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## **Audit Committee**

**Thursday 25th March 2021**

**10.00 am**

**A virtual meeting via Zoom Meeting  
Software**

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The following members are requested to attend this meeting:

**Chairman:** Martin Carnell  
**Vice-chairman:** Mike Hewitson

Robin Bastable  
Mike Best  
Dave Bulmer

Malcolm Cavill  
Brian Hamilton  
Tim Kerley

Paul Maxwell  
Jeny Snell

Any members of the public wishing to address the meeting at Public Question Time need to email [democracy@southsomerset.gov.uk](mailto:democracy@southsomerset.gov.uk) by 9.00am Wednesday 24<sup>th</sup> March 2021.

The meeting will be viewable online by selecting the committee meeting at:  
**[https://www.youtube.com/channel/UCSDst3IHGj9WoGnwJGF\\_soA](https://www.youtube.com/channel/UCSDst3IHGj9WoGnwJGF_soA)**

For further information on the items to be discussed, please contact  
[democracy@southsomerset.gov.uk](mailto:democracy@southsomerset.gov.uk)

This Agenda was issued on Wednesday 17 March 2021.

*Alex Parmley, Chief Executive Officer*

**This information is also available on our website  
[www.southsomerset.gov.uk](http://www.southsomerset.gov.uk) and via the mod.gov app**

## **Information for the Public**

The purpose of the Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance, to the extent that it affects the authority's exposure to risk and weakens the control environment and to oversee the financial reporting process.

The Audit Committee should review the Code of Corporate Governance seeking assurance where appropriate from the Executive or referring matters to management on the scrutiny function.

The terms of reference of the Audit Committee are:

### **Internal Audit Activity**

1. To approve the Internal Audit Charter and annual Internal Audit Plan;
2. To receive quarterly summaries of Internal Audit reports and seek assurance from management that action has been taken;
3. To receive an annual summary report and opinion, and consider the level of assurance it provides on the council's governance arrangements;
4. To monitor the action plans for Internal Audit reports assessed as "partial" or "no assurance;"
5. To consider specific internal audit reports as requested by the Head of Internal Audit, and monitor the implementation of agreed management actions;
6. To receive an annual report to review the effectiveness of internal audit to ensure compliance with statutory requirements and the level of assurance it provides on the council's governance arrangements;

### **External Audit Activity**

7. To consider and note the annual external Audit Plan and Fees;
8. To consider the reports of external audit including the Annual Audit Letter and seek assurance from management that action has been taken;

### **Regulatory Framework**

9. To consider the effectiveness of SSDC's risk management arrangements, the control environment and associated anti-fraud and corruption arrangements and seek assurance from management that action is being taken;
10. To review the Annual Governance Statement (AGS) and monitor associated action plans;
11. To review the Local Code of Corporate Governance and ensure it reflects best governance practice. This will include regular reviews of part of the Council's Constitution and an overview of risk management;
12. To receive reports from management on the promotion of good corporate governance;

### **Financial Management and Accounts**

13. To review and approve the annual Statement of Accounts, external auditor's opinion and reports to members and monitor management action in response to issues raised;

14. To provide a scrutiny role in Treasury Management matters including regular monitoring of treasury activity and practices. The committee will also review and recommend the Annual Treasury Management Strategy Statement and Investment Strategy, MRP Strategy, and Prudential Indicators to Council;
15. To review and recommend to Council changes to Financial Procedure Rules and Procurement Procedure Rules;

### **Overall Governance**

16. The Audit Committee can request of the Section 151 Officer, the Monitoring Officer, or the Chief Executive (Head of Paid Services) a report (including an independent review) on any matter covered within these Terms of Reference;
17. The Audit Committee will request action through District Executive if any issue remains unresolved;
18. The Audit Committee will report to each full Council a summary of its activities.

### **Members questions on reports prior to the Meeting**

Members of the Committee are requested to contact report authors on points of clarification prior to the Committee meeting.

### **Audit Committee**

Meetings of the Audit Committee are usually held bi-monthly including at least one meeting with the Council's external auditor, although in practice the external auditor attends more frequently. However during the coronavirus pandemic these meetings will be held remotely via Zoom video-conferencing and the starting time may vary.

For more details on the regulations regarding remote/virtual meetings please see the Local Authorities and Police and Panels (Coronavirus) (Flexibility of Local Authorities and Police and Crime Panel Meetings (England and Wales) Regulations 2020 as part of the Coronavirus Act 2020.

Agendas and minutes of this committee are published on the Council's website at <http://modgov.southsomerset.gov.uk/ieDocHome.aspx?bcr=1>

Agendas and minutes can also be viewed via the mod.gov app (free) available for iPads and Android devices. Search for 'mod.gov' in the app store for your device, install, and select 'South Somerset' from the list of publishers and then select the committees of interest. A wi-fi signal will be required for a very short time to download an agenda but once downloaded, documents will be viewable offline.

### **Public participation at meetings (held via Zoom)**

#### **Public question time**

We recognise that these are challenging times but we still value the public's contribution to our virtual meetings.

If you would like to address the virtual meeting during Public Question Time, please email [democracy@southsomerset.gov.uk](mailto:democracy@southsomerset.gov.uk) by 9.00am Wednesday 24<sup>th</sup> March 2021.

When you have registered, the Chairman will invite you to speak at the appropriate time during the virtual meeting.

The period allowed for participation in Public Question Time shall not exceed 15 minutes except with the consent of the Chairman and members of the Committee. Each individual speaker shall be restricted to a total of three minutes.

This meeting will be streamed online via YouTube at:

[https://www.youtube.com/channel/UCSDst3IHGj9WoGnwJGF\\_soA](https://www.youtube.com/channel/UCSDst3IHGj9WoGnwJGF_soA)

#### **Virtual meeting etiquette:**

- Consider joining the meeting early to ensure your technology is working correctly.
- Please note that we will mute all public attendees to minimise background noise. If you have registered to speak during the virtual meeting, the Chairman or Administrator will ask you to un-mute your microphone at the appropriate time. We also respectfully request that you turn off video cameras until asked to speak.
- Each individual speaker shall be restricted to a total of three minutes.
- When speaking, keep your points clear and concise.
- Please speak clearly – the Councillors are interested in your comments.

#### **Recording and photography at council meetings**

Recording of council meetings is permitted, however anyone wishing to do so should let the Chairperson of the meeting know prior to the start of the meeting. The recording should be overt and clearly visible to anyone at the meeting, but non-disruptive. If someone is recording the meeting, the Chairman will make an announcement at the beginning of the meeting. If anyone making public representation does not wish to be recorded they must let the Chairperson know.

The full 'Policy on Audio/Visual Recording and Photography at Council Meetings' can be viewed online at:

<http://modgov.southsomerset.gov.uk/documents/s3327/Policy%20on%20the%20recording%20of%20council%20meetings.pdf>

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# Audit Committee

**Thursday 25 March 2021**

## Agenda

### *Preliminary Items*

**1. Minutes**

To approve as a correct record the minutes of the previous meeting held on 22 December 2020.

**2. Apologies for absence**

**3. Declarations of Interest**

In accordance with the Council's current Code of Conduct (as amended 26 February 2015), which includes all the provisions relating to Disclosable Pecuniary Interests (DPI), personal and prejudicial interests, Members are asked to declare any DPI and also any personal interests (and whether or not such personal interests are also "prejudicial") in relation to any matter on the agenda for this meeting.

**4. Public question time**

**5. Date of next meeting**

Councillors are requested to note that the next Audit Committee meeting is scheduled to be held at 10.00am on 27<sup>th</sup> May 2021.

### *Items for Discussion*

**6. External Audit - Annual Audit Letter** (Pages 6 - 22)

**7. External Audit - Certification of Housing Benefit Subsidy Claim** (Pages 23 - 40)

**8. External Audit - Informing the Risk Assessment 2020/21** (Pages 41 - 72)

**9. Internal Audit Plan Progress Report 2020/21 - Q3** (Pages 73 - 88)

**10. Internal Audit Plan and Charter 2021/22** (Pages 89 - 104)

**11. Revenues & Benefits Update Report** (Pages 105 - 107)

**12. Health & Safety Update** (Pages 108 - 111)

**13. Civil Contingencies and Whistleblowing Update** (Pages 112 - 114)

**14. Audit Committee Forward Plan** (Pages 115 - 116)



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## External Audit – Annual Audit Letter

Portfolio Holder:	Cllr peter Seib, Finance and Legal Services
Strategic Director:	Nicola Hix, Support, Strategy & Commissioning
Lead Officer:	Paul Matravers, lead Specialist Finance & Deputy S151 Officer
Contact Details:	paul.matravers@southsomerset.gov.uk or (01935) 462275

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## Purpose of the Report

To summarise the key findings from the external audit work carried out in respect of the 2019/20 financial year and detail the audit fees charged.

## Recommendations

The Audit Committee is asked to note the report and the content of the Annual Audit Letter.

## Introduction

The review of the Annual Audit Letter is included within the remit of the Audit Committee under its terms of reference as follows:

- “To consider the reports of external audit including the Annual Audit Letter and seek assurance from management that action has been taken.”
- “To review and approve the annual Statement of Accounts, external auditor’s opinion and reports to members and monitor management action in response to issues raised.”

The 2019/20 Annual Audit Letter attached to the report confirms:

- An unqualified opinion in respect of the 2019/20 Statement of Accounts.
- The Auditors were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.
- The fees charged for 2019/20 for the statutory audit were £37,943. Additional fees of £31,816, subject to PSAA (Public Sector Audit Appointments) approval due to the scope of the audit changing and the impact of COVID19. A detailed breakdown of the total fee of £69,759 is on pages 13 and 14 within the Audit Findings Report.



**South Somerset**  
District Council  
**Financial Implications**

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

**Background Papers**

- SSDC Audit Findings Report
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# The Annual Audit Letter for South Somerset District Council

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Year ended 31 March 2020

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Your key Grant Thornton  
team members are:

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## Appendices

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# Executive Summary

## Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at South Somerset District Council (the Council), its subsidiaries and joint venture (the group) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the group and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 22 December 2020.

## Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council and group's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council and group's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

## Our work

<b>Materiality</b>	We determined materiality for the audit of the group's financial statements to be £1,644,000 (Council - £1,530,000), which is 2% of the Council and the group's gross cost of services.
<b>Financial Statements opinion</b>	We gave an unqualified opinion on the group's financial statements on 22 December 2020.
<b>Whole of Government Accounts (WGA)</b>	We completed work on the Council's consolidation return following guidance issued by the NAO.
<b>Use of statutory powers</b>	We did not identify any matters which required us to exercise our additional statutory powers.
<b>Value for Money arrangements</b>	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 22 December 2020.
<b>Certificate</b>	We certified that we have completed the audit of the financial statements of South Somerset District Council in accordance with the requirements of the Code of Audit Practice on 22 December 2020.

## Working with the Council

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff .

Grant Thornton UK LLP  
January 2021

# Audit of the Financial Statements

## Our audit approach

### Materiality

In our audit of the group's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the group financial statements to be £1,644,000, which is 2% of the group's gross cost of services. We determined materiality for the audit of the Council's financial statements to be £1,930,000, which is 2% of the Council's gross cost of services. We used this benchmark as, in our view, users of the group and the Council's financial statements are most interested in where the group and the Council has spent its resources in the year.

We also set a lower level of specific materiality for senior officer remuneration of £20,000 due to the sensitivity of and potential public interest in these disclosures.

We set a lower threshold of £76,500, above which we reported errors to the Audit Committee in our Audit Findings Report.

### The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the group's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

# Audit of the Financial Statements

## Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Covid-19</b></p> <p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to:</p> <ul style="list-style-type: none"> <li>• remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation</li> <li>• volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates</li> <li>• financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and</li> <li>• disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.</li> </ul> <p>We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We:</p> <ul style="list-style-type: none"> <li>• worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft group financial statements were provided on 21 August 2020;</li> <li>• liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the groups' property valuation expert;</li> <li>• evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;</li> <li>• evaluated whether sufficient audit evidence could be obtained through remote technology;</li> <li>• evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations ;</li> <li>• evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; and</li> <li>• discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence.</li> </ul>	<p>There was no change to our assessment reported in the Audit Plan Addendum and our audit work did not identify any issues in respect of the Covid-19 risk.</p>

# Audit of the Financial Statements

## Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of land and buildings, investment properties and Group land &amp; buildings</b></p> <p>The Authority revalues its land and buildings on a rolling five yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management needs to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>confirmed the values reported in the financial statements reconcile to the values provided by management's internal valuer;</li> <li>evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work;</li> <li>evaluated the competence, capabilities and objectivity of the valuation expert;</li> <li>written to the valuer to confirm the basis on which the valuations were carried out;</li> <li>challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding;</li> <li>tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Authority's asset register;</li> <li>agreed the valuation inputs to source data, ensured the revaluation reserve impact had been appropriately treated, and corroborated the assumptions used by the valuer to supporting information;</li> <li>confirmed the treatment and value of the group Property Plant and Equipment assets is appropriate;</li> <li>engaged an auditors expert valuer to support us in our work in relation to the valuation of a sample of Investment properties; and</li> <li>assessed management's disclosure of the material uncertainty in relation to Property, Plant &amp; Equipment and Investment property valuations.</li> </ul>	<p>Our audit work identified that a material uncertainty was disclosed by management in relation to the valuation of the Land &amp; Buildings. We referred to this in an emphasis of matter paragraph in our auditors report.</p> <p>We also identified a number of errors in the floor areas used by the valuer in their work, this required us to extend our sample testing so that we could establish the extent of the error. Management adjusted for the majority of this error, therefore we were satisfied that the value of land &amp; buildings reported within the financial statements was materially correct.</p> <p>No issues were identified in relation to investment properties.</p> <p>Group equipment balances were adjusted to be disclosed in assets under construction, as we established that the assets were not fully operational, and the Group land balance was adjusted downward in 2019-20 to agree to the valuers report. One error in respect of Group Plant &amp; Equipment additions was adjusted for in 2018-19, this error formed part of the overall prior period adjustment relating to the production of 2018-19 Group Accounts.</p> <p>Overall, our procedures provided us with sufficient assurance that the asset balances were appropriately stated.</p>

# Audit of the Financial Statements

## Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of net pension liability</b></p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements. We identified the valuation of the pension fund net liability as a risk requiring special audit consideration</p>	<p>We:</p> <ul style="list-style-type: none"> <li>identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement;</li> <li>evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuations and gained an understanding of the basis on which the valuations were carried out;</li> <li>undertook procedures to confirm the reasonableness of the actuarial assumptions made;</li> <li>checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial reports; and</li> <li>gained assurances over the data provided to the actuary to ensure it was robust and consistent with our understanding.</li> </ul> <p>Our audit work has identified that management have appropriately accounted for the valuation of the net pension fund liability and that the assumptions and source data used by the Actuary are appropriate.</p>	<p>Our audit work identified that a material uncertainty was disclosed by management in relation to the valuation of the pension fund pooled property funds. We referred to this in an emphasis of matter paragraph in our auditors report.</p> <p>No other issues were identified in our audit work.</p>

# Audit of the Financial Statements

## Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Management override of internal controls</b></p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We:</p> <ul style="list-style-type: none"> <li>gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness;</li> <li>obtained a full and complete listing of journal entries and identified and subsequently tested any unusual journal entries for appropriateness. As part of this process we included the significant IT findings as part of our journals sample selection process;</li> <li>evaluated the rationale for any changes in accounting policies and any significant unusual transactions or estimates; and</li> <li>reviewed significant related party transactions outside the normal course of business.</li> </ul>	<p>Our audit work did not identify any issues in respect of management override of controls.</p>
<p><b>Revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>As reported in our Audit Plan, we have rebutted this presumed risk, because:</p> <ul style="list-style-type: none"> <li>there is little incentive to manipulate revenue recognition;</li> <li>opportunities to manipulate revenue recognition are very limited;</li> <li>the culture and ethical frameworks of local authorities, including South Somerset District Council, mean that all forms of fraud are seen as unacceptable; and</li> <li>Group income streams are not material to the group accounts</li> </ul>	<p>Our Audit work did not identify any issues in respect of fraudulent recognition of revenue.</p>

# Audit of the Financial Statements

## Audit opinion

We gave an unqualified opinion on the group's financial statements on 22 December 2020.

