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Date: Wednesday, 16 November 2022

To: All Members of the Audit Committee

Dear Sir or Madam

Summons to attend the Audit Committee – Thursday, 24 November 2022, 10.30 am – New Council Chamber

You are requested to attend the Meeting of the Audit Committee to be held at 10.30 am on Thursday 24 November 2022.

The agenda is set out overleaf.

Yours faithfully

Assistant Director Legal & Governance and Monitoring Officer

To: Members of the Audit Committee

Councillors:

John Cato (Chairperson), Sandra Hearne (Vice Chairperson), Patrick Keating, Marcia Pepperall and Richard Tucker

Independent Members:

Peter Bray, Sharon Colk

This document and associated papers can be made available in a different format on request.

Agenda

1. **Public Participation (Standing Order 17 as amended by SO 5A) (Agenda item 1)**

   To receive and hear from any person who wishes to address the Committee. The Chairperson will select the order of the matters to be heard. Each person will be limited to a period of five minutes. Public participation time must not exceed thirty minutes.

   Requests to speak must be submitted in writing to the Assistant Director Legal & Governance and Monitoring Officer, or to the officer mentioned at the top of this agenda letter, by noon on the working day before the meeting and the request must detail the subject matter of the address.

2. **Apologies for absence and notification of substitutes (Agenda item 2)**

3. **Declaration of Disclosable Pecuniary Interest (Standing Order 37) (Agenda item 3)**

   A Member must declare any disclosable pecuniary interest where it relates to any matter being considered at the meeting. A declaration of a disclosable pecuniary interest should indicate the interest and the agenda item to which it relates. A Member is not permitted to participate in this agenda item by law and should immediately leave the meeting before the start of any debate.

   If the Member leaves the meeting in respect of a declaration, he or she should ensure that the Chairperson is aware of this before he or she leaves to enable their exit from the meeting to be recorded in the minutes in accordance with Standing Order 37.

4. **Minutes of the meeting held on 22 September 2022 (Agenda item 4)** (Pages 5 - 14)

   22 September 2022 to approve as a correct record (attached)

5. **Matters referred by Council, the Executive, other Committees and Panels (if any) (Agenda item 5)**

6. **Risk Management Strategy (Agenda item 6)** (Pages 15 - 36)

   Report of the Head of Business Insight, Policy and Partnerships (attached)

7. **Internal Audit Update November 2022 (Agenda item 7)** (Pages 37 - 58)

   Report of Head of Audit and Assurance (attached)

8. **The Audit Findings for North Somerset Council (year ended 31 March 2022) (Agenda item 8)** (Pages 59 - 98)

   Report of External Auditors (attached)

9. **Business Continuity Co-ordination (Agenda item 9)** (Pages 99 - 106)

Report of Emergency & Business Continuity Manager (attached)

10. **Audit Committee Annual Report 2021-22 (Agenda item 10)** (Pages 107 - 116)

Report of Chairperson/Head of Internal Audit (attached)

11. **Treasury Management Mid-Year Report 2022/23 & Consideration for the 2023/24 Strategy (Agenda item 11)** (Pages 117 - 144)

Report of Head of Finance (attached)

12. **Urgent business permitted by the Local Government Act 1972 (if any) (Agenda item 12)**

Any item of business which the Chairperson is of the opinion should be considered at the meeting as a matter of urgency by reason of special circumstances (to be specified in the Minutes). For a matter to be considered as an urgent item, the following question must be addressed:

“What harm to the public interest would flow from leaving it until the next meeting?” If harm can be demonstrated, then it is open to the Chairperson to rule that it be considered as urgent. Otherwise the matter cannot be considered urgent within the statutory provisions.

Exempt Items

Should the Audit Committee wish to consider a matter as an Exempt Item, the following resolution should be passed -

“(1) That the press, public, and officers not required by the Members, the Chief Executive or the Director, to remain during the exempt session, be excluded from the meeting during consideration of the following item of business on the ground that its consideration will involve the disclosure of exempt information as defined in Section 100I of the Local Government Act 1972.”

Also, if appropriate, the following resolution should be passed –

“(2) That members of the Council who are not members of the Audit Committee be invited to remain.”

Mobile phones and other mobile devices

All persons attending the meeting are requested to ensure that these devices are switched to silent mode. The chairman may approve an exception to this request in special circumstances.

Filming and recording of meetings

The proceedings of this meeting may be recorded for broadcasting purposes.

Anyone wishing to film part or all of the proceedings may do so unless the press and public are excluded for that part of the meeting or there is good reason not to do so, as directed by the Chairman. Any filming must be done as unobtrusively as possible from a single fixed position without the use of any additional lighting, focusing only on those actively participating in the meeting and having regard to the wishes of any members of the public present who may not wish to be filmed. As a matter of courtesy, anyone wishing to film proceedings is asked to advise the Chairman or the Assistant Director Legal & Governance and Monitoring Officer's representative before the start of the meeting so that all those present may be made aware that it is happening.

Members of the public may also use Facebook and Twitter or other forms of social media to report on proceedings at this meeting.

Emergency Evacuation Procedure

On hearing the alarm – (a continuous two tone siren)

Leave the room by the nearest exit door. Ensure that windows are closed.

Last person out to close the door.

Do not stop to collect personal belongings.

Do not use the lifts.

Follow the green and white exit signs and make your way to the assembly point.

Do not re-enter the building until authorised to do so by the Fire Authority.

Go to Assembly Point C – Outside the offices formerly occupied by Stephen & Co

Minutes

of the Meeting of

The Audit Committee
Thursday, 22 September 2022

Kenn Room

Meeting Commenced: 10.30 am Meeting Concluded: 2.00 pm

Councillors:

John Cato (Chairman)
Sandra Hearne (Vice-Chairman)

Patrick Keating
Marcia Pepperall
Richard Tucker

Other Councillors in Attendance: Caroline Goddard

Independent Members: Peter Bray, Sharon Colk

Also in attendance: Barrie Morris, David Johnson, External Auditors, Grant Thornton.

