

Annual Report of the Audit, Governance & Standards Committee

1. INTRODUCTION

To provide Members of the Council with details of the work carried out by the Audit Governance & Standards Committee (AGSC) during the year ended 31 March 2020. The report also details how the AGSC has fulfilled its terms of reference during this period.

2. BACKGROUND

The AGSC function is to provide assurance of the adequacy of the risk management framework and associated control environment; provide scrutiny of the Council's financial and non- financial performance to the extent that it affects the Council's exposure to risk and weaknesses in the control environment, and oversees the financial reporting processes.

The Committee's specific powers are set out the Terms of Reference in the [Constitution](#).

Audit Committees are a key component of Corporate Governance and provide an important source of assurance about an organisation's arrangements and practices for managing risks, maintaining an effective control environment, together with reporting on financial and other performance.

In 2018, The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued guidance to local authorities to help ensure that AGSC's operate effectively. AGSC has adopted the procedures set out in this guidance as best practice.

The guidance also recommends that AGSC's report annually on how they have discharged their duties.

3. WORK UNDERTAKEN AND FINDINGS

AGSC have met on six occasions since June 2019 to February 2020. The last committee of this financial year is 11 March. It has, overall, been a busy and informative year from both a financial and a governance perspective.

During this period, the Committee has assessed the adequacy and effectiveness of the Council's risk management controls and monitoring arrangements, together with the associated counter fraud systems.

The Committee has reviewed various governance items.

AGSC has reviewed and approved the 2019 Statement of Accounts for the two former district councils' (Taunton Deane and West Somerset), internal auditor (SWAP) reports and as Chair, I have discussed the audit process with external auditors, Grant Thornton.

On 4 February 2020, AGSC received the draft Capital, Investment and Treasury Strategies 2020-2025 for review and recommendation. Also, in February AGSC joined Scrutiny to discuss SWAP's report in relation to Transformation – Lessons Learned.

AGSC has also focussed on the Council's ongoing compliance with certain internal audit matters which are set out in more detail in this report.

Unfortunately, a number of these matters remain an ongoing issue and some require urgent resolution.

Staff shortages and new system "glitches" have hindered certain performance aspirations. However, the Council is now almost a year into its transformation, and it is expected to now put these matters firmly on track in order to flourish.

Financial Statements

The 2019 Statement of Accounts for both authorities were late. West Somerset Council's Letter of Representation was signed on 2 August 2019. TDBC's Letter of Representation was signed on 11 November 2019.

Each Council's Statements of Accounts received an Auditor's unqualified opinion and each entity was considered "value for money".

In view of the delays in relation to the 2019 accounts which possibly were more challenging because two entities were involved, the AGSC has requested that a more robust monitoring system for deliverables is put in place for the current year.

An objection to the accounts was received by Grant Thornton (GT) in early 2019. The AGSC has been provided with scant information on this, apart from the fact it relates to redundancies made during the financial year.

Correspondence between GT and the "Objector" continues and thus I, as Chair, am unable to provide any further detail on this.

External Audit

During 2019, GT's audit plan updates were received regularly throughout the year. We have approved the 2020 audit plan and fees. As mentioned above, the committee has requested that the current plan is actively monitored in order to avoid delays in finalising the Statement of Accounts. According to the auditor some of the delays encountered were in relation to providing timely responses to the audit process. This can result in increased fees, so a swift handover of deliverables is important.

Internal Audit

This function is provided by SWAP. It appears to be effective.

During the Year AGSC has received and considered various items highlighted by SWAP, together with SWAP's schedule of work to be performed over the financial year.

Some of the items identified have been resolved. However, several matters, some of which are carried forward from last year, remain unresolved.

All of the items highlighted below have received either a "Partial" Assurance (some key risks are not well managed and systems require the introduction of improvement of internal controls) or, "No" Assurance (the areas reviewed were found to be inadequately controlled. Risks are not well managed)

As a matter of prudence, I have highlighted these below. Some items require new systems to be put in place, some arise from staffing issues. My rationale for highlighting these within this report is that some present a corporate risk. More importantly, most of these matters require "ownership" and an active monitoring system in order to resolve them. These items are shown below and identified in the order they were reported to AGSC.

June 2019

Treasury (Partial)

This matter was a carry forward from 2018/19 and related to TDBC only.

