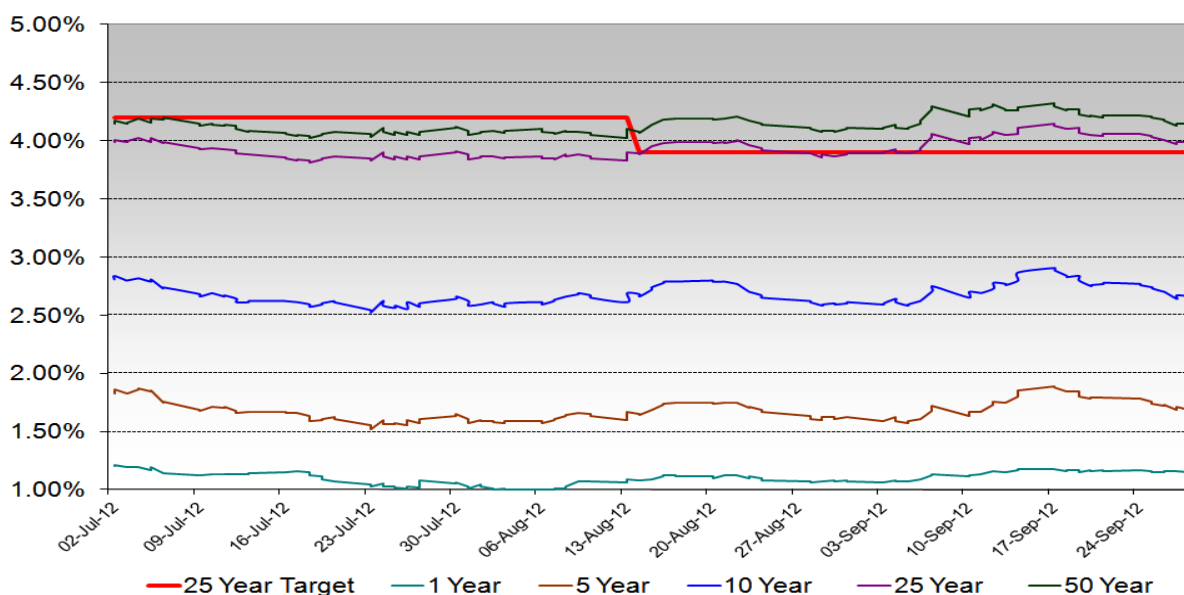
4. New borrowing:

No borrowing was undertaken during the first six months of the 2012-2013 financial year..

As shown below, interest rates across the interest rate yield curve generally fell during the quarter. The low points during the quarter were generally seen during June.

PWLB rates quarter ended 30.9.2012

| | 1 Year | 5 Year | 10 Year | 25 Year | 50 Year |
|----------------|----------|----------|----------|----------|----------|
| Low | 1.00% | 1.52% | 2.52% | 3.81% | 4.02% |
| Date | 02/08/12 | 23/07/12 | 23/07/12 | 18/07/12 | 18/07/12 |
| High | 1.21% | 1.89% | 2.91% | 4.15% | 4.32% |
| Date | 02/07/12 | 17/09/12 | 17/09/12 | 17/09/12 | 17/09/12 |
| Average | 1.10% | 1.68% | 2.68% | 3.94% | 4.14% |



Borrowing in advance of need.

This Council has not borrowed in advance of need during the quarter ended 30th September 2012 and has no intention to borrow in advance in 2012/13.

5. Debt Rescheduling

No debt rescheduling was undertaken during the quarter.

6. Compliance with Treasury and Prudential Limits

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved Treasury Management Strategy Statement.

During the financial year to date the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices. The prudential and treasury Indicators are shown in Appendix 1.

7. Other Issues

Hinkley Point - The large planning obligation settlement will significantly increase the level of cash balances managed by this Authority in-house. A further report will be brought to Members, which will set out a revised Investment Strategy to deal with this arrangement as and when it takes place.

APPENDIX 1: Prudential and Treasury Indicators as at 30th September 2012

| Treasury Indicators | 2012/13 Budget £'000 | Quarter 2 Actual £'000 |
|--|-------------------------|---------------------------|
| Authorised limit for external debt | 10,000 | 10,000 |
| Operational boundary for external debt | 7,500 | 7,500 |
| Gross external debt | 3,500 | 3,500 |
| Investments | 5,590 | 1,904 |
| Net borrowing | (2,090) | 1,596 |
| Maturity structure of fixed rate borrowing - upper and lower limits | | |
| 12 months to 2 years | 3,500 | 3,500 |
| Upper limit of fixed interest rates based on net debt | | |
| Upper limit of fixed interest rates based on net debt | 100% | 100% |
| Upper limit of variable interest rates based on net debt | | |
| Upper limit of variable interest rates based on net debt | 100% | 100% |
| Upper limit for principal sums invested for over 364 days | | |
| Upper limit for principal sums invested for over 364 days | Nil | Nil |