Officers in attendance: Amy Webb (Director of Corporate Services), Steve Ballard (Principal Accountant (Closure and Systems)), Emma Diakou (Head of Business Insight, Policy and Partnerships), Peter Cann (Head of Audit and Assurance), and Michèle Chesterman (Committee Services Senior Officer).
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AUD 1 Election of Vice Chairperson for Municipal Year 2022-23 (Agenda item 1)

Resolved: that Councillor Sandra Hearne be elected as Vice Chairperson of the Audit Committee for the municipal year 2022-23.

AUD 2 Declaration of Disclosable Pecuniary Interest (Standing Order 37) (Agenda item 4)

None

AUD 3 Minutes 28 April 2022 (Agenda item 5)

Resolved: that the minutes of the meeting be approved as a correct record

AUD 4 Q1 Risk Management Update 2022-23 (Agenda item 7)

The Head of Business Insight, Policy and Partnerships presented the report on the Q1 Risk Management Update 2022-23. She outlined the process followed in constructing the council's Strategic Risk Register using the five Annual Directorate Statements and specific operational risks and noted the use of a risk scoring matrix and the regular reviews of the register by the Corporate Leadership Team.

There were 12 risks in the strategic risk register. After mitigating actions had been applied, 8 risks remained high. High scoring risks were as follows:

- Risk that we are unable to deliver the priorities of the council by not planning to meet the Medium Term Financial challenge and delivering a balanced budget.
- Risk that we are unable to reduce or mitigate inflationary pressures (such as energy prices), resulting in impacts on our services.
- Risks of ineffective recruitment across the organisation leading to capacity issues in key areas.
- Risk that we do not deliver sustainable change in children's services at the right pace of the improvement journey.
- Risk that we do not manage the demand for children's social care and special educational needs and disabilities (SEND) placements within available resources.
- Risk that despite protecting the council's systems and essential data from cyber-attacks, malicious attempts to damage critical services within the council could be disruptive.
- Risks aligned to any delay to the Local Plan process exposing council to risk of speculative development and unplanned growth through appeal.
- Risks to achieving a net zero position by 2030 given current resources and sphere of influence.

In the next round of risk assessment it is recommended by officers to bring into Q2 risk assessment risk items around 1. digital information management and resource capacity to deliver, 2. resolution of complaints within children's directorate, and 3. provision of an effective and reliable planning service. There is an ongoing review of all the directorates action plans.

In discussing the report, members noted that that they had received briefings on the risk register previously and that members' questions on the process of constructing the register had resulted in the production of a consistent and standardised framework.

Members asked questions which were answered by the representative on the following areas: clear mapping of our commitments to the risk register, quarterly process of review, availability of training in risk management for staff to ensure clarity and consistency of scoring and peer assurance; performance management training, identification of opportunity arising from risks assessed, other authority best practice peer learning opportunities, the addition of risk reference numbers in future reports; representation in reports of direction of travel of risks, recruitment risks; concerns with respect to the large number of risks remaining high after mitigation; the risk cap and the cost incurred if all risks remained red; mitigations for red risks. (In terms of a register of all systems across the council, officers to consider building this into reporting going forwards).

Resolved: that the Audit Committee note the contents of the report and the accompanying document in Appendix 1 outlining the development of the Q1 2022/23 risk register.

AUD 5 **Internal Audit Update September 2022 (Agenda item 8)**

The representative from Audit West presented his update report on the delivery of the 2022/23 Annual Audit Assurance Plan. It was noted that there had been no audit reports issued where it was considered that the overall systems of internal control provided 'No Assurance' or 'Limited Assurance'. Work on the plan was well underway and as of 1 September, approximately 53% of audit activity was in progress or complete. All recommendations that were due to be implemented had been followed up. One new investigation had been started and completed. Separate to this, a detailed fact-finding piece of work was also nearing completion. A range of fraud prevention and detection measures were in place and work was ongoing to continue to support the Council's fight against fraud.

In presenting the report, the representative drew members' attention to the fact that Internal Audit had been asked to investigate two allegations within the Place Directorate which related to reported non-compliance with procurement processes. In addition, a related matter was also requested to be included within the investigation, which concerned the escalation process for complaints and the reporting of unresolved customer issues. The investigation had been completed and the overall conclusion was that neither of the two allegations were substantiated. The review of the customer service processes found that procedure was correctly followed in this specific instance and that the wider processes in general were operating reasonably effectively. The full findings from the review had been reported to the Director of Corporate Services and the Assistant Director (Placemaking & Growth).

Members were informed that Internal Audit had also been asked to undertake a detailed review of the project management and decision-making process around the council's Garden Waste subscription service. Whilst audit work in this service area was already planned for 2022/23, the scope of the planned review had changed and the depth of the work increased at the request of Senior Management. Work was nearing completion and initial findings verbally reported to the Assistant Director (Neighbourhoods & Transport).

Members noted that the Counter Fraud Strategy had been revised and associated policies updated (approved by the Audit Committee in April 2022) and were available to the staff via the intranet. In order to further support the Council in this area, over the coming month, resources were to be used, to further develop staff awareness and promote a positive anti-fraud culture. Members to be updated on as work progressed and the Committee was asked to consider any new fraud risks that they had identified since the audit plan was developed.

Data analytics work was in in progress in order to prevent and detect internal fraud and error. Internal data matching takes place throughout the year and this is partly completed via IDEA – an internal audit data analytics software tool. In respect of external matching, Members were advised that work on the National Fraud Initiative (NFI) 2022/23 had begun.