## Preparation of the financial statements

The group presented us with draft financial statements in August 2020 in accordance with the agreed timescale, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

As highlighted in Appendix A, despite the positive and proactive approach taken by officers at the Authority, the nature of the new remote access working arrangements, i.e. remote accessing financial systems, video calling, and verifying the completeness and accuracy of information produced by the Authority, resulted in additional time to complete the audit and, consequently, the cost of delivering the final audit.

## Issues arising from the audit of the financial statements

We reported the key issues from our audit to the group's Audit Committee on 22 December 2020.

In addition to the key audit risks reported above, we identified two unadjusted misstatements, two control recommendations, a number of disclosure errors / omissions and two significant IT deficiencies. These were all reported in our Audit Findings Report.

## Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its alongside the draft Statement of Accounts in August 2020.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

## Whole of Government Accounts (WGA)

We carried out work in line with instructions provided by the NAO. We issued an assurance statement which confirmed the Council was below the audit threshold. We submitted a return to the NAO on 22 December 2020 confirming this.

## Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of South Somerset District Council in accordance with the requirements of the Code of Audit Practice on 22 December 2020.



# Value for Money conclusion

## Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the criterion for auditors to evaluate:

*In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.*

## Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the Council in December 2020, we agreed recommendations to address our findings.

## Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

# Value for Money conclusion

## Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Transformation Programme – Commercialisation</b></p> <p>The Council recently completed implementing an ambitious programme transforming the organisation and its service delivery models, implementing a customer focussed, quality and efficient service in order to release savings into future years.</p> <p>The commercialisation strategy of the council resulted in investments in a range of commercial properties, a number of which were outside of the council's area.</p>	<p>We reviewed investment acquisition transactions, and understood the process management undertake in assessing each individual investment opportunity. We reviewed two recent asset investments, to confirm that the process undertaken was within expectations. We confirmed that the investment process involves multiple layers, through which various different scenarios are considered (including annual anticipated yield, payback of investment and upfront cost). We also confirmed that the Investment Assessment Group took their decisions based with a full understanding of the worst case scenarios, which we consider is a prudent approach. Our review did not identify any concerns with the investment decisions process.</p> <p>We also reviewed the investment asset reporting, considering both the overall performance of the portfolio, and the performance of the specific assets we reviewed in detail. We identified that the portfolio yield as a whole met the required threshold of 7% in 2019/20 (after factoring in the shorter rental period of those assets purchased in year). We identified that, whilst the full portfolio yield is compared against the target of 7% in the regular reporting, that individual assets are not compared to the target yields agreed on initial investment. We recommend that this level of detail is included in the investment reporting, in order to monitor the performance of individual assets against the factors that determined the investment was appropriate.</p> <p>Through discussions with the property team, we gained an understanding of the process of rejecting investment decisions. Similar to the investment acquisition process, this involves multiple stages of review against specific criteria that will identify whether an individual asset is appropriate for investment. When an asset is determined not to meet one of the criteria, the investment opportunity is no longer pursued. This is an appropriate process. We also gained an understanding of the informal investment exit strategies and the monitoring of asset performance that would inform exit decisions.</p> <p>The impact of covid-19 on investment returns was assessed, reviewing the reported collection rates during 2020/21 and the anticipated full year collection rate to understand the impact of the pandemic on commercial revenue streams. Through our review, we identified that although the Council has been impacted by reduced rental income due to financial difficulties faced by tenants, that the Authority has been regularly reviewing this impact and communicating with tenants. In some cases the Authority has re-negotiated rental terms in exchange for extending a rental grace period. This has meant that the Authority is taking positive action to mitigate and potentially prevent future voids in rental agreements and ensuring the commercial revenue streams are not significantly impacted in the long term. As stated in the conclusion section, we have recommended that the Council continues to monitor the situation, and that any impact on rental income is reported to Members.</p> <p>As part of the governance process regular reports are taken to District Executive, to allow Members oversight and scrutiny of investment decisions. The Commercial strategy and investments progress reporting began in June 2018 and continued throughout 2019/20. This reporting to Members was, at the start of 2019/20, six-monthly, but post year end (from September 2020), has moved to quarterly. As reported in our conclusion column, we consider that this quarterly reporting as appropriate and recommended that this should continue</p>	<p>Our review concluded that management's processes through their devolved decision making processes are appropriate, and based on appropriate supporting data. We also concluded that member oversight and scrutiny is appropriate, and that actions are being taken to address the impact of covid-19 on investment portfolios.</p> <p>As part of our review, we have identified a small number of recommendations which would enhance the current arrangements further and reported these in our Audit Findings Report.</p> <p>Overall, we gained sufficient assurance that the Council had appropriate arrangements to secure value for money in relation to this significant risk.</p>

# Value for Money conclusion

## Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Transformation Programme – Benefits realisation</b></p> <p>The Council completed implementing an ambitious programme to redesign service delivery with the aim of ensuring a more customer focused, efficient process.</p> <p>The Council now needs to ensure that the services are running as intended and delivering the savings targets predicted. Inadequate realisations could lead to a risk of missed savings targets, which may in turn impact the council's ability to deliver services.</p>	<p>The Council recently completed an ambitious transformation programme, to redesign the organisation and methods of service delivery with the aim of being more customer focused, lean, efficient and release recurring significant savings in future years.</p> <p>2019/20 saw the conclusion of the transformation project and the beginning of the monitoring of benefits. The Council has faced challenges with IT infrastructure, that has in turn caused a backlog of work in certain departments. The Council has not shied away from these facts in their reporting and have been open and honest about the further improvements required. The Council's reporting of the post-transformation position has been balanced, detailing both the successful elements as well as those requiring improvement.</p> <p>We reviewed the corporate performance monitoring, focusing on the transformation measures within the protecting core services reporting segment. The chosen measures have been reported quarterly throughout 2019/20 and into 2020/21. The in year performance has been mixed. Some areas have performed well whilst others have faced significant challenges due to the planned reduction in staff and the delay of IT implementation. However, for those areas where service performance was significantly below target at the start of 2019/20, the performance has steadily improved throughout the period, and continues to improve into 2020/21.</p> <p>As noted in the conclusion, we recommend that management continue to monitor the KPI's on a regular basis and ensure that the efficiencies that has now been achieved is maintained.</p> <p>The financial savings anticipated as part of the transformation programme have been delivered, with salary and on-cost savings of £2.5m per annum being achieved through the reduction in headcount that concluded in 2018-19. However, we have identified that actual against planned savings on salary costs is not included in the transformation reports, therefore this is included as a recommendation.</p> <p>A staff morale survey was undertaken in 2019. This survey provided some positive results, with over 70% of responses being positively weighted. Given the significant challenges faced by the workforce throughout the transformation period, this was a positive outcome for the Council. We understand that a further survey was conducted in June 2020 which has used the same questions as the 2019 survey to enable comparison and track progression. The responses from this latest survey were analysed and the outcomes were shared with staff in September 2020. A high level review showed that whilst the response rate fell to 43% of staff, the overall direction of travel in the majority of areas was positive. The Council should ensure that it maintains a programme of staff surveys on a periodic basis and could consider short 'Pulse' surveys on specific areas or developments to promote higher staff engagement and providing more timely feedback.</p>	<p>Our review of benefits confirmed that the Council continues to provide regular reports to Members.</p> <p>Through our review of the transformation project reports, we confirmed that the reporting is balanced. The total project cost produced a small overspend, but the anticipated financial savings have been delivered.</p> <p>We also confirmed that non-financial benefits are being monitored through the corporate performance Key Performance Indicators (KPI's) and that monitoring is based not just on targets, but also on the direction of travel since the previous report.</p> <p>As part of our review, we identified a number of recommendations that we reported as best practice.</p> <p>Overall, we gained sufficient assurance that the Council had appropriate arrangements to secure value for money in relation to this significant risk.</p>

# Appendix A – South Somerset District Council audit and non audit fees

## Final proposed audit fees

The table below shows the proposed variations to the original scale fee for 2019/20 subject to PSAA approval.

Audit area	£	Rationale for fee variation
<b>Scale fee</b>	£37,943	
Raising the bar	2,500	The Financial Reporting Authority (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.
Pensions – valuation (IAS) 19	1,750	We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
PPE Valuation – work of experts	1,750	We have therefore increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations.
New standards / developments	1,750	Additional work is required around the council's preparations for the implementation of IFRS 16 in 2020-21.
<b>Revised planning fee</b>	<b>£45,443</b>	
Post statements (inc. Covid-19) additional fees	24,316	Refer to detailed analysis on following page
<b>Total Proposed Final Fees</b>	<b>£69,759</b>	These are subject to approval by PSAA

## Non-audit fees

In addition to the audit fees that are subject to PSAA approval, we have agreed to undertake the following non-audit services for the Council that attract a non-audit fee.

### Fees for non-audit services

Service	Proposed Fees £
<b>Audit related services</b>	
- Housing Benefit Subsidy	£14,000

### Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The table summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the group's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the group's policy on the allotment of non-audit work to your auditor.

## Further audit fee variations – Detailed analysis

### Final proposed audit fees

The table below shows the proposed variations to the original scale fee for 2019/20 subject to PSAA approval.

Audit area	£	Rationale for fee variation
<b>Revised planning fee</b>	<b>£45,443</b>	
<b>Covid-19</b>	6,816	<p>Over the past six months the current Covid-19 pandemic has had a significant impact on all of our lives, both at work and at home. The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes:</p> <ul style="list-style-type: none"> <li>• Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS1 particularly in respect to material uncertainties.</li> <li>• Management's assumptions and estimates - there is increased uncertainty over many estimates including pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management.</li> <li>• Financial resilience assessment – we have been required to consider the financial resilience of audited bodies. Our experience to date indicates that Covid-19 has impacted on the financial resilience of all local government bodies. This has increased the amount of work that we need to undertake on the sustainable resource deployment element of the VFM criteria necessitating enhanced and more detailed reporting in our ISA260.</li> <li>• Remote working – the most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working, including the delays in receiving accounts, quality of working papers, and delays in responses. These are understandable and arise from the availability of the relevant information and/or the availability of key staff (due to shielding or other additional Covid-19 related demands). In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Teams or phone is more time-consuming.</li> </ul>
<b>Auditor's External Expert</b>	3,500	We have engaged an auditors expert to support us in our work over the Council's Investment Property portfolio. This additional fee is a direct re-charge of the cost to us.
<b>Group Accounts assessment, Consolidation testing &amp; Group PPE</b>	8,600	This year, we identified that the Council was required to produce group accounts for the first time. This work required consultation with technical colleagues, and review of the council's planned treatment. As part of this work, we also identified that group accounts were required in the previous period, and identified the material balances that required testing. As the scale fee does not include Group Accounts, this additional fee reflects the time taken to complete the work required.
<b>Extended PPE testing of Floor areas</b>	2,400	Our PPE testing identified errors in the floor areas used in the valuation of a sample of assets. We therefore extended our sample, to test a greater proportion of the impacted population and identify the error within the accounts. This additional fee reflects the time taken to test our additional sample.
<b>Prior Period Adjustments</b>	3,000	We have audited four prior period adjustments in the 2019-20 financial statements. This additional fee reflects the time taken to complete the required work and consult with our technical colleagues where required.
<b>Total proposed final audit fees</b>	<b>£69,759</b>	



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## Certification of Claims Report

Portfolio Holder: Cllr Peter Seib, Finance and Legal Services  
Director: Nicola Hix, Strategy and Support Services  
Lead Officer: Paul Matravers, Lead Specialist (Finance) & Deputy S151 Officer  
Contact Details: paul.matravers@southsomerset.gov.uk or (01935) 462275

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## Purpose of the Report

1. This report introduces the annual report from our external auditors Grant Thornton on their findings from the signing off of the Housing Benefit Subsidy Claim for 2019/20.

## Recommendations

2. That Audit Committee notes the contents of the Certification of Claim Report for 2019/20.

## Introduction

3. The Certification of Claims Report is included within the remit of the Audit Committee under its terms of reference as follows:

“To consider the effectiveness of the Council’s risk management arrangements, the control environment and associated anti-fraud and corruption arrangements and seek assurance from management that action has been taken”

“To consider the reports of external audit and inspection agencies and seek assurance from management that action has been taken”

## Subsidy Claim

4. The external auditors certify the subsidy claim for the Housing Benefit Scheme. The report from Grant Thornton is attached at Appendix A. The total claim was £29,195,864 and as a result of the findings through the audit process, an amendment to the claim is required to the value of £18,618. This sum is due to be paid to the Department for Works and Pensions (DWP).

5. In accordance with the Housing Benefit Assurance Process (HBAP) modules an initial sample of cases was completed for all general expenditure on the subsidy claim. Given the nature of the population and the errors found in the previous claim, additional samples of 40 cases were tested.
6. The areas where errors were found were, where the additional testing was required was: -
  - a. Earned income
  - b. Self-employed income
  - c. Tax credits
  - d. Pension credit savings
  - e. Classification of overpayment
  - f. State Retirement Pension
7. Where errors were found and it was possible to identify and check all the claims which may be affected by the same error, all claims were checked and the claim was amended to take into the result of the checking.
8. Where 100% checking was not possible due to the number of claims that needed to be checked, extrapolation then takes effect. Extrapolation is where a % error rate found, when testing a sample of 40 claims for that error, is applied to the total amount which may be affected by the error.
9. The errors found, where 100% checking couldn't be carried out, totalled £8,828 and the total sample value was £600,205. As explained above the % error rate for each category has to be extrapolated, resulting in an overall impact on SSDC of £18,618.
10. An example of how extrapolation works is shown in the table below:

<b>Sample</b>	<b>Movement / brief note of error</b>	<b>Sub population total (CT)</b>	<b>Sample error (SE)</b>	<b>Sample value (SV)</b>	<b>Percentage error rate (SE/SV)</b>	<b>Cell adjustment (SE/SV) x CT</b>
Combined sample – 60 cases	Incorrect application of tax credits	£7,250,259	£173	£148,933	0.12%	£8,700

11. So, in the example above, when testing tax credits, errors totalling £173 were found, which is 0.12% of the total value of benefits in the sample. The error rate i.e. the 0.12% has then been extrapolated against the sub population value of £7.25 million and the resulting £8,700 is the amount the claim has to be adjusted for in respect of the error.

## Financial Implications





## South Somerset District Council

12. The final outcome of the claim was an additional payment of £18,618 due to the Department of Works and Pensions (DWP).
13. Whilst we owe the DWP £18,618, we have sufficient funds in the Council Tax and Housing Benefit Reserve to cover. The DWP provide an incentive to Local Authorities (LA) whereby depending on the amount of the LA overpayments on the final subsidy claim when compared to the 100% expenditure on the final claim form we receive either nil, 40% or a 100% of the LA overpayments. This sum is put into a reserve account pending the outcome of the audit.
14. The agreed fee for certifying the Housing Benefit return in 2019/20 audit is £8,000 plus £2,500 per 40+ samples, subject to PSAA (Public Sector Audit Appointments) approval. Work undertaken is subject to a fee variation due to extra work being carried out. With additional work and sample testing, the total fee for certifying the Housing Benefit return in 2019/20 audit is £23,000.