| Prudential Indicators | 2012/13 Budget £'000 | Quarter 2 Actual £'000 |
|---|---------------------------------|-----------------------------------|
| Capital expenditure | 760 | 342 |
| Capital Financing Requirement (CFR) | 2,468 | 7,658 |
| Annual change in CFR | (3,062) | 340 |
| In year borrowing requirement | Nil | Nil |
| Incremental impact of capital investment decisions:- | | |
| a) Increase in council tax (band change) per annum. | Nil | Nil |

APPENDIX 2: Investment portfolio

Investments held by West Somerset as at 30 September 2012 amounted to £1,903,945.55. All of this was held within the Authority's Special Interest Bearing Account (SIBA) held with its main bankers, the National Westminster Bank.

REPORT NUMBER WSC 157/12

PRESENTED BY COUNCILLOR K V KRAVIS, LEAD MEMBER FOR RESOURCES & CENTRAL SUPPORT

DATE 28TH NOVEMBER 2012

DEBT ANALYSIS REPORT AS AT 30 SEPTEMBER 2012

1. PURPOSE OF REPORT

- 1.1. The purpose of this report is to provide Members with an update on the levels of outstanding debt across the Authority as at 30 September 2012 compared with the situation as at 30 September 2011.

2. RECOMMENDATIONS

- 2.1. That the audit committee notes the various debtor balances it currently has within its Accounts.

3. RISK ASSESSMENT

Risk Matrix

| Description | Likelihood | Impact | Overall |
|--|-----------------|--------------|---------------|
| That the Council does not put in place appropriate arrangements to recover monies that are owed to the Authority. <i>The mitigation for this will be the continued collection of debt following the procedures and arrangements the Authority has put in place.</i> | Unlikely (2) | Major (4) | Medium (8) |

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 and after the mitigation measures have been actioned.

4. BACKGROUND INFORMATION

- 4.1. The levels of outstanding debt were originally included within the Corporate Performance Report presented to Scrutiny Committee on a quarterly basis.
- 4.2. It was agreed at the Scrutiny meeting dated 16th July 2012 that the Audit Committee would receive future reports on the levels of debt outstanding on a quarterly basis.

FINANCE INFORMATION

Outstanding Debts of The Authority (as at 30 September 2012 compared with 30 September 2011) -

Corporate Debts

| Age Of Debt | 30 Sept 2011 Outstanding £ | 30 Sept 2012 Outstanding £ |
|--------------------|----------------------------------|----------------------------------|
| Less than 3 months | 74,914 | 63,758 |
| 3 to 6 months | 13,030 | 19,322 |
| 6 months to 1 year | 23,462 | 35,998 |
| Over 1 year | 126,020 | 121,152 |
| Total | 237,426 | 240,230 |

Council Tax Debts

| Year from 1 April | 30 Sept 2011 Outstanding £ | 30 Sept 2012 Outstanding £ |
|-------------------|----------------------------------|----------------------------------|
| Pre 2000 | (365) | (1,685) |
| 2001 | 9,562 | 7,677 |
| 2002 | 13,436 | 10,353 |
| 2003 | 13,055 | 11,610 |
| 2004 | 22,805 | 20,620 |
| 2005 | 35,426 | 24,793 |
| 2006 | 60,598 | 47,245 |
| 2007 | 82,566 | 63,835 |
| 2008 | 102,897 | 75,112 |
| 2009 | 131,461 | 72,943 |
| 2010 | 304,133 | 135,150 |
| 2011 | | 314,046 |
| Total | 775,574 | 781,699 |

Business Rates Debts

| Year from 1 April | 30 Sept 2011 Outstanding £ | 30 Sept 2012 Outstanding £ |
|-------------------|----------------------------------|----------------------------------|
| 1993-2000 | 2,403 | (338) |
| 2001 | 692 | (160) |
| 2002 | 4,052 | 2,712 |
| 2003 | 4,074 | 1,522 |
| 2004 | 11,112 | 2,655 |
| 2005 | 3,625 | 1,955 |
| 2006 | 7,276 | 2,806 |
| 2007 | 9,624 | 6,909 |
| 2008 | 20,391 | 13,981 |
| 2009 | 65,226 | 46,522 |
| 2010 | 138,684 | 59,426 |
| 2011 | | 134,994 |
| Total | 267,159 | 272,984 |

5. FINANCIAL/RESOURCE IMPLICATIONS

5.1. As set out in the report.

6. SECTION 151 OFFICER COMMENTS

6.1. Levels of debt can impact on the Council's cashflow. As such all debts are actively managed to keep outstanding debt levels to a minimum.