The representative from Audit West further commented on the progress of the Audit Plan (Section 2 of the report) and explained that there were currently 47 pieces of audit work within the plan and there had been no major changes to it since it was agreed in April 2022. Of the total number of audits: 4 audits had been completed and 1 was at reporting stage; 11 audits were in progress, 4 were ongoing pieces of work and 5 were in planning with 22 audits yet to commence. Those not yet started would be reviewed in the same way as last year to ensure that the items to be started were still of relevance. Any changes would be reported back and agreed with members of the committee.

The representative drew members' attention to Section 3 of his report on the implementation of recommendations and the risk profile of those recommendations as requested by committee members. A total of 37 recommendations had been made this financial year. That included recommendations made from 2021/22 audits where the reports were issued in 2022/23. Specifically, there were 6 High, 26 Medium and 4 Low rated recommendations. One specific opportunity was also highlighted.

Whilst all of the recommendations that were due to be implemented had been followed up with the officer(s) responsible, responses were awaited on nine recommendations across two audits to confirm the recommendations had actually been implemented.

Members asked questions which were answered by the representative on the following areas: why some items in 2.1 were complete with a n/a opinion, liaison with external auditors; feeding back into the Authority regarding awareness of any aspects of fraud; stress testing; the use of mystery shoppers; measures in place to tackle single person council tax fraud, detail on Metrowest and HIF and request for a more in depth briefing on the process of assessment; the quarterly provision of executive summaries of the audit reports to the audit committee, progress on payments to childcare providers and the long time before planned implementation, agreed to be reported to audit committee, the addition of item reference numbers in future reports. It was agreed as an action to provide Audit Committee with an overarching document showing the governance and how internal audit and our internal risk management interlinks.

Resolved: to note the progress in delivery of the 2022/23 Annual Audit Assurance Plan.

AUD 6 **Auditors Annual Report on North Somerset Council 2020-21 (Agenda item 9)**

Barrie Morris and David Johnson from Grant Thornton drew members' attention to areas of note in the Auditor's Annual Report on North Somerset Council 2020-21. Under the National Audit Office (NAO) Code of Practice there was a requirement to consider whether the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The Auditor was required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weakness in arrangements identified during the audit. The Director of Corporate Services welcomed such a positive outcome for the council's first VFM report of the new programme

It was noted that 2020/21 had been an unprecedented year in which the Council operated with the majority of its staff home working whilst supporting local businesses and residents through the pandemic.

No significant Value for Money (VFM) weaknesses had been identified but 11 opportunities for improvement were set out in detail within the report:

Criteria	**Risk Assessment**	**Finding**
Financial Sustainability	No risks of significant weakness identified	No significant weakne: in arrangements ident and 4 improver recommendations mad
Governance	No risks of significant weakness identified	No significant weakne: in arrangements an improvement recommendations mad
Improving Economy, Efficiency and Effectiveness	No risks of significant weakness identified	No significant weakne: and 5 improver recommendations mad

It was acknowleded this audit report was significantly late though progress has already been made on those findings that have been identified.

Members asked questions and raised queries which were responded to by the representatives on the following areas: typographical error on page 21 – performance management first paragraph, should read 18 February; page 19 improvement recommendations and governance, frequency of reporting should be increased to quarterly, what was it before; where the Authority is placed in relation to other LAs; the external auditors view on the graph on page 10 displaying the Council's reserve position to other LAs, and page 19. with respect to Adult Social Care Unit Costs

Resolved: that the External Auditor's Annual Report on North Somerset 2020-21 be noted.

AUD 7 **External Auditor reports 2021-22 (Agenda item 10)**

Barrie Morris from Grant Thornton presented the External Auditor Reports 2021-22. Members were informed that the audit was progressing well with information of a good standard. A summary was provided in the report of the outstanding information to date which included sample testing of debtors, their recommendation on journals and journalling, payroll transactions, grants, fees and charges and cut off; review of employee renumeration disclosures, finalising of Other Land and Buildings testing, the revised standards for the valuation of infrastructure assets and the implications for the council finalisation of testing of pension liabilities; group audit work to review and assess work undertaken by the component auditor; final review of audit file by key audit partner; receipt of management representation letters; and review of the final set of financial statements.

It was noted that the audit process had become significantly more challenging driven by quality expectations of the regulators and hybrid working etc.

Members asked questions and received responses in relation to the following:- governance of NSEC - contract performance was reported to the Executive Member for Contracts (Cllr Mike Solomon) who was provided with a monthly report. Shareholders reports were circulated to Cllr Ashley Cartman with a full report to Council on governance and performance and is subject to independent separate audit, not audited directly by the Grant Thornton; the valuation of treasury assets such as the Sovereign Centre and North Worle; pensions

Resolved: that the reports be noted

AUD 8 **Statement of Accounts 2021-22 and Annual Governance Statement (Agenda item 11)**

The Principal Accountant (Systems and Closures) presented the report on the Statement of Accounts 2021/22 and the Annual Governance Statement. Members were informed that the Council's draft Statutory Statement of Accounts had been prepared and approved ready for audit by the Director of Corporate Services on 7 July 2022. The audit of the Accounts was on-going. The latest revised Statement of Accounts for 2021/22 being attached at Appendix A. The revised accounts reflected the adjustments agreed with Grant Thornton during the course of the audit up to 9 September 2022, but clearly did not reflect the impact of any changes which may potentially be required as a result of any outstanding audit testing and assurance works.

Members were informed that the Council's external auditors, Grant Thornton, currently expected to give an unqualified audit opinion, but were unable to provide their audit opinion until their programme of audit assurance and testing was completed. Should any material impact of errors be identified from this work, they would need to be adjusted for and reported through to Members. The Accounts and Audit Regulations 2022 required the accounts to be formally approved and published by 30 November 2022. The next Audit Committee being due to take place on 24 November 2022.