### Background Papers

- Housing Benefit Subsidy Claim
-

Housing Benefit Unit  
 Housing Delivery Division  
 DWP Business Finance & Housing Delivery Directorate  
 Room B120D  
 Warbeck House  
 Blackpool  
 Lancashire  
 FY2 0UZ

Jo Nacey  
 Section 151 Officer South Somerset District Council  
 Brympton Way  
 Yeovil  
 BA20 2HT

25 February 2021

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## Housing Benefit (Subsidy) Assurance Process 2019/2020 Module 6 DWP Reporting Framework Instruction (Applicable to England only) Reporting accountants' report for the Housing Benefit Subsidy claim form MPF720A, year ended 31 March 2020

This report is produced in accordance with the terms of our engagement letter with South Somerset District Council dated 22 May 2018 and the standardised engagement terms in Appendix 2 of HBAP Module 1 2019/20 issued by the Department for Work and Pensions (DWP) for the purpose of reporting to the Section 151 Officer of South Somerset District Council and the DWP.

Our report is prepared solely for the confidential use of the Local Authority and the DWP and solely for the purpose of facilitating the claim for Housing Benefit Subsidy on form MPF720A dated 29 April 2020.

This report should not be copied, referred to or disclosed, in whole or in part (save as otherwise permitted by the standardised engagement terms), without our prior written consent. Without assuming or accepting any responsibility or liability in respect of this report to any party other than the local authority and the DWP, we acknowledge that the local authority and/or the DWP may be required to disclose this report to parties demonstrating a statutory right to see it.

This report is designed to meet the agreed requirements of Local Authority and the DWP as described in the DWP HBAP reporting framework instruction 2019/20.

This report should not therefore be regarded as suitable to be used or relied by any other party for any purpose or in any context. Any party other than the Local Authority and the DWP which obtains access to this report or a copy and chooses to rely on this report (or any part of it) will do so entirely at its own risk. To the fullest extent permitted by law, we accept no responsibility or liability in respect of our work or this report to any other party and shall not be liable for any loss, damage or expense of whatsoever nature which is caused by the reliance of anyone other than the addressees on our work or this report.

## Respective responsibilities of the Local Authority and the reporting accountant

We conducted our engagement in accordance with HBAP Modules 1 and 6 2019/20 issued by the DWP, which highlight the terms under which DWP has agreed to engage with reporting accountants.

The Section 151 Officer of the Local Authority has responsibilities under the Income-related Benefits (Subsidy to Authorities) Order 1998. The section 151 Officer is also responsible for ensuring that the Local Authority maintains accounting records which disclose with reasonable accuracy, at any time, the financial position of the Local Authority. It is also the Section 151 Officer's responsibility to extract relevant financial information from the Local Authority's accounting records, obtain relevant information held by any officer of the Local Authority and complete the attached form MPF720A in accordance with the relevant framework set out by the DWP.

## Our approach

For the purpose of the HBAP engagement we have been provided with a signed copy of form MPF720A 2019/20 dated 29 April 2020 by the Section 151 Officer. The Section 151 Officer remains solely responsible for the completion of the MPF720A and is the signatory on the local authority's certificate on claim form MPF720A.

Our engagement was carried out in accordance with the DWP reporting framework instruction which has been prepared in accordance with the *International Standard on Related (ISRS) 4400, Engagement to perform agreed-upon-procedures regarding financial information*. The purpose of the engagement is to perform the specific test requirements determined by the DWP on the defined sample basis as set out in HBAP Modules of the HBAP reporting framework instruction on the Local Authority's form MPF720A dated 23 February 2021, and to report the results of those procedures to the Local Authority and the DWP.

The results of these are reported on in appendices A, B, C and D.

## Inherent limitations

The procedures specified in DWP's HBAP Reporting framework instruction does not constitute an examination made in accordance with generally accepted auditing standards, the objective of which would be the expression of assurance on the contents of the local authority's claim for Housing Benefit subsidy on form MPF720A. Accordingly, we do not express such assurance. Had we performed additional procedures or had we performed an audit or review of the local authority's claim for Housing Benefit subsidy on form MPF720A in accordance with generally accepted auditing or review standards, other matters might have come to our attention that would have been reported to you. This report relates only to the Local Authority's form MPF720A and does not extend to any financial statements of the Local Authority, taken as a whole.

This engagement will not be treated as having any effect on our separate duties and responsibilities as the external auditor of the Local Authority's financial statements. Our audit work on the financial statements of the Local Authority is carried out in accordance with our statutory obligations and is subject to separate terms and conditions. Our audit report on the Local Authority's financial statements is made solely to the Local Authority's members, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. Our audit work was undertaken so that we might state to the Local Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Local Authority and the Local Authority's members, as a body, for our audit work, for our audit reports, or for the opinions we have formed in respect of that audit.

## Summary of HBAP report

### Summary of Initial Testing

In accordance with HBAP modules an initial sample of cases was completed for all general expenditure cells.

#### Cell 011 Non-HRA Rent Rebate

There were no entries relating to Non-HRA Rent Rebates during 2019-20.

#### Cell 055 HRA rent rebate

South Somerset District Council does not have any HRA properties, therefore there are no entries to the HRA Rent Rebates cells.

#### Cell 094 Rent Allowance

One claim had incorrect State Retirement Pension applied which led to overpaid benefit. As it was not possible to correctly establish the error for amendment additional testing of 40 cases was completed for the error.

Two claims had incorrect Tax Credits applied, one of which led to overpaid benefit and the other led to underpaid benefit. As these errors could lead to overpaid benefit and it was not possible to correctly establish the error for amendment, additional testing for 40 cases was completed for the errors.

### **Completion of Modules**

The Specific Test Requirements set out in Module 1 Appendix 3 have been completed, including testing required by Modules 2 and 5 as detailed below.

#### Completion of Module 2

We have completed Module 2 and identified no issues.

#### Completion of Module 5

We have completed the questionnaire for the appropriate software supplier and no issues were identified.

### **Summary of testing arising from Cumulative Assurance Knowledge and Experience**

In line with the requirements of HBAP Modules we have undertaken CAKE testing based upon the preceding HBAP report. Where appropriate the Authority has completed testing of the sub populations for:

- Rent Allowances – Cell 94, incorrect earned income
- Rent Allowances – Cell 94, incorrect self-employed earned income
- Rent Allowances – Cell 94, incorrect Tax Credits
- Rent Allowances – Cell 94, incorrect Pension Credits Savings Credits
- Rent Allowances – Cell 114, incorrect entry to eligible overpayments cell

We have re-performed a sample of the Authority's testing and confirm the tests we have carried out concur with the Authority's results. These results are outlined in the appropriate appendix.

### **Summary paragraph/ending of letter**

For the form MPF720A dated 23 February 2021 for the year ended 31 March 2020 we have completed the specific test requirements detailed in the DWP reporting framework instruction HBAP and have identified the following results set out in Appendix A, B, C and D.

Firm of accountants: Grant Thornton UK LLP

Office: 2 Glass Wharf, Bristol, BS2 0EL

Contact details (person, phone and email) Barrie Morris, 0117 3057708, barrie.morris@uk.gt.com

Signature:



Date: 25 February 2021

**Appendix A Exceptions/errors found****Cell 094 Overpaid benefit – State retirement pension error****Cell 094 Rent Allowances****Cell Total: £29,385,871****Cell Total £6,543,734 – sub population****Cell Population: 7,052 cases****Cell Population: 1,175 cases – sub population**

Initial testing showed 1 claim (value £4,246) had state retirement pension incorrectly applied that resulted in overpaid benefit of £7.68.

As it was not possible to correctly establish the error for amendment additional testing of 40 cases was completed. No cases were found to be in error.

<b>Sample</b>	<b>Movement / brief note of error:</b>	<b>Original cell total:</b>	<b>Sample error:</b>	<b>Sample value:</b>	<b>Percentage error rate (to two decimal places)</b>	<b>Cell adjustment:</b>
		[CT]	[SE]	[SV]	[SE/SV]	[SE/SV X CT]
<b>Initial sample – 1 case</b>	Incorrect state pension	£29,385,871	£8	£4,246		
<b>CAKE sample – 40 cases</b>	Incorrect state pension	£6,543,734	£0	£84,211		
<b>Combined sample - 41 cases</b>	Incorrect state pension	£6,543,734	£8	£88,457	0.01%	£654
<b>Corresponding adjustment:</b>	Cell 102 is overstated	£6,543,734	£8	£88,457	0.01%	£(654)
<b>Total corresponding adjustment</b>	Cell 113 is understated					£654

**Cell 094 Overpaid benefit – Earned Income error**  
**Cell 094 Rent Allowances**  
**Cell Total: £29,385,871**  
**Cell Total £3,310,054 – sub population**  
**Cell Population: 7,052 cases**  
**Cell Population: 1,000 cases – sub population**

In 2018/19 and previous subsidy periods it was identified that the Local Authority had calculated benefit using the incorrect earned income. During our initial testing of 20 cases, three cases (value £12,164) where the assessment was based on earned income were tested and no errors were identified.

However, given the nature of the population and the errors found in the previous claim, an additional sample of 40 cases where an assessment in the subsidy period was based upon earned income was tested. This additional testing identified:

- two cases which resulted in an overpayment of housing benefit to a total of £82 in 2019/20 due to miscalculating the claimants earned income. The errors ranged from 4.08 to 78.21
- three cases which resulted in an underpayment of housing benefit to a total of £59.79 in 2019/20 due to miscalculating the claimants earned income. As there is no eligibility to subsidy for benefit which has not been paid, the underpayment identified does not affect subsidy and has not, therefore, been classified as errors for subsidy extrapolation purposes.
- one case with incorrect earned income which had no impact on the subsidy claimed. As there is no eligibility to subsidy for benefit which has not been paid, the nil impact identified does not affect and has not, therefore, been classified as errors for subsidy extrapolation purposes.

Sample	Movement / brief note of error:	Original cell total:	Sample error:	Sample value:	Percentage error rate (to two decimal places)	Cell adjustment:
		[CT]	[SE]	[SV]	[SE/SV]	[SE/SV X CT]
<b>Initial sample – 3 cases</b>	Incorrect earned income	£29,385,871	£0	£12,164		
<b>CAKE sample – 40 cases</b>	Incorrect earned income	£3,310,054	£82	£136,141		
<b>Combined sample - 43 cases</b>	Incorrect earned income	£3,310,054	£82	£148,305	0.06%	£1,986
<b>Corresponding adjustment</b>	Cell 102 is Overstated	£3,310,054	£82	£148,305	0.06%	£(1,986)
<b>Total corresponding adjustment:</b>	Cell 113 is understated					£1,986



**Cell 094 Overpaid benefit – Self employed earned Income error****Cell 094 Rent Allowances****Cell Total: £29,385,871****Cell Total £1,209,470.71 – sub population****Cell Population: 7,052 cases****Cell Population: 287 cases – sub population**

In 2018/19 and previous subsidy periods it was identified that the Local Authority had calculated benefit using the incorrect self-employed earned income. During our initial testing of 20 cases, one case (value £3,730) where the assessment was based on self-employed earned income was tested and no errors were identified.

However, given the nature of the population and the errors found in the previous claim, an additional sample of 40 cases where an assessment in the subsidy period was based upon self-employed earned income was tested. This additional testing identified:

- two cases which resulted in an overpayment of housing benefit to a total of £251 in 2019/20 due to miscalculating the claimants' self-employed earned income. The errors ranged from 94.22 to 156.42
- six cases which resulted in an underpayment of housing benefit to a total of £3,681.73 in 2019/20 due to miscalculating the claimants self-employed earned income. As there is no eligibility to subsidy for benefit which has not been paid, the underpayment identified does not affect subsidy and has not, therefore, been classified as errors for subsidy extrapolation purposes.
- six cases with incorrect self-employed earned income which had no impact on the subsidy claimed. As there is no eligibility to subsidy for benefit which has not been paid, the nil impact identified does not affect and has not, therefore, been classified as errors for subsidy extrapolation purposes.

<b>Sample</b>	<b>Movement / brief note of error:</b>	<b>Original cell total:</b>	<b>Sample error:</b>	<b>Sample value:</b>	<b>Percentage error rate (to two decimal places)</b>	<b>Cell adjustment:</b>
		[CT]	[SE]	[SV]	[SE/SV]	[SE/SV X CT]
<b>Initial sample – 1 case</b>	Combined results for initial sample	£29,385,871	£0	£3,730		
<b>CAKE sample – 40 cases</b>	Cell 103 overstated Cell 113 understated	£1,209,471	£251	£158,438		
<b>Combined sample - 41 cases</b>	Incorrect income calculation	£1,209,471	£251	£162,168	0.15%	£1,814
<b>Corresponding Adjustment:</b>	Cell 103 overstated	£1,209,471	£251	£162,168	0.15%	£(1,814)
<b>Total corresponding adjustment</b>	Total understatement of cell 113					£1,814

**Cell 094 Overpaid benefit – Tax Credits error**  
**Cell 094 Rent Allowances**  
**Cell Total: £29,385,871**  
**Cell Total £7,250,259 – sub population**  
**Cell Population: 7,052 cases**  
**Cell Population: 1,772 cases – sub population**

In 2018/19 and previous subsidy periods it was identified that the Local Authority had incorrectly applied working tax credits and child tax credits in respect of Cell 94 Rent Allowance claims. During our initial testing of 20 cases, four cases (value £15,984) included tax credits and two cases were identified that had been calculated using the incorrect tax credits figures which gave rise to an overpayment of £123.80 and underpaid benefit of £84.96.

Given the nature of the population and the errors found in the previous claim, an additional sample of 40 cases where an assessment in the subsidy period was based upon tax credits was tested. This additional testing identified:

- four cases which resulted in an overpayment of housing benefit to a total of £49 in 2019/20 due to miscalculating the claimants earned income. The errors ranged from 0.70 to 37.22
- three cases which resulted in an underpayment of housing benefit to a total of £24.93 in 2019/20 due to miscalculating the claimants earned income. As there is no eligibility to subsidy for benefit which has not been paid, the underpayment identified does not affect subsidy and has not, therefore, been classified as errors for subsidy extrapolation purposes.
- four cases with incorrect self-employed earned income had no impact on the subsidy claimed. As there is no eligibility to subsidy for benefit which has not been paid, the nil impact identified does not affect and has not, therefore, been classified as errors for subsidy extrapolation purposes.

Sample	Movement / brief note of error:	Original cell total:	Sample error:	Sample value:	Percentage error rate (to two decimal places)	Cell adjustment:
		[CT]	[SE]	[SV]	[SE/SV]	[SE/SV X CT]
<b>Initial sample – 4 cases</b>	Incorrect tax credits	£29,385,871	£124	£15,894		
<b>CAKE sample – 40 cases</b>	Incorrect tax credits	£7,250,259	£49	£133,039		
<b>Combined sample – 44 cases</b>	Incorrect tax credits	£7,250,259	£173	£148,933	0.12%	£8,700
<b>Corresponding adjustment</b>	Cell 102 is overstated	£7,250,259	£12	£148,933	0.01%	£(725)
<b>Corresponding adjustment</b>	Cell 103 is overstated	£7,250,259	£161	£148,933	0.11%	£(7,975)
<b>Total corresponding adjustment</b>	Total understatement of Cell 113					£8,700

**Cell 094 Overpaid benefit – Pension credits savings credits error****Cell 094 Rent Allowances****Cell Total: £29,385,871****Cell Total £1,536,363 – sub population****Cell Population: 7,052 cases****Cell Population: 369 cases – sub population**

In 2018/19 and previous subsidy periods it was identified that the Local Authority had incorrectly applied pension credits savings credits in respect of Cell 94 Rent Allowance claims. During our initial testing of 20 cases, two cases (value £9,668) where the assessment was based on pension credit savings credits were tested and no errors were identified.

However, given the nature of the population and the errors found in the previous claim, an additional sample of 40 cases were tested in relation to the pension credits savings credits used. This additional testing identified 5 cases which had resulted in an underpayment of housing benefit to a total of £112.64 in 2019/20 due to miscalculating the claimants pensions credit savings credit. As there is no eligibility to subsidy for benefit which has not been paid, the underpayments identified does not affect and has not, therefore, been classified as errors for subsidy extrapolation purposes.

