

# Somerset West and Taunton

## Report of Internal Audit Activity

Plan Progress 2020/21 – September 2020

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## Internal Audit Plan Progress 2020/2021

### Our audit activity is split between:



- **Operational Audit**
- **School Themes**
- **Governance Audit**
- **Key Control Audit**
- **IT Audit**
- **Grants**
- **Other Reviews**

### Role of Internal Audit

The Internal Audit service for Somerset West and Taunton Council is provided by SWAP Internal Audit Services Limited (SWAP). SWAP is a Local Authority controlled Company. SWAP has adopted and works to the Standards of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and also follows the CIPFA Code of Practice for Internal Audit. The Partnership is also guided by the Internal Audit Charter approved by the Audit, Governance and Standards Committee at its meeting in March 2020.

Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work includes:

- Operational Audit Reviews
- Cross Cutting Governance Audits
- Annual Review of Key Financial System Controls
- IT Audits
- Grants
- Other Special or Unplanned Review

Internal Audit work is largely driven by an Annual Audit Plan. This is approved by the Section 151 Officer, following consultation with the Senior Leadership Team. The 2020-21 Audit Plan was reported to the Audit, Governance and Standards Committee and approved at its meeting in March 2020. Audit assignments are undertaken in accordance with this Plan to assess current levels of governance, control and risk.

## Internal Audit Plan Progress 2020/2021

### Outturn to Date:

We rank our recommendations on a scale of 1 to 3, with 1 being a fundamental concern to the services/area being reviewed and 3 being a minor concern that requires management attention.



### Internal Audit Work Programme

The schedule provided at **Appendix B** contains a list of all audits as agreed in the Annual Audit Plan 2020/21. 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 “assurance opinion” rating together with the number and relative ranking of recommendations that have been raised with management. In such cases, the Committee can take assurance that improvement actions have been agreed with management to address these. The assurance opinion ratings have been determined in accordance with the Internal Audit “Audit Framework Definitions” as detailed in **Appendix A**. The following table summarised Audits finalised since the previous update in June 2020:

Audit Area	Quarter	Status	Opinion
Risk Management	Q4 2019/20	Final	Advisory
Creditors	Q3 2019/20	Final	Partial
Commercial Investments and Income generation strategies	Q4 2019/20	Final	Substantial
Somerset Building Control Partnership	Q4 2019/20	Final	Partial
Housing Compliance - Asbestos Management	Q4 2019/20	Final	Partial
Follow Up - Housing Compliance - Asbestos Management	Q2 2020/21	Final	Follow Up
COVID 19 Grant Funding Schemes Assurance	Q2 2020/21	Final	Advisory
Business Grant verification support work	Q1 2020/21	Final	Advisory

### **Partial Assurance / No Assurance Audits (See Appendix C)**

As agreed with this Committee where a review has a status of ‘Final’ and has been assessed as ‘Limited’ or ‘No’ assurance, I will provide further detail to inform Members of the key issues identified. Since the previous update there are three ‘Partial Assurance’ reviews that I need to bring to your attention, which are Creditors, Housing Compliance – Asbestos Management and Somerset Building Control Partnership. Further information in relation to this audit can be found in **Appendix C**.

### Outturn to Date:

We rank our recommendations on a scale of 1 to 3, with 1 being a fundamental concern to the services/area being reviewed and 3 being a minor concern that requires management attention.



### Internal Audit Work Programme (continued)

#### 'High' Corporate Risk

Our audits examine the controls that are in place to manage the risks that are related to the area being audited. We assess the risk at an inherent level i.e. how significant is the risk(s) at a corporate level on a scale of High, Medium or Low. Once we have tested the controls in place, we re-evaluate the risk, based on how effective the controls are operating to govern that risk (Residual Risk). Where the controls are found to be ineffective and the inherent and residual risk is assessed as 'High', I will bring this to your attention.

Since our previous update there are two 'High' risk that I need to bring to your attention:

- Creditors: Fraudulent, invalid or late payments are made resulting in reputational damage and / or financial losses for the Council.
- Housing Compliance – Asbestos Management: Council owned properties are unsafe and non-compliant with asbestos legislation and policy resulting in tenants' lives being put at risk, the Council being exposed to legal recourse, fines and reputational damage.

Further details on these two audits can be found in Appendix C below.

## Internal Audit Plan Progress 2020/2021

The Assistant Director for SWAP reports performance on a regular basis to the SWAP Management and Partnership Boards.