In order to complete the audit process, it was requested that the Audit Committee delegated authority to approve the Letter of Representation to the Chairperson of the Audit Committee, and to approve the revised Statement of Accounts for 2022/22, subject to any further amendments necessary to reflect any material impact of matters arising from their on-going audit testing. Under the Code of Audit Practice the results of the external auditor's work on the Council's Value for Money arrangements would be reported in the Auditor's Annual Report, due to be reported to the Council by the end of December 2022.

The Annual Governance Statement (AGS) was required by the Accounts and Audit Regulations 2015 to be published with the Council's Statement of Accounts, and to be formally approved and signed by the Leader of the Council and the Chief Executive. The AGS for 2021/22 has been completed in accordance with the framework previously agreed by the Audit Committee. The AGS provided an update of the significant issues raised in the previous year's statement, and highlighted the key new risks to the Council arising during 2021/22. The Statement continued to reflect the current position as at September 2022.

It was noted that an informal Workshop had taken place on 12 September 2022 regarding the Accounts with a further Workshop scheduled for 11 November 2022.

Members asked questions and received responses in relation to the following: the Council Code of Corporate Governance as the tool to measure performance; the Council's strategy for growth; the definition of reasonable; a request to update population data in the report; clarification about the authorisation of additional fees to Grant Thornton for hybrid working, clarification of figures on pages 63 of the accounts and the reconciliation with the CIES on p42 and p67 income with the narrative report p7. Action report back to Audit Committee in due course. Asked that the language used in the narrative report in future better communicates clearly, transparently and well to residents. It was considered not to do so was a risk. Questions were asked about the source of resident information such as number of residents and households, from the ONS and accepted data is currently out of date.

Resolved:

1. That the Audit Committee:
   a. took note of any adjustments to the financial statements set out in the external auditor's report;
   b. considered the matter(s) raised in the Annual Governance Statement;
   c. delegated approval of the draft letter of representation to the Chairpersonof the Audit Committee; and

2. That subject to any comments under 1 above, the Audit Committee:
   a. approves the Statement of Accounts for 2021/22, subject to, any amendments necessary upon quantification of the impact of any issues arising from on-going work by the external auditors;
   b. arranges for the Chairperson of the Council's Audit Committee and the Chief Financial Officer to sign the Accounts for 2021/22 as representing a 'true and fair view' of the financial position as at 31 March 2022, following any amendments necessary upon quantification of the impact of any issues arising from on-going work by the external auditors; and
   c. arranges for the Leader of the Council and the Chief Executive Officer to formally approve the Council's Annual Governance Statement as part of the financial accounts and sign accordingly.

AUD 9 **Audit Committee Annual Report 2021-22 (Agenda item 12)**

The Chairperson of the Audit Committee presented the report on the Audit Committee Annual Report 2021-22

He explained that the Audit Committee was committed to the principles of openness, effectiveness, and collaboration. The Committee was a key component of the Council's governance framework. Its function was to provide an independent and high-level resource to support good governance and strong public financial management. The purpose of the Committee was to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and governance processes. By overseeing both internal and external audit activity it made an important contribution to ensuring that effective assurance arrangements were in place.

Members were informed that to this end, in the last year the Audit Committee had held informal working group meetings regularly over the year to keep abreast of issues which may be of concern to it and to receive appropriate briefings/ updates from officers. Discussions had given consideration to the following main areas:

- Internal Audit
- Internal Control Frameworks
- External Audit
- Council Performance and CMMI culture
- Understanding of the Council's participation in the National Fraud Initiative
- Risk Management and Risk Management Reporting Improvement
- Audit Committee Training
- Significant partnerships governance and assurance; clarity and visibility of their responsibilities, objectives and KPIs
- Requesting clarity and visibility of the organisation chart, roles, responsibilities, objectives and KPIs
- External Best Practice and Peer Education
- Asset and Treasury Management
- Amendments to the Council's Constitution inc. Financial Regulations and CSO's

The Chairperson thanked Members for their work on the committee and acknowledged how much work had been undertaken.

Resolved: that the report be re-submitted to the next Audit Committee on 24 November 2022 in order that some minor amendments could be made.

AUD 10 **Treasury Management Out-turn Report 2021-22 (Agenda item 13)**

The Director of Corporate Services presented the report which informed the Audit Committee of the council's treasury management activities during 2021/22 and confirmed that the activities undertaken during the year had complied with both the requirements of the Accountability and Responsibility Framework and the approved Treasury Management Strategy approved by Council in February 2021; Treasury management indicators for 2021/22, as required by CIPFA's Prudential

Code for Capital Finance in Local Authorities; Commercial investment property valuations and returns for 2021/22.

Members were informed of the headline metrics for the period 1st April 2021 to 31st March 2022: £789m of cash-flows were managed and turned around during the period; which was £1bn less than the equivalent prior year period, although was to be expected because the 2020/21 financial year reflected the exceptional impacts arising from Covid-19; Gross interest income earned on all investments totalled £0.621m, against a budget of £0.530m; The average rate of investment return for cash deposit type investments managed by the in-house team in 2021/22 was 0.13% and returns of 3.97% were achieved on external pooled fund investments; New additional external borrowing of £0.3m was undertaken during the period and £7.3m of borrowing was repaid, both as planned.

The council's Treasury Management Indicators for 2021/22 were approved by Council in February 2021. Members were directed to the Performance against the key indicators in Appendix 1 of the report. It was noted that all indicators were within target levels.

Members asked questions which were responded to by the representative on the following: how quickly funds were moved around into a more lucrative area; how negative performance in treasury assets (liquid and illiquid) were monitored and responded to, whether there was an ethical element to the strategy; key risks on the risk register; that we meet the requirements of the code, any areas where the strategy is diversified from. The Chairperson asked that the committee be included to discuss further and engage with officers on the Treasury Management strategy prior to next formal presentation to the Audit Committee.