**Cell 114 Expenditure misclassification****Cell Total: £415,741****Cell Population: 1,592 cases****Headline Cell Total: £29,385,871**

In 2018/19 and previous subsidy periods it was identified that the Local Authority had incorrect entries in cell 114, both those where expenditure was classified as eligible rather than LA error in respect of Cell 94 Rent Allowance claims and those where the expenditure was misclassified as an overpayment. During our initial testing of 20 cases, two cases (value £10) was identified as including cell 114 entries and no errors were identified.

However, given the nature of the population and the errors found in the previous claim, an additional sample of 40 cases where an assessment in the subsidy period was based upon earned income was tested. This additional testing identified:

- five cases which resulted in misclassification of overpayments.. Cell 114 included overpayments that should have been classified as Cell 113 LA error and administrative delay eligible overpayments to a total of £4,781 in 2019/20 due to incorrectly classifying the overpayments.
- one case identified that the expenditure should not have been an overpayment due to incorrect calculation dates used to a total of £350 in 2019/20 due to incorrect overpayment calculations. Cell 102 was therefore understated by the same amount.
- one case which included both an overstatement of cell 114 due to incorrect calculation dates used, with £1,903 incorrectly included as an overpayment that should have been included in cell 102 and misclassification of overpayments between LA error and eligible error to the value of £644 impacting cell 113.
- one case which included both an overstatement of cell 114 due to incorrect calculation dates used, with £410 incorrectly included as an overpayment that should have been included in cell 103 and misclassification of overpayments between LA error and eligible error to the value of £225 impacting cell 113.

Sample	Movement / brief note of error:	Original cell total:	Sample error:	Sample value:	Percentage error rate (to two decimal places)	Cell adjustment:
		[CT]	[SE]	[SV]	[SE/SV]	[SE/SV X CT]
<b>Initial sample – 2 cases</b>	Combined results for initial sample.	£29,385,871	£0	£10		
<b>Additional testing sample – 40 cases</b>	Cell 114 overstated. Cell 113 understated.	£415,741	£8,314	£52,332		
<b>Combined sample – 42 cases</b>	Combined sample. Cell 114	£415,741	£8,314	£52,342	15.88%	£(66,020)
<b>Corresponding adjustment</b>	Cell 113 is understated	£415,741	£5,651	£52,342	10.80%	£44,900
<b>Corresponding adjustment</b>	Cell 102 is understated	£415,741	£2,253	£52,342	4.30%	£17,877
<b>Corresponding adjustment</b>	Cell 103 is understated	£415,741	£410	£52,342	0.78%	£3,243
<b>Total corresponding adjustment</b>	Total overstatement of Cell 114					£(66,020)

**Appendix B Observations**

*There are no observations to report.*

**Appendix C: Amendments to the claim form MPF720A****Cell 114 Expenditure misclassification**

**Cell Total: £415,741**

**Cell Population: 1,592 cases**

**Headline Cell Total: £29,385,871**

Further testing of incorrect self-employed earned income identified one case where the split between eligible errors and LA errors was incorrect leading to cell 114 being overstated by £441. Additional testing has already been undertaken in relation to this error, as reported in Appendix A

Cells 114 and 113 have been amended on form MPF720a dated 23 February 2021. Cell 94 remains unchanged.

**Appendix D: Additional issues**

*There are no observations to report.*





## Informing the Audit Risk Assessment 2020/21

Portfolio Holder:	Cllr Peter Seib, Finance and Legal Services
Strategic Director:	Nicola Hix, Strategy & Support Services
Lead Officer:	Paul Matravers, Lead Specialist (Finance) & Deputy S151 Officer
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## Purpose of the Report

This report informs the audit committee of the important areas of the auditor risk assessment that the Council's external auditors are required to make to the management team under auditing standards.

## Recommendations

That the Audit Committee are asked to:

- (a) review management responses to the questions ensuring that they are consistent with the committees understanding.

## Background

The report from Grant Thornton, the Council's external auditor, is provided as part of the responsibilities that auditors have in respect of communicating information to the Audit Committee under International Standards on Auditing (UK) (ISA(UK)).

The Audit Risk Assessment report provides the committee with details of the risk assessment undertaken by the external auditor for 2020/21, the areas of focus and the responses to the questions posed to management.

The report is part of the continual dialogue between the external auditor and the committee with the aim being to assist the auditors and the committee in understanding matters relating to the annual audit and to build on the working relationship between both parties.

The continual communication also enables the auditor to obtain information relevant to the audit from the committee and supports the committee in fulfilling its responsibilities in relation to the financial reporting process.



**South Somerset**  
District Council  
**Financial Implications**

None for the purposes of this report.

**Background Papers**

- None.
-

# Informing the audit risk assessment for South Somerset District Council 2020/21

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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## Purpose

The purpose of this report is to contribute towards the effective two-way communication between the Council's external auditors and the Council's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

## Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

## Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Council's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties, and
- Accounting Estimates.

## Purpose

This report includes a series of questions on each of these areas and the response we have received from the Council's management. The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

## General Enquiries of Management

Question	Management response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21?</p>	<p>The biggest financial and risk pressure of 2020/21 has been the Covid-19 pandemic. This has had significant impact on our finances; our deployment of staff and; has led to us refocusing our priorities to support our communities. We have received significant grants from Central Government to support our response to the pandemic. We have tracked the spend in relation to these grants and completed Government returns accordingly. We have also administered several millions of pounds in grants to businesses, through a number of schemes. Some of these have been complex and some have been discretionary and as such, a fraud risk.</p> <p>The NHS business rates claim which we had flagged last year has finally been settled. The NHS lost their claim and the LGA, acting on behalf of the local authorities have been able to reclaim costs. This risk has therefore been extinguished.</p> <p>Our commercial property acquisitions continue to be significant and we have made several during 2020/21.</p> <p>Due to the volatility of business rates in this challenging year, the profitability of the business rates pool has been brought into question. We are confident this will still show a surplus but we hold a mitigating reserve should it not deliver.</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by the Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?</p>	<p>There have been no material changes to accounting policies in 2020/21. They however have been reviewed for appropriateness.</p> <p>Policies have also been considered and a temporary scheme of delegation change was made to enable the Chief Executive and Leader to take emergency decisions.</p>
<p>3. Is there any use of financial instruments, including derivatives?</p>	<p>SSDC use financial instruments but do not use derivatives.</p>



## General Enquiries of Management

Question	Management response
4. Are you aware of any significant transaction outside the normal course of business?	No
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	It will be important to review the valuations in certain areas such as car parks in light of the impact of the pandemic on trading. We have not yet received the latest valuations from our in-house valuers so are not aware of any material impairments at this point. It is notable that our Commercial rent collection, despite the pandemic, has seen c98% collected.. This would suggest that no material impairments would be necessary in relation to this (due to the pandemic). There may of course be other factors, such as a change in the lease agreement, a re-profiling of payments etc which will be taken into account by the valuers.
6. Are you aware of any guarantee contracts?	No
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No.
8. Other than in house solicitors, can you provide details of those solicitors utilised by the Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	The Council uses a mix of in-house and external solicitors for its legal advice. During 2020/21 external legal advice (largely in relation to commercial investment purchases) has been obtained from: Tozers; Burges Salmon; Veale Wasborough; Shoosmiths; Pardoes; Ashfords; Moore Blatch; Steele Raymond; Stephens Scown; Thompsons; Porter Dodson; Battens; Clarke Willmott and Monaco Solicitors.
9. Have any of the Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	Yes – We are aware of a “phishing” type fraud whereby one of our suppliers had their email account compromised and a payment was subsequently made to an incorrect account operated by fraudsters. We have reported this to the Police; Action Fraud; the Leader and Deputy Leader; CEO; Chair of Audit and Internal Audit. The case is ongoing.

## General Enquiries of Management

Question	Management response
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	The Council has used a range of advisors during 2020/21: Arlingclose – Treasury Advisors; PS Tax – VAT and other taxation advice; Luciel Ltd – Council Plan; RPT Consulting – Leisure contract procurement; CIPFA – various; King and Shaxton – Treasury; Martin Brokers – Brokerage; Tradition (UK) Ltd – Treasury; Zurich Municipal – Insurance; Heritage and Leisure Mgt – Leisure contract; Marsh Ltd – Insurance; Colliers Intl Property Consultants – Lease advisory, rent review Quartz suite; Ashbrook Associates -

# Fraud

## Issue

### Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As the Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from the Council's management.

## Fraud risk assessment

Question	Management response
<p>1. Have the Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Council's risk management processes link to financial reporting?</p>	<p>Yes. Budgetholders monitor spend and income. These budgets are also reviewed by the council's finance specialists as part of budget monitoring which includes looking for any possible fraudulent activity.</p> <p>Fraud is also assessed as part of the Internal Audit Plan. The Audit Committee approves the risk-based annual audit plan (constructed by SWAP, SLT and S151) and prepares audits to consider possible areas where fraud may be a risk.</p> <p>The Authority has a Fraud Strategy that is approved, monitored and reported through the Audit Committee. The Council also employs an Enforcement Officer within the various service areas who undertakes work to tackle abuse of public funds.</p> <p>All reports to District Executive include a double risk matrix to ensure that Members are aware of the financial risks of making a decision. All capital bids outline risks and how those risks can be mitigated.</p> <p>The annual budget is risk assessed and reported, and then monitored as part of the revenue and capital budget monitoring process. Key projects will include financial risks as appropriate.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>It is considered that cash, contract and benefits/tax reliefs are most likely areas of risks in most years. During the pandemic, we have been administering additional benefits and grants and these have added to the risk profile.</p>

## Fraud risk assessment

Question	Management response
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within the Council as a whole or within specific departments since 1 April 2020? As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>No. SLT is responsible for Corporate Governance. SLT comprises the CEO; Directors; S151 Officer and Monitoring Officer. The SWAP Assistant Director is invited to SLT on a quarterly basis to discuss and report on governance and risk issues including the audit plan progress. All audit reports are taken to SLT for discussion. The CEO; S151 and MO also meet regularly with Grant Thornton. The Annual Governance Statement is reported to SLT and Audit Committee outlining any serious breaches. The S151 Officer oversees the support to Audit Committee undertaken by one of the Council's Finance Specialists. A regular Risk Management update is provided to Audit Committee.</p>
<p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within the Council where fraud is more likely to occur?</p>	<p>No</p> <p>No</p> <p>Westlands and the Octagon where there are high volumes of cash transactions could be deemed higher risks (in normal trading circumstances) but controls are in place to manage this.</p>
<p>5. What processes do the Council have in place to identify and respond to risks of fraud?</p>	<p>SSDC is committed to operating in ways which make fraud more difficult to commit, more likely to be detected, and more certain to be punished. Accordingly, the Fraud and Data team work to solidify the Council's counter fraud culture through preventative initiatives such as organising counter fraud audits, and producing documents designed to reduce exposure to fraud. One such document is the "SSDC counter Fraud, Theft and Bribery Strategy. It is the centrepiece of the Council's counter fraud framework, and explicitly sets out the arrangements that are in place for deterring, preventing, detecting and punishing all forms of fraud which could affect the Council's finance and assets.</p>

## Fraud risk assessment

Question	Management response
<p>6. How do you assess the overall control environment for the Council, including:</p> <ul style="list-style-type: none"> <li>the existence of internal controls, including segregation of duties; and</li> <li>the process for reviewing the effectiveness the system of internal control?</li> </ul> <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>Budgets are operated under strict delegations in the operating model. Lead Specialists and Specialists monitor the budgets but do not have budget responsibility. The Finance specialists work closely with the budgetholders analysing large value transactions. Managers are responsible for signing off individual's travel etc.</p> <p>There remains a separation of duties between the Specialists and Case Officer posts which are monitored as part of the controls audited by SWAP. Many of the processes are system controlled, particularly in relation to the financial transactions.</p> <p>Key areas of risks are agreed as part of the internal audit plan.</p> <p>Reliance on audit reports and the Annual Governance Statement which includes officer annual declarations which cover internal control. Internal Audit provide a cyclical effectiveness review which will be reported to the Audit Committee.</p>
<p>7. Are there any areas where there is potential for misreporting?</p>	<p>Finance Specialists work closely with budgetholders on analysing financial transactions within the financial statements. All Finance Specialists behave with integrity, demonstrate string commitment to ethical values and respect the rule of law. It would be naive to imagine that it would not be possible but there would have to be collusion and there re controls to prevent monies "leaving the building".</p>

## Fraud risk assessment

Question	Management response
<p>8. How do the Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported?</p>	<p>SSDC Code of Conduct and other policies are all held on the staff portal for all staff to view. An essential part of an effective counter fraud culture is ensuring that all personnel affiliated with the work of the Council abide by the Counter Fraud policies in place. As part of this, it is vital that all personnel know the appropriate way to disclose a suspicion of misconduct, whether it involves staff, members, contractors or third parties. The Council's former Counter Fraud Policy and Whistleblowing Policy has been reviewed. This ensures that both the appropriate reporting channels and the authorities involved in dealing with the allegations are known to all.</p> <p>Each Member and officer of the Council is responsible for countering fraud to safeguard corporate standards, meaning that everyone affiliated with SSDC has a duty to ensure:</p> <ul style="list-style-type: none"> <li>• their own behaviour is beyond reproach and in accordance with best practice</li> <li>• they follow all policies, procedures and controls laid down to prevent, detect, investigate and punish fraud, according to the Council's Constitution</li> <li>• they report to the appropriate officer any instance where they suspect, or are aware of any person(s) behaving improperly, as well as communicating any reasonable suspicions they may have that the Council's systems may be open to fraud or abuse of another kind.</li> </ul> <p>As part of this, it is vital that all personnel know the appropriate way to disclose a suspicion of misconduct, whether it involves staff, members, contractors or third parties. All employees are periodically reminded of the whistleblowing policy and all staff are expected to sign related party transaction declarations on an annual basis.</p> <p>No</p>
<p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>SLT and LMT are the higher risk posts as they have a high level of control at this level. All employees are accessed through the A&amp;A framework, with open and honest, and trust being key components, which are measured at assessment, considered at PDP stage and even are the pillars of our recognition scheme.</p>

## Fraud risk assessment

Question	Management response
<p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>No – but the Council's constitution requires Members to declare any such interests and where appropriate withdraw. Senior decision making officers are also required to declare any related party transactions. Segregation of duties involved in transactions, and line management reporting to ensure no collusion between those people who are personally connected.</p>
<p>11. What arrangements are in place to report fraud issues and risks to the Audit Committee? How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What has been the outcome of these arrangements so far this year?</p>	<p>The responsibility for the investigation of actual or suspected fraud now lies with the Section 151 Officer, Monitoring Officer, and SWAP which can be reported via the Council's Whistleblowing policy.</p> <p>The Council has a robust risk management process which requires managers to manage all risks within projects and services with escalation to the strategic risk register (where appropriate) which is reviewed regularly by SLT. All reports to committees require financial and legal implications to be identified and include a template for financial and legal implications and risks to be identified.</p> <p>The Audit Committee receives regular reports from internal audit, external audit and the CFU and the responsibility for reviewing the Code of Corporate Governance, Counter Fraud and Anti-Corruption policies sits with the Audit Committee.</p>
<p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>None received by the S151 Officer or Monitoring Officer</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>None received by the S151 Officer or Monitoring Officer</p>



# Law and regulations

## Issue

### Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that the Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

## Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations? Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?</p>	<p>Key changes in legislation drawn to SLT attention by Statutory Officers and Specialist Team Leaders. Managers and team leaders are expected, by virtue of their job descriptions and personal professional development requirements, to keep up to date and comply with laws and regulations as they apply to their duties and those of their teams.</p> <p>Key changes in the law are considered by SLT and, for any legislation that has a significant impact on the functions of the Council, working groups are set up and implementation plans prepared. Any potential non-compliance is reported to the District Executive and an action plan put in place. The Annual Governance Statement also identifies areas of concern and areas for improvement.</p> <p>Not aware of any significant changes to regulatory environment.</p>
<p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>Through the Annual Governance Statement which identifies areas of concern and areas for improvement. In addition, each senior and service manager provides an annual assurance statement.</p> <p>In addition, training sessions are used to explain new legislation (e.g. GDPR, IR35 revision). Where the changes would have a significant impact on the Council they will appear on the corporate risk register which is available. Any accounting requirements are explained at the annual workshop to help understand the accounts.</p> <p>For any specific cases a special report is prepared for the Audit Committee.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2020 with an on-going impact on the 2020/21 financial statements?</p>	<p>No</p>