Several lower level weaknesses were identified, which when combined resulted in a partial assurance audit opinion. The concerns highlighted were:

Reconciliations between treasury management records and general ledger were not up to date. Such reconciliations ensure that the information stored in the ledger accurately reflects the Council's financial position.

There were no documented procedures for cashflow projections to forecast cash requirements.

Mid-year and year end reports were provided to members as "information only" reports rather than being presented formally at committees.

Recommendations for improvement were given and an action plan was agreed to address these weaknesses. An agreed date of action is 31 March 2020.

TDBC Debtors (Partial)

The objective of this audit was to ensure that debtor key controls operate effectively, and that fraud, error or corruption is minimised.

The Authorised Signatory List for refunds, credit notes and write offs was maintained in a spreadsheet rather than on the e5 financial system. In a period of transition this increases the risk of unauthorised transactions.

There was a delay in raising invoices at Cemeteries and Crematorium and the accounts receivable function were behind in their review of suppressed debts.

Appropriate action was agreed to address the above weaknesses and monitoring is being carried out by SWAP. An agreed date of action is 31 March 2020.

Housing Fire Safety Monitoring (Advisory)

The original Fire Safety Management audit was undertaken in 2018/19 with the objective to confirm that all Council owned properties are safe and compliant with fire safety policy and legislation. That audit was awarded "partial assurance" as the systems in place for managing and monitoring fire safety were such that one could not ascertain with any certainty that inspections, in line with legal requirements, had been carried out. The internal audit identified that the system in place was a spreadsheet rather than a database.

The review identified that domestic properties did receive a Fire Risk Assessment (FRA) during August -Dec 2018 and thus were compliant at July 2019. Current year (2019/20) assessments require review and action.

A new database is to be introduced to provide a central repository of all evidence linked to FRA's. However, this is not yet in place. The new Housing Director has taken steps to remedy this and will report to AGSC in March 2020

As far as commercial properties are concerned, AGSC have been advised that commercially leased properties FRA's are the responsibility of the landlord.

One specific property was identified as overdue at July 2019 (Auction House old market site). AGSC was advised on 31 July that an FRA would be completed as required when a decision is taken over its future use, as the area controlled by the council is currently vacant.

An update on FSM was provided in July 2019 and AGSC was advised good progress had been made, however, there is more to be done. The necessary database was to be delayed until October 2019.

The Housing Director will report further on this matter to AGSC in March and confirm whether the database is now up and running.

September 2019

Bereavement Services (Advisory) – follow up from 2018/19

The internal audit opinion is that the Cemetery/ Crematorium Administration System is not fit for purpose.

The service carries out over 2,000 cremations and 300 burials per annum. It operates five cemeteries covering 56 acres. Total income is circa £1.7m

The follow up review could not conclude that risk exposure had been reduced because two key findings identified in the original report had not yet been implemented. Again, the failure relates to the lack of joined up electronic systems capable of interface with finance systems, and the recording/linking of graves on the plan to the register. The plan of graves was deemed to be out of date.

Revised date for implementation was 30 November 2019, almost a year late. SWAT found that there was no Business/ Service plan in place or started at September 2019. There is now a new Bereavement Services Manager in place and the revised date for the Plan is March 2020.

Supplier Resilience (Advisory)

A partial assurance was given to this issue because neither of the two prior authorities had a consistent nor coordinated approach to supplier resistance. Neither authority had in the past outsourced many services, preferring to work in partnership with other councils or retain in house services. However, SWAP concluded that there was no framework in place to assist staff to assess the business resilience of suppliers.

A newly appointed Procurement Specialist is working on the Framework and the revised date for implementation was September 2019. The next SWAP review should update on this. I consider this matter low risk at the present in view of the Council's working arrangements, however, this is likely to change going forward.

January 2020

Information Management (Partial)

Since the September 2019 update, SWAP concluded that the Council fails to manage its data leading to non-compliance with Data Protection Act (2018)

The information Management Project has been in progress for over a year and the first deliverables are now being realised with the development of a Retention & Disposal schedule. However, this only defines how long the Council should retain data and how it should be stored. The Council still needs to determine how it will review all data to ensure compliance.

The areas outstanding are.