Resolved: that the report be noted

The Chairperson thanked everyone for the diligence, contribution and perseverance on this long meeting.

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Chairperson

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North Somerset Council

Report to the Audit Committee

Date of Meeting: 24 November 2022

Subject of Report: Risk Management Strategy

Town or Parish: ALL

Officer/Member Presenting:
Emma Diakou, Head of Business Insight, Policy and Partnerships
Peter Cann, Head of Audit and Assurance

Key Decision: NO

Reason: This is a refresh of the North Somerset Council Risk Management Strategy.

Recommendations
That Audit Committee approve this refreshed Risk Management Strategy.

1. Summary of Report

The current Risk Management Strategy was jointly developed by North Somerset Council and Audit West and runs from 2019 to 2024. However, the Director of Corporate Services for North Somerset Council requested that the strategy be reviewed and refreshed ahead of schedule to ensure the following:

- That we have a clear vision and set of aims for how we manage risk.
- That we are clear on what our risk management approach is including our risk management framework.
- That we provide appropriate organisational-wide guidance on how to identify, analyse and control our risks.
- That we have assurance that risk is embedded within decision making and is appropriately reported and escalated where needed.

The Risk Management Strategy has now been refreshed with the detail provided in this report and the draft strategy given in full in Appendix 1.

2. Policy

North Somerset Council is legally required to have robust risk management arrangements in place. Those arrangements are intended to contribute to the good corporate governance of the organisation.

3. Details

The Risk Management Strategy has now been refreshed jointly by North Somerset Council and Audit West with changes as follows:

- A clear statement on our risk appetite.
- A new strategy vision, aims and approach.

- Alignment of the Risk Management Framework with best practice guidance from government.
- Clarity on how risk management links in to our Business Planning Framework.
- Updates to the analysis and control framework.
- Updates to the Risk Management Matrix to include impacts on people and on the themes in our Climate Emergency Strategy.
- Updates to risk monitoring and reporting to align with the Business Planning Framework reporting schedule.
- Clarification of risk governance so roles and responsibilities are clearer.

Alongside this Risk Management Strategy, a number of toolkits have been updated to support risk identification, analysis and control, and escalation.

Additionally, guidance on corporate decision making is being updated to provide additional information in report templates.

The strategy can be found in Appendix 1 of this report. Toolkit links are available as part of our Programme Management Office internally for staff as needed.

4. Consultation

The Director of Corporate Services has sponsored this strategy refresh.

Members of Audit Committee have been consulted on the updates to this strategy and given an opportunity to feedback.

Statutory Officers have been consulted on the updates to this strategy and given an opportunity to feedback.

5. Financial Implications

None from this report.

Costs

N/A

Funding

N/A

6. Legal Powers and Implications

The updated Risk Management Strategy will contribute to the good governance of the organisation. Updates to corporate decision making templates will ensure that the strategy is embedded in decision making and provide assurance that risk is being appropriately managed.

7. Climate Change and Environmental Implications

No specific implications from this report but possible climate impacts, aligned to the themes in the Climate Emergency Strategy, have now been included in the refreshed Risk Management Matrix to be used as part of any future risk analysis.

8. Risk Management

Not refreshing the Risk Management Strategy would put the good governance of the organisation at risk. Risk analysis shows this as a MEDHIGH inherent risk and treatment is to mitigate by refreshing the strategy and embedding across the organisation. Once refreshed the residual risk should fall to LOWMED at which point this risk can be accepted.

Theme	Risk	Lead officer	Inherent risk	Inherent risk treatment	Mitigating / exploiting actions	Residual risk	Risk treatment
Finance and resources (inc. staff)	Not refreshing the Risk Management Strategy will negatively impact the good governance of the organisation.	Amy Webb	MEDHIGH	Mitigate	Update the strategy.	LOWMED	Accept

9. Equality Implications

No specific implications from this report but possible impacts on residents and on staff are included in the refreshed Risk Management Matrix to be used as part of any future risk analysis.

10. Corporate Implications

North Somerset Council is legally required to have robust risk management arrangements in place. Those arrangements are intended to contribute to the good corporate governance of the organisation.

It is a requirement as part of the Business Planning Framework for all directorates to hold a risk register that is aligned to their business plan and considered at least quarterly by their Directorate Leadership Team.

A strategic risk register is held by Corporate Leadership Team and reviewed at least quarterly by Corporate Leadership Team, by Executive members, by Scrutiny Panels and by Audit Committee.

11. Options Considered

To not refresh the Risk Management Strategy might negatively impact on the good governance of the organisation.

Author:

Emma Diakou
Head of Business Insight, Policy and Partnerships
Corporate Services Directorate
North Somerset Council
emma.diakou@n-somerset.gov.uk

Background Papers:

- North Somerset Corporate Plan: Organisational priorities | North Somerset Council (n-somerset.gov.uk)
- North Somerset Council Risk Management Strategy 2019-2024.

Appendix 1: Risk Management Strategy

<u>Cover page</u>

<u>Overview page:</u> <u>why we are doing this strategy and table of contents</u>

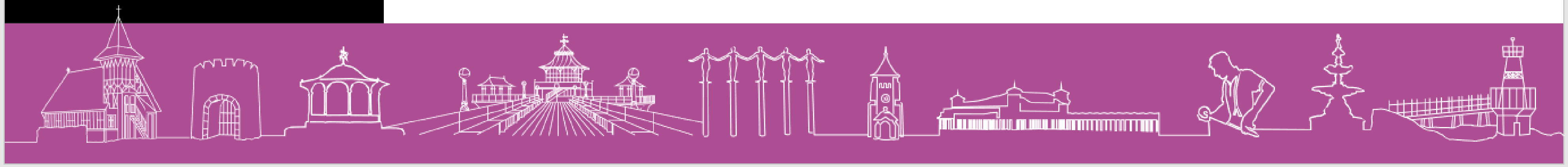
North Somerset Council

Overview

North Somerset Council is legally required to have robust risk management arrangements in place. Those arrangements are intended to contribute to the good corporate governance of the organisation and are outlined in this Risk Management Strategy. The strategy supports the delivery of our Corporate Plan vision to be *open, fair and green* and to contribute to our priorities to be:

- A thriving and sustainable place
- A council which empowers and cares about people
- An open and enabling organisation.