## Impact of laws and regulations

Question	Management response
4. Is there any actual or potential litigation or claims that would affect the financial statements?	No
5. What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	<p>The Council's legal team work with SLT and the relevant LMT Officers when any potential claims or litigation are identified; it also provides the S151 Officer with details of any litigation or claims for inclusion within the financial statements.</p> <p>The Council has a customer complaints process which aims to resolve issues before they escalate. Through its risk management procedures, there are the recording of any risks of litigation or claims either within service areas or corporately.</p> <p>The Council has processes in place to manage significant contracts any issues can be raised and managed with the aim of minimising litigation or claims. Contract performance is monitored by the use of management information including key performance indicators.</p>
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No

# Related Parties

## Issue

### Matters in relation to Related Parties

The Council are required to disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the Council;
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any entity that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Council's perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

## Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in the Council's 2019/20 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> <li>the nature of the relationship between these related parties and the Council</li> <li>whether the Council has entered into or plans to enter into any transactions with these related parties</li> <li>the type and purpose of these transactions</li> </ul>	<p>None apart from:</p> <p>There have been a large number of grants made to businesses which may now fall into a related party scenario. These grants are either mandatory or have strict criteria for discretionary awards.</p>
<p>2. What controls does the Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>All of SLT and LMT, and any other significant officers are required to complete an annual related party disclosure form which are compiled as part of the year end financial statements. These are then reviewed by the S151 Officer and reported to SLT where necessary.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>Normal controls are in place. An officer would be expected to disclose any related party transaction and then this would be checked.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>These would be drawn to the attention of the S151 Officer.</p>

# Accounting estimates

## Issue

### Matters in relation to Related Accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

## Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	<p>These are all disclosed in the Statement of Accounts. These include the valuation of PPE and the Pension Liability. The changes in estimation would be due to annual valuation changes or more fundamentally changes in methods of valuation e.g.. the actuaries may change their assumptions or a building may have a change of use and hence valuation method.</p> <p>The appeals provision for NNDR is updated annually with consideration to market conditions. This is done by experienced finance staff alongside revenues and economic development officers..</p>
2. How does the Council’s risk management process identify and addresses risks relating to accounting estimates?	<p>The Council employs professionals to verify these estimates, calling in external experts when necessary.</p>
3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	<p>Through attending Technical updates from various providers the Finance Specialists stay “up to date” and are aware of any changes required to accounting estimates.</p>
4. How do management review the outcomes of previous accounting estimates?	<p>There is an element of “reasonableness” checking by senior staff. The Council employs experienced staff who are aware of market conditions etc. Large fluctuations in, for example, valuations would be a trigger warning to valuers. Budget monitoring would also highlight trends in, for example, utility prices and usage which would inform year end estimates. These would also be used to add new pressures or savings to the estimates for budget setting.</p>

## Accounting Estimates - General Enquiries of Management

Question	Management response
5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?	No.
6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?	The close down process is looked at "afresh" each year to capture changing circumstances and economic climate. We have experienced staff to undertake these estimates and their knowledge is kept up to date.
7. How does the Council determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	These are reviewed by the S151 Officer; Deputy S151 Officer and Lead Finance Specialist each year.
8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	We rely on professional qualifications (e.g. RICS for our valuers). Key controls such as updating the asset register form part of our capital expenditure process. Other controls are monitored through budget setting and particularly through budget monitoring where variances are flagged and explanations required.



## Accounting Estimates - General Enquiries of Management

Question	Management response
<p>9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> <li>- Management's process for making significant accounting estimates</li> <li>- The methods and models used</li> <li>- The resultant accounting estimates included in the financial statements.</li> </ul>	<p>These are all reviewed for reasonableness. We have qualified staff who compare previous years' trends. We have been fortunate to have a number of finance staff who have worked for the authority for some time and therefore have in-depth knowledge of the budgets. Areas such as the Pension deficit calculations are the responsibility of our actuaries and we are confident in their professionalism and expertise.</p> <p>Following a number of audit findings for 19/20 we are aware that our asset valuations have not always been accurate at the first "draft". We will therefore focus and challenge more in this areas for 20/21.</p> <p>Most methods and models for estimation are long-held and consistent across various authorities. Our finance staff attend technical updates and have networking events with other authorities where we share approaches and best practice.</p>
<p>10. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?</p>	<p>The non-domestic (NDR) appeals provision for the 2010 list has been estimated based on past experience of successful appeals and other RV reductions, and actual success rates and reductions may differ from the estimate. The process was altered from 1 April 2017 for the 2017 list. We have used the check and challenge data and professional judgement to calculate the provision in relation to the 2017 list.</p>
<p>11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?</p>	<p>Yes, all the management arrangements listed are correct.</p>

# Accounting Estimates - General Enquiries of Management

Question	Management response
12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	A Financial Statements training session is held with all Members of the Audit Committee prior to the financial statements being taken to Audit Committee for approval. This same Committee have also received direct training from Arlingclose on our Treasury Investments. When the accounts are presented at Committee, we will highlight any accounting estimates and a clear explanation given where necessary.

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Land and buildings valuations	Fair value for land/buildings defined as 'existing use' by the Council.	Valuations are performed annually to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. For land and buildings all material assets will be considered in 2020/21.	Internal valuer	Degree of uncertainty inherent with any revaluation. We employ professional valuers and rely on expert opinion.	No
Investment property valuations	Fair value.	Valuations are performed annually to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. For Investment Property, all material assets will be considered in 2020/21.	Internal valuer. Where property has been purchased within the last 12 months, an external Red Book valuation is undertaken.	Degree of uncertainty inherent with any revaluation. We employ professional valuers and rely on expert opinion.	No

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation	Each part of an item of property, plant and equipment with a significant cost in relation to the total cost is depreciated separately. Depreciation methods, useful lives and residual values are reviewed each financial year and adjusted if appropriate.	See left box	Discussion with internal asset team and where applicable an external valuer	Depreciation is calculated on a straight line basis as this reflects consumption of assets and is a reasonable assumption.	No
Valuation of defined benefit net pension fund liabilities	Use of Actuary – Barnet Waddingham	Data provided from payroll system etc	Yes	As defined by actuarial report. The nature of these figures forecasting into the future are based upon the best information held at the current time and are developed by experts in their field.	No.

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Level 2 investments	Fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. Interest rates or yield for similar instruments	Advice from our Treasury Advisors, Arlingclose. The control is an external valuation.	No.	Not material	No.
Level 3 investments	Fair value is determined using observable inputs e.g. Non-market data such as cash flow forecasts or estimated creditworthiness.	Advice from our Treasury Advisors, Arlingclose. The control is an external valuation.	No.	Not material	No.
Fair value estimates	For most assets, including bonds, treasury bills and shares in Money Market Fund and other pooled funds, the fair value is taken from the market price. For loans borrowed by the Council, a discounted cashflow method is used.	Advice from our Treasury Advisors, Arlingclose. The control is an external valuation.	Quoted values from source	Expert advice	No.

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions	Provisions are identified through detailed monthly management accounts which flags any potential issues to management	Each provision is separately reviewed by financial accounts and a working is put together to support the calculation.	As necessary on an individual basis	Each provision is assessed on an individual basis to ensure that it meets the criteria of a provision per IAS 37. The degree of uncertainty is assessed when determining whether a provision is the correct treatment for an item.	No.
Accruals	We use standard accruals accounting –accruals are based on expenses incurred that have not yet been paid.	Monthly management accounts provides rigorous analysis so that any accruals are highlighted and actioned throughout the year.	N/A	Estimates are based on previous experience (e.g. prior period charges) or partial underlying data.	No.
Credit loss and impairment allowances	Debts are reviewed monthly and any debts that are deemed to be irrecoverable are written off.	Knowledge by the Accounts Receivables team in likelihood of recoverability and the aging of the debts.	N/A	Estimates are based on previous experience (e.g. prior period default rates).	No.

## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Finance lease liabilities	Future cashflows	As defined by contract	N/A	N/A	No.



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## **Internal Audit Annual Activity Report 2020/21**

Head of Service: Dave Hill, Chief Executive - SWAP  
Lead Officer: Alastair Woodland - Assistant Director  
Contact Details: Alastair.Woodland@swapaudit.co.uk

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### **Purpose of the Report**

To update members on the Internal Audit Plan 2020-21 progress and bring to their attention any significant findings identified through our work. The report aims to provide assurance to the Audit Committee regarding the effectiveness of the control environment operated by and on behalf of the council and highlight any significant matters to be addressed by management.

### **Recommendations**

Members are asked to note progress made in delivery of the 2020/21 internal audit plan.

### **Background**

The Internal Audit function plays a central role in corporate governance by providing assurance to the Audit Committee over the effectiveness of internal controls, governance and risk management. The 2020-21 Annual Audit Plan was approved by the Audit Committee at its May 2020 meeting and is to provide independent and objective assurance on SSDC's Internal Control Environment and this work will support the Annual Governance Statement.

### **Financial Implications**

There are no financial implications associated with these recommendations.

### **Background Papers**

- Internal Audit Plan and Charter 2020/21 – May 2020
-



# South Somerset District Council

## Report of Internal Audit Activity

Plan Progress 2020/21 March 2021

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## The contacts at SWAP in connection with this report are:

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# Internal Audit Plan Progress 2020-21

## Our audit activity is split between:

- Operational Audit
- Governance Audit
- Key Control Audit
- IT Audit
- Grants
- Other Reviews



## Role of Internal Audit

The Internal Audit service for the South Somerset District Council is provided by South West Audit Partnership 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 and Governance Committee at its meeting in May 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 Management Team. This year's Audit Plan was reported to and approved by this Committee at its meeting in May 2020. Audit assignments are undertaken in accordance with this Plan to assess current levels of governance, control and risk.

# Internal Audit Plan Progress 2020-21

## Outturn to Date:

We rank our recommendations on a scale of 1 to 3, with 3 being minor or administrative concerns to 1 being areas of major concern requiring immediate corrective action.



## 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 on **Appendix A** of this document.

The following table summarised Audits finalised since the last update at the end of October 2020:

Audit Area	Quarter	Status	Opinion
<b>2020/21</b>			
Homelessness	2	Final	Limited
Cyber Security Framework Review	3	Final	Advisory
<b>NEW:</b> Local restriction Grant Support	3	Final	Advisory
<b>NEW:</b> Covid-19 Grant Processing Support	4	Final	Advisory
<b>NEW:</b> Grant Support – Bank detail checks	4	Final	Advisory

## Significant Corporate Risks

Identified Significant Corporate Risks should be brought to the attention of the Audit Committee.

## Completed Assignments:

Summary of work completed with a focus on the high priority issues that we believe should be brought to the attention of the Audit Committee.

- Limited or No Assurance Opinions
- Follow-ups



## Significant Corporate Risks

We provide a definition of the 3 Risk Levels applied within audit reports and these are detailed in **Appendix A**. For those audits which have reached report stage through the year, I will report risks we have assessed as 'High'.

In this update there are no final reports included with significant corporate risks.



## Summary of Work Completed – Limited or No Assurance Opinions

### **Homelessness - Limited Assurance (provided in January update report).**

The objective of this review was to ensure that the Council discharges its statutory duty to prevent homelessness and provide assistance to the homeless or those threatened with homelessness. We reviewed the Councils homelessness strategy and policies and assessed the Councils approach to fulfilling the duties outlined within the homelessness legislation. We also reviewed the processes for recording data and how this is monitored and reported and used to ensure they are meeting their strategic and legislative requirements.

While the service does have KPIs in place which are reported to the Senior Leadership team and members they are not linked to the legislation and therefore do not indicate if they are meeting their legal obligations.

The Homelessness case managers and Specialists do not have any specific procedures in place to follow which leads to inconsistent reporting across the service. Service outcomes are not consistently recorded within the Homelessness system so this affects the ability of the Specialists to monitor the effectiveness of the work being completed to meet the legislation as they can't identify where improvements need to be made to increase the levels of homelessness prevented by the service. Without clear procedures detailing what needs to be complete it is difficult to resolve these issues and also leads to case officers working without clear performance or quality standards to aim for.

## Completed Assignments:

Summary of work completed with a focus on the high priority issues that we believe should be brought to the attention of the Audit Committee.

- Limited or No Assurance Opinions
- Follow-ups



## Summary of Work Completed

### Cyber Security Framework Review- Advisory (provided in January update report).

I have provided some information on this review as it provides an overview assessment of the Councils Cyber Security framework. With the challenges from Covid-19 and remote working and the implementation of the Digital Strategy it is important to understand how well the Councils Cyber Security framework is currently operating. The objective of this audit was to provide assurance that the authority has an effective control framework in place for Cyber Security and to highlight areas of risk that will require either immediate attention or further risk-based audit review. This covered the following 20 high level key controls:

• Cyber Security Governance and Management Support	• Existence and Maintenance of an Inventory of Hardware Assets
• Inventory of Software Assets (including Data Assets)	• Vulnerability Management Processes
• Control of Accounts with Administrative Privileges	• Deployment of Secure Hardware and Software Configurations
• Active Monitoring and Analysis of Audit Logs	• E-Mail and Web Browser Protections
• Deployment of Malware Defences	• Control of Network Ports, Protocols and Services
• Data Recovery Capabilities including Back Up and Restore	• Secure Configuration of Network Devices
• Boundary Defences are documented and understood	• Management controls for data in transit
• Management of Wireless Access Controls	• User Access Monitoring and Control
• Security Awareness and Training	• Development of Application Software and Security
• Incident Response and Management Procedures	• Programme of Penetration Testing.

## Completed Assignments:

Summary of work completed with a focus on the high priority issues that we believe should be brought to the attention of the Audit Committee.

- Limited or No Assurance Opinions
- Follow-ups

## Summary of Work Completed Continued

No detailed testing on these controls was undertaken as part of this review however a high-level opinion on risk is stated for each control. The audit identified three controls where immediate attention is required and recommendations have been raised for these. Further details will be provided outside of the public meeting for security reasons.



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



## SWAP Performance

SWAP now provides the Internal Audit service for 24 public sector bodies. SWAP performance is subject to regular monitoring review by both the Board and the Member Meetings. The respective outturn performance results for South Somerset District Council for the 2020/21 (as of 15 March 2021) were as follows:

Performance Target	Target Year End	Average Performance
<p><b><u>Audit Plan – Percentage Progress</u></b>                      Final, Draft and Discussion                      In progress                      Yet to complete</p>	>90%	60% 29% 11%
<p><b><u>Quality of Audit Work</u></b>                      Customer Satisfaction Questionnaire</p>	>95%	100%
<p><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></p>	>95%	100%

We keep our audit plans under regular review so as to ensure that we are auditing the right things at the right time. Due to Covid-19 the plan priority areas will be agreed on a quarter-by-quarter basis.



## Approved Changes to the Plan

The audit plan for 2020/21 is detailed in **Appendix B**. Due to the impact of Covid-19 and the requests for some additional work to be added to the plan during the year we have had to remove some audits from the annual plan. The Plan has remained flexible throughout the year and targeted short-term priorities as agreed with SLT on a quarterly basis. As we are now into the final quarter of the year we have had to identify the work we will have to drop to compensate for the additional work undertaken. The following changes have been made to the 2020/21 Audit Plan since the last report:

### Reviews removed:

- Yeovil Innovation Centre (YIC) Phase 2
- Council Tax & NNDR (Q4) - Report due from Management to March Audit Committee to provide Assurance update in this area (in 2021-22 Audit Plan).
- Housing Benefits (Q4) - Report due from Management to March Audit Committee to provide Assurance update in this area (in 2021-22 Audit Plan).
- Procurement – Leisure Contract (Q4) - now earmarked for Q1 of 2021-22 Plan.