- a) Cleanse and migrate network drives – personal and shared.
- b) Provide information architecture for new corporate file plans.

Until the stored data has been cleansed the Council will remain non-compliant with DPA 2018 (penalties for non-compliance could be onerous)

The audit found that staff are not aware of their responsibilities to achieve compliance. A data conscious culture is not embedded within the Council with staff unaware of who has ownership for ensuring data compliance. Awareness of retention and disposal schedules is limited.

A detailed summary of this issue is set out in the Internal Audit report. Work on this area is in process. The lead officer responsible for this area has

recently left the Council and the new lead director should take responsibility for this matter immediately.

It is vital that this issue is resolved as a matter of urgency as this is a serious corporate risk.

Payroll (Partial)

This area was given partial assurance. Weaknesses identified.

No clear separation of duties in managing processing for starters, leavers and changes.

Temporary changes are not approved or reported to payroll.

New starter process is not consistently followed.

No written procedures for payroll tasks.

Payments were made to one officer who had left three months earlier without being identified.

Previous audit recommendations were outstanding.

Recommendations raised to management have been agreed with target dates for implementation by September 2020.

Banking Arrangements (Partial)

As part of the merger, bank accounts have been brought together and transferred into the new Council's name. In total the Council has twenty-one bank accounts.

The banking contract was last tendered in 2012 and extended in 2018 due to the transformation. Whilst the extension allowed time to create the new

Authority, no progress has been made regarding the re-tendering
SWAP recommend that this exercise should be commenced as soon as possible in order to ensure that the Council's arrangements are adequate to control funds and achieve best value for money. Inaccurate, out of date information can lead to bad decisions being made which may result in financial and reputational repercussions.

An agreed date of action has been set as 31 July 2020.

SWAP advised of one special investigation in relation to housing following a whistleblowing allegation. This investigation is ongoing and no further information may be provided at this time.

March 2020

Debtors (Partial)

The March Internal audit findings are to be discussed on 11 March. Most of the items shown in the summary of key findings are carried forward from previous quarters. However, one item with a 'Partial' rating requires urgent action. The new council has continued to use the E5 financial system. All outstanding debts from TDBS & WS were transferred to SWTC accounts. The debt recovery process was put on hold until July 2019 whilst awaiting data input from WSC systems. Staffing structure has changed and there has been a knowledge loss. Whilst there is a central income team, responsibility rests with individual services to raise their own invoices. This is not an ideal situation and should be reviewed.

There has been a large reduction in invoices raised when comparing details for the current and previous year. The reduction applies across 19 service areas and is significant.

One area particularly affected is the DLO. Only 60 invoices to a value of £94,713 were raised in 2019/20 compared to 967 invoices in 2018/19 with a corresponding value of £1.363m.

Some contracts have been lost during the year, however, it would appear that invoices are not issued in a timely manner, weaknesses in reconciliations, and debt recovery have been identified. Senior Management team are unlikely to be aware of the many smaller invoices which are overdue as only the Top 30 Debts (by value) are brought to their attention. Some debts date back to 2009 and debts over 90 days account for 4.5% of invoices raised. These amount to £1.75m of late or outstanding debt.

This impacts on the Council's ongoing viability and ability to provide services. An agreed date of action of 31 March is given. As this date is looming it must not be allowed to slip and AGSC recommends that this is given urgent attention.

All the items above are identified in SWAT's work plan for follow up during the next financial year. SWAT's work plan is to be presented to AGSC on 11 March 2020.

4. GOVERNANCE

Four items were reviewed over the year.

The Code of Corporate Governance was presented to and approved by AGSC on 26 June 2019.

At that same meeting, revised Officer Employment Procedure rules were approved as amendments to the Constitution and terms of reference for the Employment Committee were approved to be deleted from the Constitution. On 31 July an update on the Annual Governance Statements for 2018/19 were provided.

The Risk Management Strategy was presented and approved by AGSC on 13 January 2020.

It has been a challenging year for both the new Council and AGSC. Staff losses have hindered the progression of many projects and system alignments. It is hoped that next year is rather more "harmonious" from both a staffing and systems perspective, so that this new Council may flourish.

The new internal structure and updated Code of Corporate Governance should assist.

Councillor Sue Buller
Chair Audit Governance & Standards Committee
3 March 2020