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. None directly in this report.

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 28 NOVEMBER 2012.

CONTACT OFFICER: STEVE PLENTY, PRINCIPAL ACCOUNTANT
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West Somerset Council

Report of Internal Audit Activity
Quarter 3, 2012/13

Internal Audit ■ Risk ■ Special Investigations ■ Consultancy

Contents

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| Future Planned Work | 5 |
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SWAP
SOUTH WEST AUDIT PARTNERSHIP
Delivering Audit Excellence

SWAP work is completed to comply with the Internal Professional Practices Framework of the Institute of Internal Auditors and the CIPFA Code of Practice for Internal Audit in England and Wales.

Our audit activity is split between:

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

Role of Internal Audit

The Internal Audit service for West Somerset Council is provided by South West Audit Partnership (SWAP). SWAP has adopted and works to the Standards of the Institute of Internal Auditors, but also follows the CIPFA Code of Practice for Internal Audit. The Partnership is also guided by the Internal Audit Charter approved by the Audit Committee at its meeting in March 2012. Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work includes;

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

Overview of Internal Audit Activity

Internal Audit work is largely driven by an Annual Audit Plan. This is approved by the Section 151 Officer, following consultation with the Corporate Management Team and External Auditors. This year's Audit Plan was reported to this Committee at its meeting in March 2012.

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

Quarter 3 Update:

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

Internal Audit Work Programme

The schedule provided at Appendix A contains a list of all audits as agreed in the Annual Audit Plan 2012/13. It is important that Members are aware of the status of all audits and that this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

Each completed assignment includes its respective “control assurance” opinion together with the number and relative ranking of recommendations that have been raised with management. The assurance opinion ratings have been determined in accordance with the Internal Audit “Audit Framework Definitions” as shown in Appendix B.

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

Quarter 3 Update:

Completed Audit Assignments in the Period

Operational Audits

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

The joint audit with SDC and TDBC of the South West Private Sector Housing Partnership has been finalised and reasonable assurance was given.

The themed review of Data Security Breaches has been completed with reasonable assurance given as there were no medium/high or high risks identified. An IS review of ICT Change Management is scheduled for completion by the end of December.

The Terms of Reference for the Hinkley Point C Section 106 audit have been agreed by each of the three Councils and work is beginning.

Key Control Audits

Key Control Audits are completed to assist the External Auditor in their assessment of the Council's financial control environment and this has been the focus of our work since quarter 2.

Main Accounting and Housing Benefits are being drafted. Payroll and Council Tax and NNDR are in progress.

For key controls which are not required in the year by the external auditors and which received reasonable assurance last year we follow up previous recommendations rather than completing a full audit. Please see details in the follow up section below.

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

Governance, Fraud and Corruption Audits

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

One review on Delivery of Major Projects - Risk Management has been completed. This area was given partial assurance as it was found that formal project risk registers are not maintained for projects undertaken by the Council. Appendix C contains details of the recommendation and agreed action. A review of Committee Reporting - Member Decisions is being drafted. Two further themed reviews of Contract fraud and Treasury Management strategy are in progress.

Follow Up Audits

A follow up of Community Safety is still in progress. A follow up of Maximising Income has been completed and two level 4 and one level 3 recommendation have all been addressed. An additional follow up of Car Parks income has been requested by management due to staff changes and this is scheduled for late November.

A further four follow ups were undertaken of key control systems. These were Creditors, Debtors, Treasury Management and Capital and an individual follow up report has been issued for each. Of the total 15 priority 3 recommendations made; seven have been completed, four are in progress, and four have either not completed or the risk has been accepted. Of the four that have not been addressed two relate to Creditors and two to Treasury Management.

Future Planned Work

This is detailed in Appendix A and is subject to any changes in agreement with the Chief Executive since the departure of the S151 officer.

Conclusion

For the audits completed to report stage each report contains an action plan with a number of recommendations which are given priority scores. Definitions of these priorities are contained in Appendix B.

One audit has received partial assurance and contained one medium/high priority recommendation. This is included in Appendix C. All other reports finalised in the year to date have received reasonable assurance.