### Plan Performance

SWAP now provides the Internal Audit service for 20 Councils, 3 Police Authorities, 3 Office of Police and Crime Commissioners and also many subsidiary bodies. SWAP performance is subject to regular monitoring review by both the Board and the Member Meetings. The respective outturn performance results for Somerset West and Taunton Council for the 2020/21 year are as follows;

Performance Target	Target Year End	Average Performance
<b><u>Audit Plan – Percentage Progress</u></b> Final, Draft and Discussion In progress Yet to complete	>90%	15% 11% 74%
<b><u>Quality of Audit Work</u></b> Customer Satisfaction Questionnaire	>95%	No responses received for 2020-21
<b><u>Outcomes from Audit Work</u></b> Value to the Organisation <i>(client view of whether our audit work met or exceeded expectations, in terms of value to their area)</i>	>95%	Reported Year End

## Internal Audit Plan Progress 2020/2021

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



### Approved Changes to the Audit Plan

The audit plan for 2020/21 is detailed in **Appendix B**. Inevitably changes to the plan will be required during the year to reflect changing risks and ensure the audit plan remains relevant to Somerset West and Taunton Council. Members will note that where necessary any changes to the plan throughout the year will have been subject to agreement with the appropriate Manager and the Section 151 Officer. Due to the impact of Covid-19 it is anticipated that there could be more frequent changes to the audit plan.

### Additional Audits

The following audits have been added to the 2020-21 Audit Plan during quarters 1 & 2. At this point in time no changes have been made to the Audit Plan to Accommodate this work.

**Asbestos Management Follow Up** – the outcome of the 2019/20 Asbestos Management was delivered after the plan for 2020/21 was complete. However, as the opinion offered was Partial a follow-up has been added to the plan and was completed in Quarter 2. The outcome from this review is reported below in Appendix C.

**Business Grant verification support work** – Work was undertaken to support the Small Business Grant verification process and the Discretionary Grant Process. Additional support provided on the National Fraud Initiative (NFI).

**Covid-19 Grant Funding Schemes Assurance** – Support in completion of the Fraud Risk Assessment covering the Small Business Grant Fund (SBGF) and Retail, Hospitality and Leisure Grant Fund (RHLGF).

At the conclusion of audit assignment work each review is awarded a “Control Assurance Definition”;



### Audit Framework Definitions

#### Control Assurance Definitions

<b>Substantial</b>	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
<b>Reasonable</b>	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
<b>Limited</b>	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
<b>No</b>	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

**Non-Opinion/Advisory** – In addition to our opinion-based work we will provide consultancy services. The “advice” offered by Internal Audit in its consultancy role may include risk analysis and evaluation, developing potential solutions to problems and providing controls assurance. Consultancy services from Internal Audit offer management the added benefit of being delivered by people with a good understanding of the overall risk, control and governance concerns and priorities of the organisation.

Recommendation are prioritised from 1 to 3 on how important they are to the service/area audited. These are not necessarily how important they are to the organisation at a corporate level.



### Audit Framework Definitions

#### 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 1: Findings that are fundamental to the integrity of the unit's business processes and require the immediate attention of management.
- Priority 2: Important findings that need to be resolved by management.
- Priority 3: Findings that require attention.

#### 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.

Each audit covers key risks. For each audit a risk assessment is undertaken whereby with management risks for the review are assessed at the Corporate inherent level (the risk of exposure with no controls in place) and then once the audit is complete the Auditors assessment of the risk exposure at Corporate level after the control environment has been tested. All assessments are made against the risk appetite agreed by the SWAP Management Board.

## Summary of Key Audit Findings

## APPENDIX C

### 2020/21 Audit Plan

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 - Major 3 - Minor			Comments
						1	2	3	
FINAL									
Operational	Housing Compliance - Asbestos Management	19/20	Final	Partial	5	-	2	9	See Appendix C Below
Operational	Somerset Building Control Partnership	19/20	Final	Partial	4	-	3	1	See Appendix C Below
Governance, Fraud & Corruption	Commercial Investments and Income generation strategies	19/20	Final	Substantial	-	-	-	-	
Governance, Fraud & Corruption	Risk Management	19/20	Final	Advisory	-	-	-	-	
Key Control	Creditors	19/20	Final	Partial	9	1	2	6	See Appendix C Below
Governance, Fraud & Corruption	Business Grant verification support work	1	Final	Advisory	-	-	-	-	
Governance, Fraud & Corruption	COVID 19 Grant Funding Schemes Assurance	2	Final	Advisory	-	-	-	-	Assistance with FRAs for SBGF, RHLGF & LDGF
Follow Up	Housing Compliance - Asbestos Management	2	Final	Follow Up	-	-	-	-	See Appendix C Below
DRAFT									
Operational	DLO External Work – Income	1	Discussion Document						
IN PROGRESS									
Governance, Fraud & Corruption	Procurement	1	In progress						