This strategy is updated annually in consultation with the council's Audit Committee and as part of our regular business planning framework.



Link to Corporate Plan page: all strategies should reference the Corporate Plan:

The Corporate Plan

[Link to the Strategy]

[Link to the action plan and performance dashboard]

OUR VISION An open, fairer, greener North Somerset

Open
We will provide strong community leadership and work transparently with our residents, businesses and partners to deliver our ambition for North Somerset.

Fair
We aim to reduce inequalities and promote fairness and opportunity for everyone.

Green
We will lead our communities to protect and enhance our environment, tackle the climate emergency and drive sustainable development.

Our priorities

A thriving and sustainable place

- A great place for people to live, work and visit
- Welcoming, safe and clean neighbourhoods
- To be a carbon neutral council and area by 2030
- A transport network which promotes active, accessible and low carbon travel
- An attractive and vibrant place for business investment and sustainable growth
- A broad range of new homes to meet our growing need, with an emphasis on quality and affordability

A council which empowers and cares about people

- A commitment to protect the most vulnerable people in our communities
- An approach which enables young people and adults to lead independent and fulfilling lives
- A focus on tackling inequalities and improving outcomes
- Partnerships which enhance skills, learning and employment opportunities
- A collaborative way of working with partners and families to support children achieve their full potential

An open and enabling organisation

- Engage with and empower our communities
- Empower our staff and encourage continuous improvement and innovation
- Manage our resources and invest wisely
- Embrace new and emerging technology
- Make the best use of our data and information
- Provide professional, efficient and effective services
- Collaborate with partners to deliver the best outcomes

Our values

- We act with INTEGRITY
- We RESPECT each other
- We INNOVATE
- We CARE
- We COLLABORATE

North Somerset Council

Background and introduction page: an overview of our risk position:

Background and introduction

We are living through a period of rapid change locally, nationally and across the world. In recent years we have declared a climate and biodiversity emergency, have managed through a global pandemic, and have entered a cost of living crisis. All of this has happened against a backdrop of a worsening financial position, not just for local government but the country as a whole.

The challenges North Somerset Council have faced have been unprecedented. We are seeing an increase in demand for our services, shifts in the demographic profile of our area contributing to that demand, an ever evolving digital landscape, and changing customer expectations. There is evidence that North Somerset continues to show inequality across the life course, with our residents living in more deprived areas having poorer life chances and worsening health and wellbeing outcomes.

However, we continue to be responsive and innovative to address these challenges. We have strengthened our partnerships with local businesses, voluntary organisations, town and parish councils and other public services like health. We have also seen community organisations flourish and become part of the service delivery landscape, offering innovative, trusted solutions to some of these challenges.

All of this means that the risk environment has changed, and we are seeing both an *increased* number of risks and a *change* in the type of risks. It is essential that we have a robust Risk Management Strategy in place, embedded throughout the organisation to manage these risks but also to manage any opportunities they might create.

It is also essential that we manage our risks in a transparent and informed way. We are accountable to our Corporate Leadership Team, our Executive Members, the Audit Committee and our residents for the way in which we implement risk management. We need to continue to demonstrate that we have a structured approach, which is embedded into our planning and reporting cycles and decision making processes at all levels.

North Somerset Council

Understanding risk page: understanding what we mean when we talk about risk (definitions):

Understanding risk

What do we mean when we talk about risk?

Every aspect of our work involves some level of risk. From policy making to financial management to the day to day delivery of services, risk is inherent in everything we do.

At the simplest level, risk is simply the uncertainty of something happening. That 'something' could be a negative threat or a positive opportunity. It becomes a risk if it is likely to have an impact on the achievement of our statutory services and Corporate Plan priorities either because the negative 'something' has not been managed or the positive opportunity was not taken advantage of.

Where are these risks?

Risks can be operational and/or strategic. Operational risks exist at service or team level and are generally related to the day-to-day work of that service or team. They can become a strategic risk when they are significantly impacting on the achievement of our Corporate Plan priorities and aims (significant based on the risk scoring). An example being that the finance team will manage a risk around achieving a balanced budget at year end as part of their business as usual work. This will become a strategic risk if there is a high likelihood that the budget will not be balanced and so impact on our priority to be 'an open and enabling organisation' and our aim to 'manage our resources and invest wisely', as well as our statutory responsibilities.

Why do we need to manage risks?

Being risk aware can help an organisation be more innovative and responsive. By managing risks we can ensure that we understand the risk type i.e. is it operational or strategic, the risk likelihood (how likely it is to happen), and the risk impact (what will happen if it does). We can also consider risk in the wider context of our vision – to be open, fair and green – linking in with our Climate Emergency and reducing inequalities commitments.

Good risk management means that we are actively managing any uncertainty and ensuring there are no surprises, ultimately this means good corporate planning and governance.

North Somerset Council

Managing risk in local government: gives our risk appetite:

Managing risk in local government

Councils are by their nature highly complex organisations, responsible for the delivery of hundreds of services for people and businesses across their defined area. Among them are well known functions such as social care, schools, transport, housing, planning and waste collection, but also lesser known ones such as licensing, business support, registrar services and pest control.

In North Somerset Council functions are provided across five directorates: Adults, Children's Services, Corporate Services, Place, and Public Health and Regulatory Services, the directors of which sit on our Corporate Leadership Team (CLT) with the Chief Executive.