### Additional Reviews

**NEW:** Local restriction Grants (LRG) Support (Q3) – To help with the effort to ensure the various LRG were paid as quick as possible we provided resources to help with processing applications.

**NEW:** Covid-19 Grant Processing Support (Q4) – Due to the new lockdown announced for January we have been asked to provide support on processing grant applications as we did in quarter 3.

**NEW:** Grant Support – Bank detail checks (Q4) – Support checking bank details on LRG

We keep our audit plans under regular review so as to ensure that we are auditing the right things at the right time. Due to Covid-19 the plan priority areas will be agreed on a quarter-by-quarter basis.



### Approved Changes to the Plan

**NEW:** Business Grants - Post Assurance Review (Q4) – Support producing the post assurance plan that had to be return to Government on the first lockdown grants and to undertake the assurance testing required to be done in the plan.

**NEW:** Council Baseline Assessment of maturity for Fraud (Q4) – A high level assessment of fraud maturity will be provided across 6 key theme areas. A useful overview for Senior Management and the Audit Committee on managing the Fraud Risk in the Authority.

**NEW:** Fraud Risk Assessment (Q4) – Service level live risk management tool that will look at fraud risks across services. This will inform future counter fraud work in the Internal Audit Plan.

**NEW:** Fraud Risk – Impact of Covid-19 (Q4) – Based on the Northern Ireland National Audit Guide this review will look across the key areas to confirm controls have been operating effectively to minimise the risk of fraud. Areas include: governance, Covid-19 funding; Procurement; Cyber & Data Security; Payroll; Staff.

**NEW:** Compliance & Enforcement Grant (Q4) – Although this is a low value grant there is a requirement it is signed off by the Head of Internal Audit by the 31 March to confirm it has been spent in accordance with the Term and Conditions.

Assurance Definitions

<b>No</b>	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control are inadequate to effectively manage risks to 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>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>Substantial</b>	A sound system of governance, risk management and control exist, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
<b>Non-Opinion/Advisory</b>	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.

Definition of Corporate Risks

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

Categorisation of Recommendations

In addition to the corporate risk assessment it is important that management know how important the recommendation is to their service. Each recommendation has been given a priority rating at service level with the following definitions:

<b>Priority 1</b>	Findings that are fundamental to the integrity of the service’s business processes and require the immediate attention of management.
<b>Priority 2</b>	Important findings that need to be resolved by management.
<b>Priority 3</b>	Finding that requires attention.

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Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 - Major 3 - Minor			Comments
						1	2	3	
<b>FINAL</b>									
Fraud, Corruption and Governance	Boden Mill & Chard Regeneration Scheme Accounts Review	Q1	Final	Advisory	0	0	0	0	
Fraud, Corruption and Governance	<b>New:</b> Growth Deal Capital Expenditure Certification	Q1	Final	Advisory	0	0	0	0	
Fraud, Corruption and Governance	Yeovil Cemetery & Crematorium Annual Accounts Controls Assurance	Q1	Final	Advisory	0	0	0	0	
Covid-19 Support	<b>New:</b> Covid-19 Support/Advice	Q1	Final	Advisory	0	0	0	0	
Governance Fraud & Corruption	Project Governance - Regeneration Projects	Q1	Final	Limited	5	0	3	2	
Follow Up	Combined Follow up	Q1	Final	Advisory	0	0	0	0	
Covid-19 Support	<b>NEW:</b> Grant Funding Schemes Assurance for Local Authorities (Risk Assessment)	Q1	Final	Advisory	0	0	0	0	
Governance Fraud & Corruption	<b>NEW:</b> Health & Wellbeing	Q2	Final	Reasonable	2	0	0	2	
Operational	Homelessness	Q2	Final	Limited	5	0	3	2	

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Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 - Major 3 - Minor			Comments
						1	2	3	
ICT	Cyber Security Framework Review	Q3	Final	Advisory	20 key Control areas reviewed. Reported separately to Audit Committee.				
Covid-19 Support	<b>NEW:</b> Local restriction Grant Support	Q3	Final	Advisory	0	0	0	0	Support work
Governance Fraud & Corruption	<b>NEW:</b> Covid-19 Grant Processing Support	Q4	Final	Advisory	0	0	0	0	Support work
Covid-19 Support	<b>NEW:</b> Grant Support – Bank detail checks	Q4	Final	Advisory	0	0	0	0	Support work
<b>DRAFT</b>									
Transformation	Transformation closedown	Q2	Draft						
Key Control	Budget Planning and Monitoring	Q3	Draft						
Governance Fraud & Corruption	Income Generation Service Improvements	Q3	Draft						
Governance Fraud & Corruption	<b>NEW:</b> Council Baseline Assessment of maturity for Fraud	Q4	Review						
<b>IN PROGRESS</b>									
Governance Fraud & Corruption	Commercial Investments	Q3	In progress						
ICT	ICT Governance and Risk Scope Review	Q3	In Progress						

Audit Type	Audit Area	Quarter	Status	Opinion	No of Rec	1 - Major 3 - Minor			Comments
						1	2	3	
Key Control	Creditors	Q4	In Progress						
Covid-19 Support	<b>NEW:</b> Business Grants - Post Assurance Review	Q4	In Progress						
Governance Fraud & Corruption	Ethical Governance	Q4	In Progress						
Governance Fraud & Corruption	Risk Management	Q4	In Progress						
Follow Up	Information Governance GDPR Follow Up	Q4	In Progress						
Operational	S106 & CIL	Q4	In Progress						
<b>NOT STARTED</b>									
Governance Fraud & Corruption	<b>NEW:</b> Fraud Risk Assessment	Q4	Not Started						Follows on from Baseline Assessment Report.
Governance Fraud & Corruption	<b>NEW:</b> Fraud Risk – Impact of Covid-19	Q4	Not Started						
Governance Fraud & Corruption	<b>NEW:</b> Compliance & Enforcement Grant	Q4	Not Started						
<b>Deferred or Removed</b>									
Transformation	Civica Digital Systems Review	Q2				Combined with Transformation Close down			

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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	Somerset Districts Cooperation/collaboration FOLGIS	Q4							<b>NEW:</b> Covid-19 Support/Advice <b>NEW:</b> Grant Funding Schemes Assurance for Local Authorities (Risk Assessment)
Governance Fraud & Corruption	Climate Change	Q4							
ICT	Digital Strategy & Transformation	Q3							Pushed back due ICT audits bottleneck. Replaced by Health & Wellbeing
Governance Fraud & Corruption	Yeovil Innovation Centre (YIC) Phase 2	Q4							<b>NEW:</b> Local restriction Grant Support Q3 <b>NEW:</b> Grant Support – Bank detail checks Q4 <b>NEW:</b> Council Baseline Assessment of maturity for Fraud <b>NEW:</b> Fraud Risk Assessment <b>NEW:</b> Fraud Risk – Impact of Covid-19 <b>NEW:</b> Covid-19 Grant Processing Support Q4 <b>NEW:</b> Compliance & Enforcement Grant
Key Control	Council Tax & NNDR	Q4							
Key Control	Housing Benefits	Q4							
Governance Fraud & Corruption	Procurement – Leisure Contract	Q4							

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## **Internal Audit Plan and Charter 2021-22**

Head of Service: Dave Hill, Chief Executive - SWAP  
Lead Officer: Alastair Woodland - Assistant Director  
Contact Details: Alastair.Woodland@swapaudit.co.uk

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## **Purpose of the Report**

This report introduces the Internal Audit Plan for 2021/22 and also incorporates the 'Internal Audit Charter' which sets out the operational relationship between SSDC and the South West Audit Partnership (SWAP).

The Assistant Director for SWAP, together with consultation with the Senior Leadership Team and Audit Chairman, has produced an Audit Plan for 2021/22 that requires the approval of the Audit Committee.

## **Recommendations**

1. That the Audit Committee approve the Internal Audit Plan for 2021/22 (Appendix 1)
2. The Audit Committee approve the Internal Audit Charter (Appendix 2)

## **Background**

It is a requirement that the Audit Committee approve the annual Internal Audit Plan and Audit Charter. Failure to gain independent assurance over the internal control arrangements of the Council's activities, using a risk-based methodology, impacts negatively (i.e. financial, reputational, operational) on the Council.

The Audit Plan will be reviewed on a quarterly basis throughout the year to ensure the forthcoming quarter is still relevant.

## **Financial Implications**

There are no financial implications associated with these recommendations.

## **Background Papers**

- None.
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# South Somerset District Council

## Proposed 2021-22 Internal Audit Plan and Internal Audit Charter

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# The Internal Audit Plan: Summary

The internal audit plan represents a summary of the proposed audit coverage that the internal audit team will deliver throughout the 2021/22 financial year.

Delivery of an internal audit programme of work that provides sufficient and appropriate coverage, will enable us to provide a well-informed and comprehensive year-end annual internal audit opinion.



## Introduction and Objective of the Internal Audit Plan

Internal audit provides an independent and objective opinion on the Authority's risk management, governance, and control environment by evaluating its effectiveness.

Prior to the start of each financial year, SWAP, in conjunction with senior management, put together a proposed plan of audit work. The objective of our planning process and subsequent plan is to put us in a position to provide a well-informed and comprehensive annual audit opinion, based on sufficient and appropriate coverage of key business objectives, associated risks, and risk management processes.

The outcomes of each of the audits in our planned programme of work, will provide senior management and Members with assurance that the current risks faced by the Authority in these areas are adequately controlled and managed.

It should be noted that internal audit is only one source of assurance, and the outcomes of internal audit reviews should be considered alongside other sources, as part of the 'three lines of defence' assurance model. Key findings from our internal audit work should also be considered in conjunction with completion of the Authority's Annual Governance Statement (AGS).

It is the responsibility of the Authority's Senior Management Team and the Audit Committee, to confirm that the audit coverage contained within the proposed audit plan is sufficient and appropriate in providing independent assurance against the key risks faced by the organisation.

When reviewing the proposed internal audit plan (as set out in Appendix 1), key questions to consider include:

- Are the areas selected for coverage this coming year appropriate?
- Does the internal audit plan cover the organisation's key risks as they are recognised by the Senior Management Team and Audit Committee?
- Is sufficient assurance being received within our annual plan to monitor the organisation's risk profile effectively?

# The Internal Audit Plan: Approach

To develop an appropriate risk-based audit plan, SWAP have consulted with senior management, as well as reviewing key documentation, in order to obtain an understanding of the organisation's strategies, key business objectives, associated risks, and risk management processes.



## Approach to Internal Audit Planning 2021/22

The factors considered in putting together the 2021/22 internal audit plan have been set out below:



Due to the pace of change within Local Authorities, it is becoming increasingly difficult to accurately predict longer-term key organisational risks. Our approach to delivering your internal audit plan will remain flexible to meet that change and respond to new and emerging risks. We will adopt an 'agile' approach and each quarter I will review the next quarter's plan to ensure that we are auditing the right areas at the right time; any necessary changes will of course be agreed with Senior Management and the Audit Committee.

# The Internal Audit Plan: Risk Assessment

A documented risk assessment prior to developing an internal audit plan, ensures that sufficient and appropriate areas are identified for consideration.

As above, it is the responsibility of the Authority's Leadership Team, and the Audit Committee to ensure that, following our risk assessment, the proposed plan contains sufficient and appropriate coverage.



## Internal Audit Annual Risk Assessment

Our 2021/22 internal audit programme of work is based on a documented risk assessment, which SWAP will revisit regularly, but at least annually. The input of senior management as well as review of the Authority's risk register will be considered in this process.

Below we have set out a summary of the outcomes of the risk assessment for South Somerset District Council:



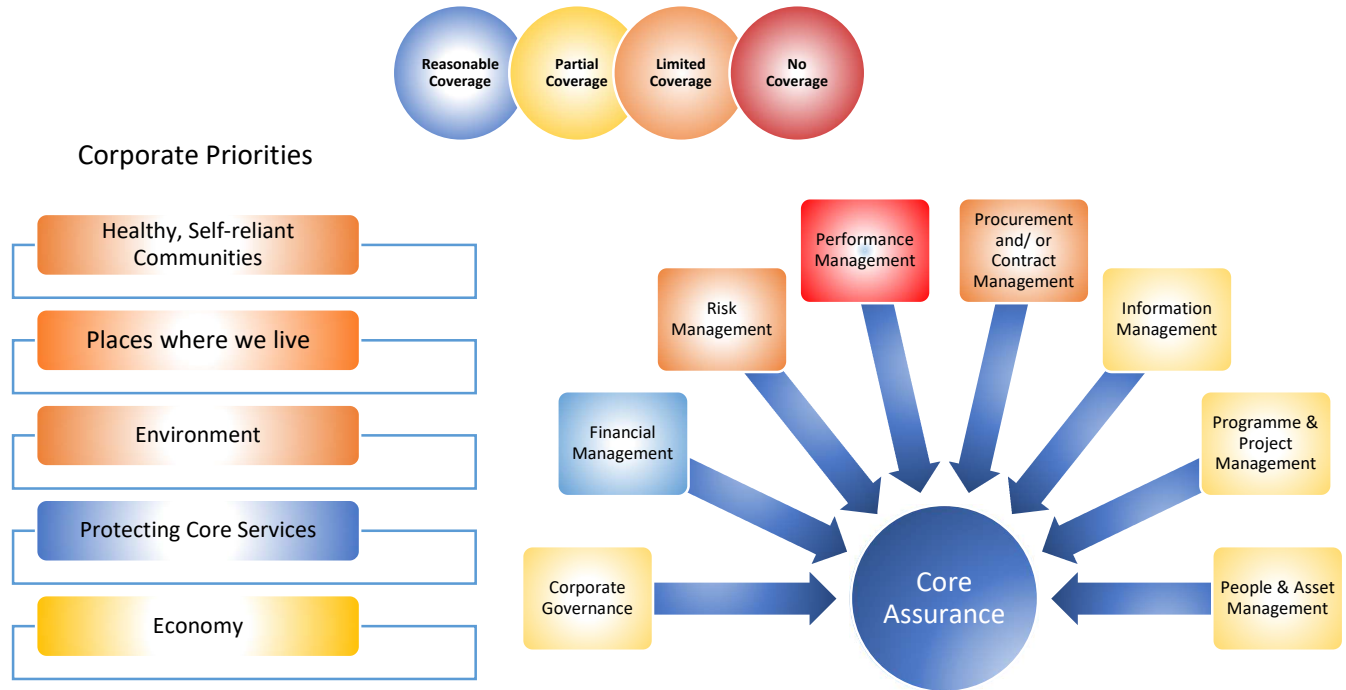
# The Internal Audit Plan: Coverage

Following our SWAP Risk Assessment above, we have set out how the proposed 21/22 plan presented in Appendix 1 provides coverage of the Authority's key corporate outcomes, as well as our core areas of recommended coverage.

Internal audit is only one source of assurance; therefore, where we have highlighted gaps in our coverage, assurance should be sought from other sources where possible in order to ensure sufficient and appropriate assurances are received.

## Internal Audit Coverage in 2021/22

Following our SWAP risk assessment, we have set out below the extent to which the proposed plan presented in Appendix 1 provides coverage of the Authority's key corporate objectives, as well as our core areas of recommended coverage. Where we have highlighted limited or no coverage, Senior Management and Audit Committee should seek and document assurance from alternative sources, or consider re-focussing internal audit resource to provide coverage of these areas:



*Internal audit coverage can never be absolute and responsibility for risk management, governance and internal control arrangements will always remain fully with management. As such, internal audit cannot provide complete assurance over any area, and equally cannot provide any guarantee against material errors, loss or fraud.*

# The Internal Audit Plan: SWAP

SWAP Internal Audit Services is a public sector, not-for-profit partnership, owned by the public sector partners that it serves. The SWAP Partnership now includes 25 public sector partners, crossing eight Counties, but also providing services throughout the UK.