## Summary of Key Audit Findings

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Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 - Major 3 - Minor			Comments
						1	2	3	
Governance, Fraud & Corruption	Ethical Governance & Culture	1	In progress						
Follow Up	Debtors	1	In progress						
<b>NOT STARTED</b>									
Governance, Fraud & Corruption	Project Governance – Firepool	1	Initiation						
ICT	Cyber Security Framework Review	2	Initiation						
Governance, Fraud & Corruption	Performance Management	2	Not started						
Governance, Fraud & Corruption	Delivery of Benefits of Transformation	2	Not started						
Operational	Housing Compliance – Governance & Reporting	2	Not started						
ICT	ICT Governance & Risk Scope Review	3	Not started						
Key Control	Creditors	3	Not started						
Key Control	Debtors	3	Not started						
Key Control	Main Accounting	3	Not started						
Key Control	Payroll System	3	Not started						
Key Control	Financial Control & Reporting	3	Not started						
Governance, Fraud & Corruption	People Strategy	3	Not started						

## Summary of Key Audit Findings

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Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 - Major 3 - Minor			Comments
						1	2	3	
Governance, Fraud & Corruption	Commercial Investment	3	Not started						
Follow Up	Treasury Management	3	Not started						
Governance, Fraud & Corruption	Recruitment and Onboarding	4	Not started						
Governance, Fraud & Corruption	Climate change	4	Not started						
ICT	Digital Strategy & Transformation	4	Not started						
Governance, Fraud & Corruption	Risk Management	4	Not started						
Governance, Fraud & Corruption	GDPR Information Management Project	4	Not started						
Operational	Homelessness/ Homelessness Reduction	4	Not started						
Follow Up	Banking Arrangements	4	Not started						

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Corporate Governance Committee.

### Summary of Audit Findings and High Priority Service Finding

The following information provides a summary of each audit review finalised since the last Committee update in June 2020. Each audit review is displayed under the relevant audit type, i.e. Operational; Key Control; Governance; Fraud & Corruption; ICT and Special Review. Since the June 2020 update there are three Partial Assurance audit opinion that I need to bring to your attention.

### Key Financial Controls

Key Control Audits are completed as an assessment of the Council's financial control environment. It is essential that all key controls are operating effectively to provide management with the necessary assurance that there is a satisfactory framework on internal control. Financial controls underpin the statement of accounts.

#### Creditors – 19/20

Since our previous review, the Creditors function has been impacted by change in personnel following the creation of the Somerset West and Taunton Council. One area particularly impacted was with the staff responsible for the supplier master data and we found some key assurance processes were weak or missing.

Whilst there is some encouragement in the improved timeliness to pay invoices, this needs to be considered alongside the acceptance of risk for purchase orders under £500 where no authorisation is required. This accounts for nearly one sixth of all invoices paid but only 1% of the total value. Whilst this total is small there does remain a risk which could be mitigated were other controls in place and operating effectively; for example budget monitoring which was reported as a weakness in our Main Accounting review, or the running of exception reports to identify potential high risk areas such as payments to new suppliers or those with a change in details. Without these in place there is an increased likelihood that a fraudulent payment can be made.

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Corporate Governance Committee.

### Key Financial Controls Continued

Our previous audit on Creditors identified 6 priority-three recommendations. Control weaknesses that are still apparent from our previous audit as well as some areas we were unable to fully test. The previous year's issues are summarised below with further comment where relevant:

- **DLO invoices do not show evidence of authorisation on the E5 financial system** – we were unable to test this due to system access that limited how much we could review in the time available.
- **Purchase orders have not been raised for most transactions and a third of these are retrospective** – whilst there has been an improvement on this the percentage remains high, there is also an increasing trend of non-order invoices being processed having an impact on the Council's ability to perform commitment accounting.
- **Number of cheques issued is high** – there has been a continued reduction in the number of cheques being issued. Since the Covid-19 lockdown the service has reported that they have ceased all cheque payments and have no intention to reinstate.
- **Exception reports are not being produced to ensure the accuracy of the payment run process.** – Although a recommendation was raised in the previous audit this has not been actioned
- **New Supplier Form does not evidence bank detail validation has taken place.** – as a result of this action not being undertaken, the weakness has escalated to validation not being undertaken.
- **Reports on new suppliers and changes to new suppliers at present cannot be run.** – this continues to be the case and would support in mitigating exposed risks during the payment run.