APPENDIX A

| Directorate/Service | Audit Area | Quarter | Status | Opinion | SWAP Feedback | No. of recs | Recommendations | | |
|--------------------------------|--|---------|----------------|------------|---------------|-------------|-----------------|---|---|
| | | | | | | | 3 | 4 | 5 |
| FINAL REPORT | | | | | | | | | |
| Follow up | Partnerships | Qtr 1 | Final July | N/A | | | | | |
| Follow up | BCP | Qtr 2 | Final July | N/A | | | | | |
| Governance, Fraud & Corruption | Freedom of Information | Qtr 1 | Final July | Reasonable | 93% | 6 | 4 | 0 | 0 |
| Governance, Fraud & Corruption | Cash and Bank - Car Parks | Qtr 1 | Final July | Reasonable | | 5 | 5 | 0 | 0 |
| Governance, Fraud & Corruption | Gifts & Hospitality / Register of Interests (& Related Party Transactions follow up) | Qtr 2 | Final August | Reasonable | 88% | 3 | 3 | 0 | 0 |
| Governance, Fraud & Corruption | Creditor Fraud | Qtr 1 | Final Sept | Reasonable | | 15 | 15 | 0 | 0 |
| Operational | South West Private Sector Housing Partnership - joint audit with SDC and TDBC | Qtr 2 | Final Sept | Reasonable | | 8 | 8 | 0 | 0 |
| Governance, Fraud & Corruption | Delivery of Major Projects - Risk Management | Qtr 1 | Final November | Partial | | 5 | 4 | 1 | 0 |
| Follow up | Debtors key control | Qtr 3 | Final November | N/A | | | | | |
| Follow up | Capital key control | Qtr 3 | Final November | N/A | | | | | |
| Follow up | Treasury Management key control | Qtr 3 | Final November | N/A | | | | | |
| Follow up | Maximising Income | Qtr 3 | Final November | N/A | | | | | |
| IS Review | Data Security breaches | Qtr 1 | Final November | Reasonable | | 13 | 10 | 0 | 0 |
| DRAFT REPORT | | | | | | | | | |
| Follow up | Creditors key control | Qtr 3 | Draft November | N/A | | | | | |
| WORK IN PROGRESS | | | | | | | | | |
| Governance, Fraud & Corruption | Committee Reporting - Member Decisions | Qtr 2 | Drafting | | | | | | |
| Key Control | Housing Benefits | Qtr 3 | Drafting | | | | | | |
| Key Control | Main Accounting | Qtr 3 | Drafting | | | | | | |
| Follow up | Community Safety | Qtr 2 | In progress | | | | | | |
| Governance, Fraud & Corruption | Contract fraud | Qtr 2 | In progress | | | | | | |

3 = Medium ← → 5 = Major

| | | | | | | | |
|--------------------------------|---|-------|--------------|--|--|--|--|
| Operational | Hinkley S106 (joint audit with SCC and SDC) | Qtr 3 | In progress | | | | |
| Governance, Fraud & Corruption | Treasury Management | Qtr 3 | In progress | | | | |
| Key Control | Payroll | Qtr 3 | In progress | | | | |
| Key Control | Council Tax & NNDR | Qtr 3 | In progress | | | | |
| NOT STARTED | | | | | | | |
| Governance, Fraud & Corruption | Procurement | Qtr 2 | Not started | | | | |
| IS Review | ICT Change Management | Qtr 3 | ToR agreed | | | | |
| Follow up | Cash and Bank - Car Parks | Qtr 3 | W/C 20/11/12 | | | | |
| Governance, Fraud & Corruption | Expenses fraud | Qtr 4 | | | | | |
| Governance, Fraud & Corruption | Change Management | Qtr 4 | | | | | |
| Follow up | Software Licensing & Asset Management | Qtr 4 | | | | | |
| Follow up | Contract Management | Qtr 4 | | | | | |
| IS Review | Information Security Regulatory Compliance | Qtr 4 | | | | | |

Audit Framework Definitions

Control Assurance Definitions

| | | |
|--------------------|-------|---|
| Substantial | ▲ ★★★ | I am able to offer substantial assurance as the areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed. |
| Reasonable | ▲ ★★ | I am able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives. |
| Partial | ▲ ★ | I am able to offer Partial assurance in relation to the areas reviewed and the controls found to be in place. Some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives. |
| None | ▲ | I am not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives. |

Categorisation Of Recommendations

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

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

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

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

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

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

Definitions of Risk

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

Delivery of Major Projects - Risk Management

Agreed Action Plan

| Finding | Recommendation | Priority Rating | Management Response | Responsible Officer | Implementation Date |
|---|---|-----------------|---|---------------------|---------------------|
| Objective: The delivery of major projects is not adversely affected due to poor risk management and governance | | | | | |
| Risk: Unwanted outcomes on major projects and programmes are not identified and controlled. | | | | | |
| Risk Registers | I recommend that the Corporate Director requires all projects to be risk assessed, using a corporate risk register template, to ensure that all risks are identified, prioritised, allocated to a responsible officer, and monitored. | 4 | Agreed - part of the West Somerset Project Management tool kit to be developed. | Corporate Director | 1st April 2013. |