Corporate Leadership Team

- Adults directorate
- Children's directorate
- Corporate Services directorate
- Place directorate
- PHRS directorate

The organisation's risk appetite is set at a strategic level by CLT and guides how much risk we are willing to seek or accept to achieve our objectives. Our risk appetite will change over time and will always be reflective of our current position in terms of ensuring we fulfil our statutory duties and that we work within our funding envelope. On that basis, we commit to being a risk aware rather than a risk averse organisation and agree that we should encourage managed risk taking at service level in order to work towards achieving our Corporate Plan aims and priorities. However, risks must be reflected in our operational risk registers so that Directorate Leadership Teams can analyse and control them where needed. We also note that the level of managed risk and the specific appetite for those risks will differ across directorates given the scope of services. So what might be an acceptable level of risk in Corporate Services might not be an acceptable level in Children's Services. Directors are required to make decisions for their services on what ongoing risk appetite is acceptable.

North Somerset Council

Strategy vision, aims and approach page: gives the vision, the aims and how we will implement these:

Strategy vision and aims

Our vision

The over-arching vision for this strategy:

Our Risk Management Strategy supports us to make honest, evidence-based decisions and realise opportunities through a good understanding of risks and their likely impact.

We are committed to being a risk aware rather than a risk averse organisation.

Our aims

The aims of this strategy are that...

- Risk management is well structured through an agreed framework of identifying risks to reporting them.
- Risk management is embedded in our organisational activities to support decision-making.
- Risk management is well managed through a robust governance structure.
- Risk management is collaborative, is informed by the best available information, and is continually improved through learning and experience.

Our approach

We will achieve these aims by...

- Having a robust and consistent risk management framework including an agreed risk management matrix.
- Establishing clear roles, responsibilities and reporting lines within the council for risk management.
- Providing a risk management toolkit and detailed guidance to use that toolkit.
- Communicating risk information effectively through our quarterly business planning and performance framework.
- Independently monitoring the arrangements in place for risk management on a regular basis.

North Somerset Council

<u>Risk management Framework page:</u> <u>gives the first aim and how we will achieve it (risk management framework)</u>:

Risk management framework

Our aim: The risk management processes is well structured through an agreed framework

Our risk management framework is structured in line with best practice guidance from HM Treasury. It includes risk identification, risk analysis and control, and risk monitoring and reporting.

- **Risk identification**: the process to understand the scope of risk across the organisation and where those risks are held. Risk identification should be part of the wider business planning and performance framework of the organisation so that risk management is embedded within our service delivery.
- **Risk analysis and control**: the process to understand the type of risks, the severity of them, and how they will be treated. This step in the framework is essential to ensure that risk is managed in a consistent way across the organisation and that we are comparing like for like.
- **Risk monitoring and reporting:** the process by which risks are monitored and reported in an integrated, timely and accurate way. This is essential to ensure we have strong corporate governance.

North Somerset Council

Risk identification page: continues with the first aim and how we will achieve it (risk identification):

Risk identification

Risk exists at all levels in the organisation, from day to day service activity (operational) through to the business of the Corporate Leadership Team (strategic). The identification of risk – whether operational or strategic – is built into the council's Business Planning and Performance Management Framework.

This framework aims to monitor progress against our Corporate Plan priorities. We do this on an annual basis by developing, implementing and monitoring Annual Directorate Statements which are then reviewed and reported quarterly. These are the business plans for each of the council's five directorates and give their key strategic commitments for the year ahead. Services build their Service Strategies, their Team Plans and undertake their appraisals on the basis of the commitments made in the Annual Directorate Statements. This is the organisational '**golden thread**' and ensures that all staff are working towards the same goals.

Alongside the development of the Annual Directorate Statements, directorates also identify any risks which might challenge achievement of those commitments. These risks are themed based on whether they are impacting finance and resources, transformational activity, the climate emergency, residents and communities, or corporate governance. These risks and the themes then become the risk registers for each directorate. Any operational risks are picked up to be managed by teams and are used to feed service or project specific risk registers, which in turn may escalate back up into the directorate level risk register. Strategic risks are identified following a cross-directorate analysis, and these then feed into the council's Strategic Risk Register. All risks are reviewed **quarterly** and any newly identified risks folded into the appropriate risk register.

This approach ensures that we have integrated risk management into all levels of our business planning framework, and ultimately how we run our services.