The continued exposure to risk, and with recommendations still outstanding from the previous audit only a partial assurance can be offered. A full review is scheduled for Q3 2020/21 which will revisit these issues. The Priority 1 and Priority 2 recommendations are listed below together with the agreed management response

## Creditors - Priority 1 and 2 recommendations

Priority Score	Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action	Agreed Date of Action
1	Key supplier verification processes were weak or missing.	Increase risk of fraud or error resulting in financial loss and reputational damage.	We recommend that the Finance Business Partner (EC) ensures verification processes are strengthened.	Agreed. Work started on a revised process but has been delayed due to Covid-19. There is also a need to resolve resourcing the manual checking elements of the process.	31/10/20
2	No exception reports are run to support the payment run.	Errors in data are not identified as part of the checking process for the payment run resulting in financial loss and reputational damage.	We recommend that the Case Management Lead – Accounts Payable (Operational Support) develops a suite of exception reports to support the payment run, these should be based on mitigating the highest risk first until there is increased satisfaction in the controls at input level.	Agreed, will look to develop exception reports but will link this into the development of other controls.	October 2020 Subject to Covid-19 grant processing

## Summary of Key Audit Findings

## APPENDIX C

Priority Score	Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action	Agreed Date of Action
2	There was a limitation with the previous e5 configuration that did not provide a clear reference to the Purchase Order request. A walkthrough of the approval process demonstrates that segregation of duty is not enforced in the system between raising a PO and confirming Goods Received Notes – this is a particular weakness regarding POs below £500 where there is no budget holder approval.	Legacy issues do not demonstrate a clear authorisation process resulting in efficiency weaknesses when investigating previous transactions. The current system process does not enforce a segregation of duties.	We recommend that the Case Management Lead – Operational Support reviews the process for recording authorisations in the system to allow for a clear and accessible audit trail. A process should be identified to ensure an adequate separation of duties within the process to protect against fraudulent payments or monitoring arrangements put in place to review payments where Purchase Orders have been raised and GRN'd by the same officer.	Report to be developed identifying PO's raised and GRN'd by single officer. Where these orders do not include a Firmstep case reference and requester's name, further investigations will take place. Spot checks on those with Firmstep case numbers will also be carried out to ensure that the origin of the order came from a different officer than the one who has raised and GRN'd the order.	October 2020 Subject to Covid-19 grant processing

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Corporate Governance Committee.

### Operational Controls

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

### Housing Compliance – Asbestos Management

A Partial opinion was offered based on two significant priority-two findings. Firstly, our testing identified inconsistencies between the total number of properties on the asbestos management system compared to the housing system which could result in properties requiring surveys being missed. Secondly, there is no clear performance target for the completion of all surveys with the contractor.

The Council uses a bespoke system for the management of asbestos, however during our review we found the number of properties on the Asbestos system did not match the Housing system and there was no clear reconciliation between the two to fully account for all the differences. The contractor is limited by the available information on properties and we were informed they have turned up to complete a survey when there is no property to be surveyed. Not knowing the true number of properties means that a property could easily be missed which creates a health and safety risk which contributes to our increased corporate risk assessment.

The Council contracts out the undertaking of asbestos surveys with Gully Howard. To comply with *The Control of Asbestos Regulations 2012* the Councils needs to ensure that the contractor completes all the surveys in a timely manner. The contract is a four-year contract with two options to extend for two years, meaning the contract could be up to eight years. The Localities Case Manager for Asbestos believes that the surveys should be completed within a four-year programme however there are no target KPIs in place to monitor contractor performance in delivering all surveys within this time.

Due to management commitment to remedy the audit recommendations in a timely manner it was agreed we would undertake a follow up audit in August 2020. The outcomes of the follow-up work is reported alongside each of the original Priority -two findings below. All other recommendations were assessed as complete.

**Housing Compliance – Asbestos Management - Priority 1 and 2 recommendations**

Priority Score	Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action	Agreed Date of Action
2	The Council do not have any KPIs or monitoring with the contractor regarding how many surveys are being completed over the course of the contract.	Non-completion of surveys, preventing identification & management of asbestos impacting the health & safety of residents, leading to reputational and financial damage.	We recommend the Localities Case Manager Asbestos track how many surveys are being completed a month or a year and whether that meets the contract terms agreed at the start of the contract.	Director of Housing confirmed “ <i>our intent is to survey all domestic properties (programme currently being on hold due to Covid) due to the numbers this will take some time so pending this we manage this risk by completing an R and D survey ahead of any relevant work to the property and take any appropriate actions</i> ”.	Not stated