As a company, SWAP has adopted the following values, which we ask our clients to assess us against following every piece of work that we do:

- Candid
- Relevant
- Inclusive
- Innovative
- Dedicated



## Your Internal Audit Service

### **Audit Resources**

The 2021/22 internal audit programme of work will be equivalent to 334 days. The current internal audit resources available represent a sufficient and appropriate mix of seniority and skill to be effectively deployed to deliver the planned work. The key contacts in respect of your internal audit service for South Somerset District Council are:

Alastair Woodland, Assistant Director – [alastair.woodland@swapaudit.co.uk](mailto:alastair.woodland@swapaudit.co.uk), or 07720312467

Adam Williams, Principal Auditor – [adam.williams@swapaudit.co.uk](mailto:adam.williams@swapaudit.co.uk)

Adele Mitchell, Senior Auditor – [adele.mitchell@swapaudit.co.uk](mailto:adele.mitchell@swapaudit.co.uk)

### **Conformance with Public Sector Internal Audit Standards**

SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note.

Every three years, SWAP is subject to an External Quality Assessment of Internal Audit Activity. The last of these was carried out in February 2020 which confirmed conformance with the Public Sector Internal Audit Standards.

### **Conflicts of Interest**

We are not aware of any conflicts of interest within South Somerset District Council that would present an impairment to our independence or objectivity. Furthermore, we are satisfied that we will conform with our IIA Code of Ethics in relation to Integrity, Objectivity, Confidentiality, & Competency.

### **Consultancy Engagements**

As part of our internal audit service, we may accept proposed consultancy engagements, based on the engagement's potential to improve management of risk, add value and improve the organisation's operations. Consultancy work that is accepted, will contribute to our annual opinion and will be included in our plan of work.

### **Approach to Fraud**

Internal audit may assess the adequacy of the arrangements to prevent and detect irregularities, fraud and corruption. We have a dedicated counter fraud resource available to undertake specific investigations if required. However, the primary responsibility for preventing and detecting corruption, fraud and irregularities rests with

# The Internal Audit Plan: SWAP

Over and above our internal audit service delivery, SWAP will look to add value throughout the year wherever possible. This will include:

- **Benchmarking and sharing of best practice between our public sector Partners.**
- **Regular newsletters and bulletins containing emerging issues and risks.**
- **Communication of fraud alerts received both regionally and nationally.**
- **Annual Member training sessions.**

management who should institute adequate systems of internal control, including clear objectives, segregation of duties and proper authorisation procedures.

### **Our Reporting**

A summary of internal audit activity will be reported quarterly to senior management and the Audit Committee. This reporting will include any significant risk and control issues (including fraud risks), governance issues and other matters that require the attention of senior management and/or the Audit Committee. We will also report any response from management to a risk we have highlighted that, in our view, may be unacceptable to the organisation.

### **Internal Audit Performance:**

As part of our regular reporting to senior management and the Audit Committee, we will report on internal audit performance. The following performance targets will be used to measure the performance of our audit activity:

<b>Performance Measure</b>	<b>Performance Target</b>
<b><u>Delivery of Annual Internal Audit Plan</u></b> Completed at year end	>90%
<b><u>Quality of Audit Work</u></b> Overall Client Satisfaction <i>(did our audit work meet or exceed expectations, when looking at our Communication, Auditor Professionalism and Competence, and Value to the Organisation)</i>	>95%
<b><u>Outcomes from Audit Work</u></b> Value to the Organisation <i>(client did our audit work meet or exceed expectations, when looking at our Communication, Auditor Professionalism and Competence, and Value to the Organisation view of whether our audit work met or exceeded expectations, in terms of value to their area)</i>	>95%



It should be noted that the audit titles and high-level scopes included below are only indicative at this stage for planning our resources. At the start of each audit, an initial discussion will be held to agree the specific terms of reference for the piece of work, which includes the objective and scope for the review.

The following plan for quarter 1 has been agreed for delivery (Apr – June 2021).

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Audit Name	Areas of Coverage and Brief scope	Agreed Quarter	Link to Corporate Outcome	Healthy Organisation Theme	Link to Corporate Risk Register/Directorate Risk Register (If applicable)
Boden Mill & Chard Regeneration Scheme Accounts	Annual Audit to check statement of accounts for this scheme have been accurately produced against the budget monitor spreadsheet.	1	Economy	Financial Management	Programme budget overspends/higher than anticipated costs
Restart Grants	Support to check through the bank details	1	N/A	N/A	N/A
Yeovil Cemetery & Crematorium Annual Accounts	Annual Audit to check the accounts for the Cemetery & Crematorium.	1	Protecting Core Services	Financial Management	F02 F03
Procurement - Leisure Contract	This audit was deferred from 2020-21. Agreed this would be undertaken in quarter 1 of 2021-22.	1	Protecting core Services/Healthy, Self-reliant Communities	Commissioning & Procurement	F08/GL05
Complaint Procedures	This is an important area to learn from the information provided. New guidance has been issued around complaint handling. A review in this area would seek to review and evaluate the adequacy and effectiveness of systems established by management.	1	Protecting Core Services	Corporate Governance	GL05/GL06/SC02
Covid-19 Grants - Post Payment Assurance	This is time to undertake post payment assurance work around the new grants paid from November and wider utilisation of the grant money.	1	Protecting Core Services /Economy	Financial Management	F05

Audit Name	Areas of Coverage and Brief scope	Agreed Quarter	Link to Corporate Outcome	Healthy Organisation Theme	Link to Corporate Risk Register/Directorate Risk Register (If applicable)
Covid-19 Discretionary Grants	Assurance has been requested on the consistency of approvals for discretionary grants. This may extend to test and trace discretionary grants as well.	1	Economy	Financial Management	F05
Project Governance Regeneration Projects Follow Up	Partial Assurance awarded follow up to see progress made on recommendations raised	1	Economy Priority Projects	Programme & Project Management	PP01/PP02

The following outlines the areas that are under consideration for quarter 2, 3 and 4 of the 2021-22 Audit Plan. Exact audits for priority will be agreed prior to commencement of each quarter.

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Audit Name	Areas of Coverage and Brief Rationale	Indicative Quarter	Link to Corporate Outcome	Healthy Organisation Theme	Link to Corporate Risk Register/Directorate Risk Register (If applicable)
Planning policy Change - Phosphate	Natural England have issued advice that somerset needs to protect the Levels and Moors from further phosphate pollution, and new planning applications need to undertake a Habitats Regulation Assessment. Audit to assess impact of policy change and how the Council has adapted to manage the new requirements.	2	Protecting Core Services/Places where we Live/Environment	Corporate Governance	ST03GL01
Chard Regeneration Project	SSDC have been awarded £1 million of Government high street funding through Historic England's High Street Heritage Action Zone programme and this has been match-funded by SSDC, giving a total of £2 million to spend in the historic heart of Chard. Assurance work to be undertaken to look at delivery of this project and achievement of intended outcomes.	2	Economy	Programme & Project Management	PP01/PP02

Audit Name	Areas of Coverage and Brief Rationale	Indicative Quarter	Link to Corporate Outcome	Healthy Organisation Theme	Link to Corporate Risk Register/Directorate Risk Register (If applicable)
Covid-19 - External Recovery plan	Recovery from the Covid-19 Pandemic looking at the social and economic impacts and how the districts are working to improve the situation for the hardest hit in the community.	2	Economy	Programme & Project Management	SC03
Cyber Security - Focused Review	Scope based on the outcome of the Cyber review in 2020-21	2	Protecting Core Services	Information Management	GL03
Covid-19 - Financial Impacts and Lessons learned	A review to consider the impact on finances and what this means for the longer term looking forward. This review will also look back for lessons learned. To start in September.	2	Protecting Core Services	Financial Management	ST01/F01
Homelessness Follow Up	Partial Assurance awarded follow up to see progress made on recommendations raised.	2	Protecting Core Services	Corporate Governance	GL06
Decarbonisation Grant	Grant received of £4m and need to spend this within 12 months on improving the environmental credentials of operational council owned buildings. Review on spending plan to achieve desired outcomes from the £4m.	3	Environment	Programme & Project Management	F03
Council Tax & NNDR	Audit completed in 2019/20 was awarded partial assurance. Work in 2020-21 deferred due to Covid-19.	3	Protecting Core Services	Financial Management	F02/F03/F04/F05
Debtors	Rolling cycle of key control. This will be an important area moving forward with pressure on businesses and household finances and the knock-on impact on collection of debt.	3	Protecting Core Services	Financial Management	F02/F03/F04/F05
Housing Benefit	Audit completed in 2019/20 was awarded partial assurance. Work in 2020-21 deferred due to Covid-19.	3	Protecting Core Services	Financial Management	F02/F03/F04/F05
Health & Safety Framework	A H&S audit was carried out by Zurich in 2020-21 and actions identified. Audit will look at H&S provision and progress against the targets received	3	Protecting Core Services	People Management / Risk Management	HS01/HS02/HS03/HS05/HS06
Opium arrangements	Audit committee have requested some assurance work around this area.	3	Protecting Core Services	Financial Management	PP02/F08/F06

Audit Name	Areas of Coverage and Brief Rationale	Indicative Quarter	Link to Corporate Outcome	Healthy Organisation Theme	Link to Corporate Risk Register/Directorate Risk Register (If applicable)
Governance/Digital Review	Scope based on the outcome of the ICT Governance Review 2020-21.	4	Protecting Core Services	Information Management	GL03
Commercial investments	Audit assurance work on the investment strategy taking into account recent impact that could affect the portfolio.	4	Protecting Core Services	Financial Management	F06
<b>Planning, Advice and Support</b>					
Time in the plan for Committee attendance & reporting, planning & liaison, Produce Assurance Map, Follow up contingency, advice time and training & development.		All	N/A	N/A	N/A

## The Internal Audit Charter

### Purpose

The purpose of this Charter is to set out the nature, role, responsibility, status and authority of internal auditing within South Somerset District Council, and to outline the scope of internal audit work.

### Approval

This Charter was approved by the Audit Committee on 27<sup>th</sup> April 2017 and is reviewed each year to confirm it remains accurate and up to date. It was last reviewed by the Audit Committee on 25<sup>th</sup> March 2021\*.

### Provision of Internal Audit Services

The internal audit service is provided by the SWAP Internal Audit Services (SWAP). This charter should be read in conjunction with the Service Agreement, which forms part of the legal agreement between the SWAP partners.

The budget for the provision of the internal audit service is determined by the Council, in conjunction with the Members Meeting. The general financial provisions are laid down in the legal agreement, including the level of financial contribution by the Council, and may only be amended by unanimous agreement of the Members Meeting. The budget is based on an audit needs assessment which is reviewed each year by the S151 Officer in consultation with the Chief Executive of SWAP.

### Role of Internal Audit

The Accounts and Audit (England) Regulations 2015, state that: *“A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the public sector internal auditing standards or guidance.”*

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the Council’s operations. It helps the Council accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

### Responsibilities of Management, Audit Committee and of Internal Audit

#### Management<sup>1</sup>

Management is responsible for ensuring SWAP has:

- the support of management and the Council;
- direct access and freedom to report to senior management, including the Council’s Chief Executive and the Audit Committee; and
- Notification of suspected or detected fraud, corruption or impropriety.

Management is responsible for establishing (including the tracking and implementation of Internal Audit recommendations) and maintaining internal controls, including proper accounting records and other management information and is also responsible for the appropriate and effective management of risk.

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<sup>1</sup> In this instance Management refers to the Senior Management Team and Statutory Officers.

### **Audit Committee<sup>2</sup>**

The Audit Committee is responsible for approving the scope of internal audit work, receiving communications from the SWAP Assistant Director (as Head of Internal Audit<sup>3</sup>) on the progress of work undertaken, reviewing the independence, objectivity, performance, professionalism and effectiveness of the Internal Audit function, and obtaining reassurance from the SWAP Assistant Director as to whether there are any limitations on scope or resources.

### **Internal Audit**

The SWAP Assistant Director is responsible for determining the scope, except where specified by statute, of internal audit work and for recommending the action to be taken on the outcome of, or findings from, their work designed to provide assurance and add value.

Internal audit is responsible for operating under the policies established by management in line with best practice. A range of SWAP policies exist to underpin staff and service development, including to seek out and implement new innovative audit techniques and increase technological solutions to ensure provision of an efficient and effective service and consolidate the role of Trusted Advisor.

Internal audit is responsible for conducting its work in accordance with the mandatory elements of the Code of Ethics and Standards for the Professional Practice of Internal Auditing as set by the Institute of Internal Auditors and further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note. SWAP has been independently assessed and found to conform with the Standards.

Internal audit is not responsible for any of the activities which it audits. SWAP staff will not assume responsibility for the design, installation, operation or control of any procedures. SWAP staff who have previously worked for the organisation will not be asked to review any aspects of their previous department's work until a minimum of one year has elapsed.

### **Relationship with the External Auditors/Other Regulatory Bodies**

Internal Audit will co-ordinate its work with others wherever this is beneficial to the organisation.

### **Status of Internal Audit in the Organisation**

The Chief Executive of SWAP is responsible to the SWAP Board of Directors and the Members Meeting. Appointment or removal of the Chief Executive of SWAP is the sole responsibility of the Members Meeting.

The Chief Executive for SWAP and Assistant Director also report to the Section 151 Officer, and report to the Audit Committee as set out below.

The Assistant Director will be the first and primary point of contact for South Somerset District Council for all matters relating to the Audit Committee, including the provision of periodic reports, as per company policy. The Assistant Director is also responsible for the design, development and delivery of audit plans, subject to the agreement of the Council.

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<sup>2</sup> In this instance Audit relates to "The Board" referred to in the PSIAS

<sup>3</sup> PSIAS refers to the 'chief audit executive'.

### Scope and authority of Internal Audit work

There are no restrictions placed upon the scope of internal audit's work. SWAP staff engaged on internal audit work are entitled to receive and have access to whatever information or explanations they consider necessary to fulfil their responsibilities to senior management. In this regard, internal audit may have access to any records, personnel or physical property of South Somerset District Council.

Internal audit work will normally include, but is not restricted to:

- reviewing the reliability and integrity of financial and operating information used for operational and strategic decision making, and the means used to identify, measure, classify and report such information;
- evaluating and appraising the risks associated with areas under review and make proposals for improving the management and communication of risks;
- appraise the effectiveness and reliability of the enterprise risk management framework and recommend improvements where necessary;
- assist management and Members to identify risks and controls with regard to the objectives of the organisation and its services;
- reviewing the systems established by management to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports, and determining whether the organisation is in compliance;
- reviewing the means of safeguarding assets and, as appropriate, verifying the existence of assets;
- appraising the economy, efficiency and effectiveness with which resources are employed;
- reviewing operations or programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned, with performance and accountabilities established.
- reviewing the operations of the organisation in support of their anti-fraud and corruption policy, ethical expectations and corporate values (and investigating where necessary) ethical expectations and corporate, social and environmental values and responsibilities; and.
- at the specific request of management, internal audit may provide consultancy services (including e.g. data analytics, benchmarking, strategic/project reviews/investigations etc) provided:
  - the internal auditor's independence is not compromised
  - the internal audit service has the necessary skills to conduct the assignment, or can obtain such skills without undue cost or delay
  - the scope of the consultancy assignment is clearly defined and management can resource the work.

Management understand that the work being undertaken is not internal audit work although the outcomes may contribute to the annual opinion.

### Planning and Reporting

SWAP will submit an internal audit plan to Management and the Audit Committee for approval, setting out the recommended scope of work and which will be developed with reference to current and emerging risks. The plan will be reviewed on a quarterly basis to ensure it remains relevant and adequately resourced.

SWAP will carry out the work as agreed, report the outcomes and findings both during and on completion of reviews, and make recommendations on action to be taken to the appropriate officers and copied to the S151 Officer. SWAP will present a regular summary of their work to Management and the Audit Committee, including assessing the organisation's implementation of previous recommendations along with any significant, persistent and outstanding issues.