**Follow Up assessment August 2020 – Recommendation Complete** – *The contractor has agreed to carry out a 100% stock survey by end of 2021. Surveys are released in batches of 500 with an estimate they will take 6 weeks to complete. Progress will be monitored in monthly meetings with the contractor.*

2	The Teams system used for storing asbestos surveys on properties does not reconcile with the number of properties held on the housing system.	Properties not surveyed risking possible expose to residents, endangering their lives and opening the council up to legal recourse and reputational damage.	We recommend that the Localities Case Manager Asbestos obtains a list of all the assets owned by the council and reconciles it with data held on Teams. Ensuring that all council owned assets have had a survey.	Already in progress.	31/07/20
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**Follow Up assessment August 2020 – Recommendation Complete** - *The Interim Compliance Manager confirmed that a process has taken place to ensure that all properties held by SWT have a Local Land and Property Gazetteer Unique Property Reference Number. The TEAMS database has then updated to reflect this. The Interim Compliance Manager produced a full reconciliation between properties held on TEAMS and the properties held on Academy.*

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Corporate Governance Committee.

### Summary of Audit Findings and High Priority Service Finding

The following information provides a summary of each audit review finalised since the last Committee update in March 2020. Each audit review is displayed under the relevant audit type, i.e. Operational; Key Control; Governance; Fraud & Corruption; ICT and Special Review. Since the March 2020 update there is one Partial Assurance audit opinion that I need to bring to your attention.

### Operational Controls (Continued)

#### Somerset Building Control Partnership – 19/20

The partial assurance given is due to the Partnership (and its partners) failing to carry out one of its statutory duties, under the Building (Local Authority Charges) Regulations 2010; namely, to publish the annual charges financial statement. In addition to this, the requirement for applicants to pay both the application fee and the inspection fee upfront is contravening regulation 8 of the 2010 regulations. The remaining recommendations relate to the governance arrangements of the Partnership and the timeliness of meetings to ensure standing items are presented to the Joint Committee for review and approval, in line with the frequency set out within the Inter-Authority Agreement.

The two Priority 2 recommendations are listed below together with the agreed management response.

**Building Control Partnership - Priority 1 and 2 recommendations**

Priority Score	Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action	Agreed Date of Action
2	For the last two financial years, the Charging Schedule has not been reviewed and approved as per the Inter-Authority Agreement.	There is an increased risk of reputational damage as customers will not have the confidence that the charges have been set to cover the cost of service delivery only.	We recommend that the Partnership Manager ensures that the Joint Committee review the approval and adoption of the Charging Schedule by 30th November each year. The Clerk to the Joint Committee should ensure that this standing item is included on the agenda.	The Partnership Manager reviews fees and charges annually with the Partnership's accountant. Reporting to the Joint Committee with regard to whether fees and charges are to be changed is contained within the financial statement. Will be added to the Agenda of the next meeting and as a standing item from then on.	Complete and ongoing
2	The Partnership's requirement for all fees to be made upfront is not in line with regulation 8 of the Building (Local Authority Charges) Regulations 2010.	An increased risk of reputational damage and legal recourse through non-compliance with regulation 8 of the Building Control (Local Authority Charges) Regulations 2010.	We recommend that all fees are collected in line with the regulations; however, where the Partnership agrees to continue to collect inspection fees upfront, the Partnership Manager should ensure that this is clearly set out within a published Charging Schedule and/or the Fees page of the Partnership website, so that applicants are fully aware of this.	The collection of associated fees 'up front' is a practice undertaken by the majority of Local Authority Building Control Providers, not only for ease of administration but for reducing the need for enforcement action for non-payment. Agree to add statement to website for clarity.	Q3 2020/21

Priority Score	Weaknesses Found	Risk Identified	Recommendation Action	Managers Agreed Action	Agreed Date of Action
2	None of the partners, or the Partnership itself have published the financial statement relating to the Building Regulations Chargeable and Non-chargeable Account.	Failure to carry out its statutory duties under the Building Control Act 1984 and the Building (Local Authority Charges) Regulations 2010 opens the Partnership (and its partners) to legal challenge.	We recommend that the Partnership Manager, in conjunction with the Financial Adviser to the Joint Committee, ensures that each partner publishes the financial statement in line with the 2010 regulations.	Statement to be published on all constituent member authority websites following the closing of the accounts as agreed by the Joint Committee in the May / June meeting each year. 2019/20 statement to be published by the end of October 2020.	Q3 2020/21 and ongoing