Internal audit reporting will normally comprise a brief presentation to relevant officers and accompanied by an appropriately detailed written report, with the format tailored as necessary to the nature of the work. The detailed report will also be copied to the Section 151 Officer and to other relevant line management.

The Assistant Director will submit an annual report to the Audit Committee providing an overall opinion of the status of risk and internal control within the Council, based upon, and limited to, internal audit activity conducted during the previous year.

In addition to the reporting lines outlined above, the Chief Executive of SWAP and SWAP Directors and Assistant Directors have the unreserved right to report directly to the Leader of the Council, the Chairman of the Audit Committee, the organisation's Chief Executive Officer or the External Audit Manager.

Revised March 2021.





## Internal Audit Revenues Progress Update

Strategic Director: Kirsty Larkins, Director Service Delivery  
Service Managers: Peter Paddon, Lead Specialist Economy  
Marie Collins, Customer Connect Manager  
Lead Officer: Karen Case, Specialist,  
Contact Details: [karen.case@southsomerset.gov.uk](mailto:karen.case@southsomerset.gov.uk)

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## Purpose of the Report

To update Audit Committee Members on the progress made following the internal audit of Council Tax & National Non Domestic Rates (NNDR) in 2019/20.

## Public Interest

South West Audit Partnership (SWAP) undertook an audit of South Somerset District Council's Council Tax and National Non Domestic Rates (NNDR otherwise known as Business Rates), which was reported in June 2020. Eight improvement recommendations were made by SWAP and this report summarises the progress made to date.

## Recommendations

Members are asked to note the progress made in the delivery of the recommendations of the SWAP Council Tax & NNDR Audit Report 2019/20.

## Background

The internal audit review of Council Tax and NNDR, identified eight improvement recommendations. Of these eight, four recommendations were given a priority score of two, meaning 'important findings that need to be resolved by management', and the remaining four recommendations were given a priority scoring of three, meaning 'the accuracy of records is at risk and requires attention'. This resulted in an overall audit opinion of partial assurance:

*"We are 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."*

## Progress to Date

Two of the priority two recommendations have been completed and the other two are still work in progress.

Similarly, two of the priority three recommendations have been completed, with the other two progressing as work in progress.

The four recommendations that are currently work in progress have been delayed by the Covid 19 pandemic and plans are in place to complete these actions within the next six months.

The Team has a detailed work plan in place, for all activities, which includes addressing these outstanding recommendations from the audit.

## Summary

Good progress has been made (particularly when considered in the context of the additional challenges resulting from Covid 19), with four SWAP audit recommendations completed and four with work in progress.

The team has focused on supporting local businesses, having dealt with 13 different grant types, plus two financial support schemes and is now also focusing on annual billing and the new Re-start grant to launch this April.

The outstanding and suspended actions are all contained in the Council Tax & NNDR work-plan and will be monitored and progressed as appropriate within the Covid 19 context, so timescales and actions will be reviewed.

For wider context, during the Covid 19 pandemic the Council Tax and Business Rates team have been supporting local businesses and communities including:

- Providing £57.5m of Government Covid 19 grant funding to approximately 4,500 unique businesses across 13 different grant schemes.
- Administering £21.5m of 100% retail rate relief awards to over 2,000 businesses
- Rebilling council tax support recipients with an additional £150 top up payment totalling £1.037m to 7476 individual households.



## **Financial Implications**

There are no financial implications with this report.

## **Council Plan Implications**

This accords to the current Council Plan, Annual Action Plan for 2020/21, Protecting Core Services priority theme of ensuring a modern, efficient and effective Council that delivers for its communities.

We will deliver a high quality, effective and timely service to our customers and communities.

## **Carbon Emissions and Climate Change Implications**

None.

## **Equality and Diversity Implications**

None.

## **Background Papers**

None.

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## Health & Safety Update

Director: Nicola Hix, Director Support Services & Strategy  
Lead Specialist: Peter Paddon, Lead Specialist – Strategic Planning  
Contact Details: peterpaddon@southsomerset.gov.uk

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## Purpose of the Report

To update Audit Committee on the strategic Health and Safety situation.

## Public Interest

This report provides an update to the Audit Committee on Health and Safety at South Somerset District Council, focusing on monitoring and the results of an external maturity assessment.

## Recommendations

That the Committee note the current update on health and safety as detailed in this report.

## Background

The Council has a One Team approach to health and safety, with both a Steering Group and a Working Group. The Steering Group leads on governance and sets the strategy, whereas the Working Group is responsible for the operational level of health and safety. Under normal circumstances, both Groups normally meet at least quarterly, however this past year this was disrupted by Covid-19. Both Groups are now back to meeting regularly again (roughly every 6 weeks) to focus on health and safety.

## Health & Safety Monitoring

The table and chart below show the number of reported accidents and incidents over a 5-year period. The numbers show an overall drop against 2019 data, however the COVID19 situation is likely to have had some impact on this, with most staff working from home.

One area that is concerning is the increase in violence to staff. While it has only gone up by one over the past year, it has increased from 8 to 23 over the past two years. Initial investigation suggests this is largely down to the fact of more staff reporting incidents than previously, particularly verbal abuse in person and over the phone.

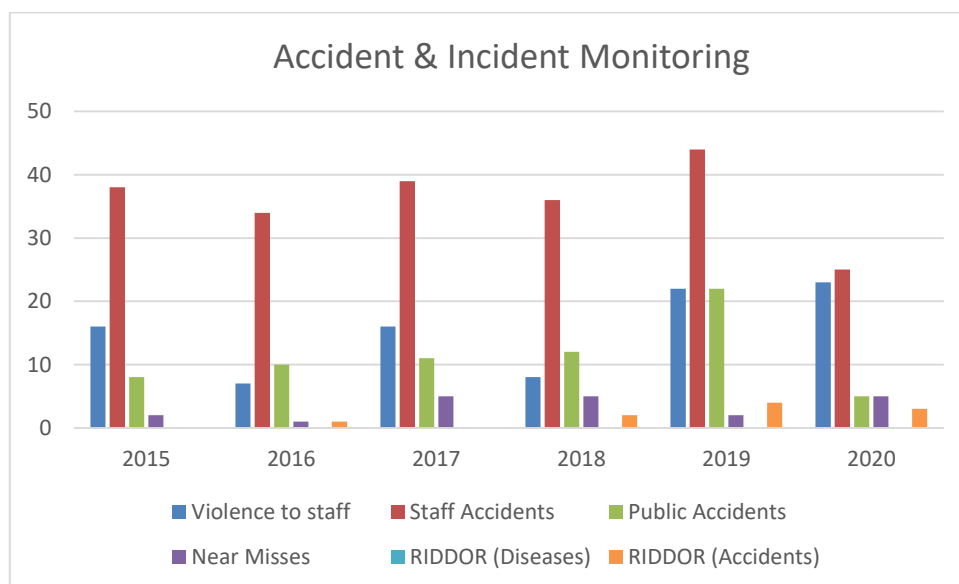
The number of near misses and RIDDOR reportable were also similar to previous years and more investigation and analysis is required.

The Working Group is revising the current incident (accident) form to include further information about follow up actions and investigations so that this will further help to identify trends and areas in need of improvement within teams to stop similar accidents reoccurring.

### Health & Safety Data

**Table & Graph 1 - Summary Table and Graph from 2015 to 2020 (Jan-Dec)**

	2015	2016	2017	2018	2019	<b>2020</b>
Violence to staff	16	7	16	8	22	<b>23</b>
Staff Accidents	38	34	39	36	44	<b>25</b>
Public Accidents	8	10	11	12	22	<b>5</b>
Near Misses	2	1	5	5	2	<b>5</b>
RIDDOR (Diseases)	0	0	0	0	0	<b>0</b>
RIDDOR (Accidents)	0	1	0	2	4	<b>3</b>



**Table 2 – Reported incidents in 2020**

Near misses	5
Accidents involving staff (For break down see next table)	25
Accidents involving the public	5
Incidents Involving Violence to Staff	23
RIDDOR	3
<b>Total</b>	<b>61</b>

**Table 3 – Analysis of Accidents involving staff**

Service Group/Team	No.	Outline
Octagon & Westlands	2	1 x injury to hand 1 x minor burn
Countryside	5	2 x cut 1x twisted ankle 1x burn 1x impact
Environment Services	16	2x back injury 1x burn 4x cut 3x impact 2x needle 3x sting 1x twist/sprain
Engineering & Property	1	1x cut
Locality	1	1x twist/sprain
<b>Total accidents involving staff:</b>	<b>25</b>	

**Near misses:** 3 incidents happened at a Countryside location including an attempted theft of charity money box at Ninesprings café, the sighting of a poacher with a gun at Ham Hill, and a branch falling on an angler's tent at Chard reservoir. One at Lufton involving a sharps box. The fifth involved damage to private property that did not result in injury.

**RIDDOR:** There have been 3 reportable injuries. One due to a fractured bone in the foot, and 2 due to an injury which resulted in an absence of more than 7 days.

**Public accidents:** Three of the accidents were slips, trips and falls and one was a minor cut. Four incidents were at the Octagon/Westlands, the other was at Ninesprings.

**Violence to staff:**

9 were verbal abuse, (6 of which were over the phone).

5 damage to property (3 of which at Ham hill)

7 incidents where individual's feared for physical personal safety or felt intimidated by activities,

2 incidents that led to physical violence and injury (Westlands Ballroom).

**Health & Safety Maturity Assessment**

In order to ensure that SSDC achieves the best Health and safety standards, our liability insurers, Zurich have undertaken a 'critical friend' maturity assessment. The main review work was completed during November with findings and

recommendations received in December. This has been reviewed by the both our health and safety groups, as well as our Senior Leadership Team.

Overall, the report concluded:

- SSDC demonstrated a commitment to developing a practical and effective approach to health and safety management.
- At departmental/service level, SSDC was able to evidence good safety management controls and resilience including formalised policies, documented training records, robust use and review of operational risk assessments, safe systems of work and accident/incident investigation procedures.

However, the assessment recommended risk improvement actions relating to the following:

- Competent person(s)
- Strategic planning
- H&S policy
- Risk assessment and safe systems review
- Permit to work
- Monitoring and audit

In order to look to address the actions identified, the next step will be to work with an external specialist consultant to review issues and set a plan for improvement. This work will be undertaken in partnership with the SSDC H&S Working Group under the leadership of the H&S Steering Group and reported to the Senior Leadership Team every quarter. A budget of £20,000 has been identified from within existing resources for these Health & Safety improvements.

### **Financial Implications**

There are no direct financial implications as a result of this report.

### **Council Plan Implications**

Aligned to our Council Plan values of empowering a confident, flexible workforce

### **Carbon Emissions and Climate Change Implications**

None.

### **Equality and Diversity Implications**

To be taken into account in work relating to the six Risk Improvement Actions above.

### **Background Papers**

None.



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## Civil Contingencies and Whistle Blowing Updates

Director: Nicola Hix, Director Support Services & Strategy  
Lead Specialist: Peter Paddon, Lead Specialist – Strategic Planning  
Contact Details: peterpaddon@southsomerset.gov.uk

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### Purpose of the Report

To provide Audit Committee with an annual update on strategic civil contingencies issues. The report also reports on any whistleblowing which has taken place in the last year.

### Public Interest

Civil contingencies are important emergency planning functions of local authorities. Whistle blowing is a separate issue, which requires monitoring and managing by local authorities.

### Recommendations

That Audit Committee notes the contents of this report.

### Background

In 2019 SSDC adopted a new approach for dealing with the out of hours calls to improve efficiencies with the process and of our preparedness for civil contingency emergencies. This remains in place with Deane Helpline providing this out of hours call centre, with them directing calls for emergency civil contingencies and for unsafe structures that present a risk to the safety and welfare of members of the public are routed through to the duty officer(s).

We have maintained the approach with our Civil Contingency capability and have a pool of trained officers from within SSDC. There is a Strategic Duty Officer on call 24/7. The Strategic Duty Officer is supported by an Operational Duty Officer (Leadership & Management Team) who are also available 24/7. This gives us the ability to quickly establish high level command and control (usually linking in with the emergency services and County at the strategic level) whilst at the same time having an officer available to deploy to the scene of an incident to liaise with the emergency services on the scene, other responders, and the local community.

### Civil Contingency Update





In response to the Covid-19 pandemic, SSDC stood up its Strategic Gold Command group in line with existing civil contingency plans. Gold group has been operating for the past year to lead and monitor the impact on the Council including finances, demand, and organisational performance across the Council. District Executive have received updates in relation to our response and the additional pressures on the Council, and will continue to receive updates through its normal budget monitoring and performance reports.

SSDC works with Somerset multi-agency partners on Covid-19, at strategic, tactical and operational levels, with command and control structures, plus agreed processes for escalation, response and recovery issues.

***Over the past year there have been no calls which have been classified as a major incident where we have been asked to support any of the emergency services.***

SSDC continues to be a member of the Somerset Local Authority Civil Contingency Partnership (SLACCP). A suite of county-wide plans and guidance is updated by the Civil Contingency Unit (CCU) including the SLACCP work plan and the Joint Corporate Emergency Response & Recovery Plan (JCERRP).

Over the past year the CCU has provided training to SSDC staff on the emergency duty officer role and separately on evacuation and rest centres. This has been necessary to ensure all those involved feel they have received refresher training to cope with an emergency situation should one arise.

## **Whistle Blowing Update**

There are no recorded instances of whistleblowing concerns being raised in 2020. The Whistle Blowing Policy is due for revision and that work is now underway. A more detailed update will be brought to the next meeting of the Audit Committee.

## **Financial Implications**

There are no financial implications as a result of this report.

## **Council Plan Implications**

Aligned to our Council Plan values of empowering a confident, flexible workforce

## **Carbon Emissions and Climate Change Implications**

None.

## **Equality and Diversity Implications**



Any specific civil contingency plans to be assessed.

**Background Papers**

None.

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## **Audit Committee Forward Plan**

Director: Nicola Hix, Strategy and Support Services  
Lead Officer: Michelle Mainwaring, Case Officer (Strategy & Commissioning)  
Contact Details: michelle.mainwaring@southsomerset.gov.uk

## **Purpose of the Report**

This report informs Members of the agreed Audit Committee Forward Plan.

## **Recommendations**

Members are asked to note and comment upon the proposed Audit Committee Forward Plan as attached.

## **Area East Committee Forward Plan**

The forward plan sets out items and issues to be discussed over the coming few months and is reviewed annually.

Items marked *in italics* are not yet confirmed.

## **Background Papers**

None.

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## Audit Committee Forward Plan

<b>Meeting Date</b>	<b>Item</b>	<b>Responsible Officer</b>
27 May '21	Risk Management Update	Director of Support, Strategy & Commissioning
	External Audit Plan for 2020/21 Accounts	Finance Specialist (GT)
	External Audit Progress Report 2020/21 Accounts	Finance Specialist (GT)
	Review of Internal Audit	S151 Officer
	Internal Audit Plan 2020/21 Outturn	Alastair Woodland (SWAP)
	Internal Audit Annual Opinion Report 2020/21	Alastair Woodland (SWAP)
	Annual Treasury Management Activity Report 2020/21 (to go on to Council)	Finance Specialist
29 July '21 <i>(week later than normal)</i>	Annual Governance Statement	S151 Officer
	External Audit – Audit Findings Report	S151 Officer (GT)
	Internal Audit Plan Progress Report 2021/22 – Q1	Alastair Woodland (SWAP)
	Approve Annual Statement of Accounts	Finance Specialist / S151 Officer
Oct '21	Internal Audit Plan Progress Report 2021/22 – Q2	Alastair Woodland (SWAP)
	Treasury Management Practices	Finance Specialist
	Treasury Management Mid-Year Performance and Strategy Update (to go on to Council)	Finance Specialist
	External Audit – Annual Audit Letter	Finance Specialist (GT)
TBC	<i>Annual Fraud Programme Update</i>	<i>TBC</i>
	<i>Monitoring the recommendations of SWAP following audits.</i>	<i>Alastair Woodland (SWAP)</i>