North Somerset Council

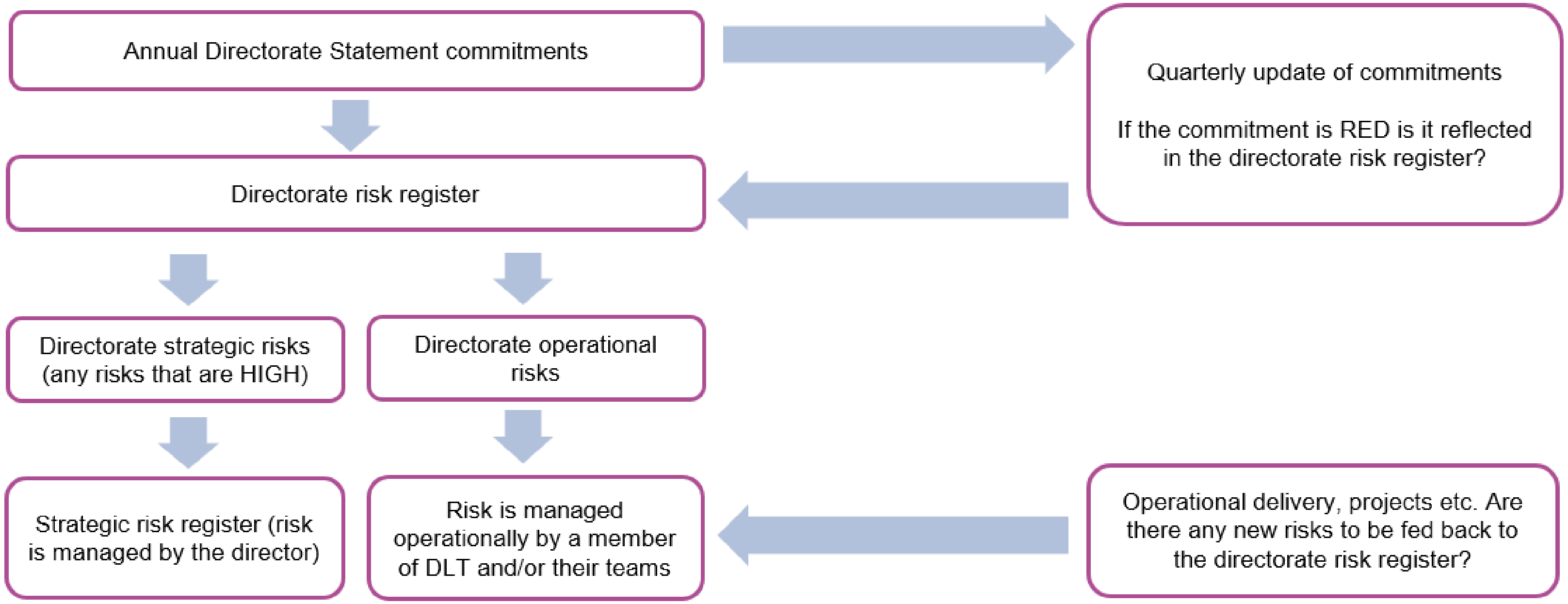
Risk identification flow page: continues with the first aim and how we will achieve it (risk identification)

Risk identification: process flow

Risk identification can be summarised in this process flow diagram:

Initial identification of risks:

Ongoing quarterly identification of risks:



North Somerset Council

Risk assessment: analysis and control

Once risks have been identified they need to be assessed to understand the likelihood and the impact of the risk, this is an essential part of the risk management framework, and is done following a three-step process and using the standard risk management matrix.

Step one: inherent risk
This is the first assessment of the risk and is meant to understand the risk if no action is taken to manage it. The risk is scored on the likelihood of it happening and then the impact if it does happen. The impact should be considered based on the same factors used to theme the risks:

- Finance and resources(inc. impact on staff)
- Transformational activity
- The climate emergency
- Residents and communities (inc. reputational impact, equalities)
- Corporate governance

Step two: action
If the first assessment of the inherent risk shows that it is unlikely to happen and/or will have little impact then there will usually be no need to take any action to manage the risk and it can simply be accepted. However, if the assessment shows it is likely to happen and/or will have an impact then officers should seek to identify if there are actions that can be put in place to mitigate it, or in the case of an opportunity, to exploit it.

Step three: residual risk
This is the second assessment of the risk and is meant to re-evaluate the risk, taking into consideration the effectiveness of any identified actions. Once again, the risk is scored on likelihood and impact. However, at this point it may be that the analysis and second assessment show that the risk cannot be managed and in this case the activity that the risk is related to will either need to be ceased or the risk itself will simply will need to be accepted if that activity continues.

Analysis and control flow method

↓
Inherent risk – likelihood
+
Inherent risk – impact
↓
Mitigate, exploit or accept
↓
Residual risk – likelihood
+
Residual risk – impact
↓
Cease or accept

North Somerset Council

Risk assessment page: continues with the first aim and how we will achieve it (risk management matrix)

Risk analysis and control: risk management matrix

This standard risk management matrix is used to ensure there is consistency in scoring of risks across the organisation. It is based on a scoring system which - when combined across likelihood and impact - calculates a RAG rating for each risk as either LOW, LOWMEDIUM, MEDIUM, MEDIUMHIGH or HIGH. Risks that score LOW or LOWMEDIUM at first assessment (inherent risk) will usually not need to be mitigated or exploited or even given a second assessment to determine the residual risk. Risks that score MEDIUM, MEDIUMHIGH or HIGH will need to be mitigated or exploited and re-assessed.

Likelihood

Impact

Please use the guidance in the impact section	Rare – less than a 5% chance	Unlikely – 6% to 20% chance	Possible – 21% to 50% chance	Likely – 51% to 80% chance	Almost certain – 80% plus
Critical – a major loss to a service including disruption of more than five days with significant impact on staff, a complete failure of project, affecting more than 25% of a budget, litigation/claims/fines of £1m plus, not meeting our legal duties and putting at risk individuals at risk, impacting residents across several wards, impacting on several themes in the Climate Emergency Strategy.	LOWMED	MEDIUM	HIGH	HIGH	HIGH
High – service disruption of three to five days with high impact on staff, extreme delay to a project, affecting 16% to 25% of a budget, litigation/claims/fines of up to £500k, significant impact for at risk individuals, impact on residents across one or more wards, impact on at least two of the thematic areas in the Climate Emergency Strategy.	LOW	MEDIUM	MEDIUMHIGH	HIGH	HIGH
Medium – service disruption two to three days with some impact on staff, impact on a project a failure of benefits, affecting 6% to 15% of a budget, litigation/claims/fines of up to £250k, there are some safeguarding and duty of care impacts, there are some impacts on residents, impacts on at least one of the thematic areas in the Climate Emergency Strategy.	LOW	LOWMED	MEDIUM	MEDIUMHIGH	HIGH
Low – minimal service disruption with minimal impact of staff, minimal impact to a project, affecting 1% to 5% of a budget, litigation/claims/fines of up to £100k, consideration to be given to safeguarding and duty of care impacts, consideration given to number of residents affected, minimal impact to the thematic areas in the Climate Emergency Strategy.	LOW	LOWMED	LOWMED	MEDIUM	MEDIUM
Negligible – little service disruption with little impact of staff, minimal impact to a project, affecting up to 1% of a budget, litigation/claims/fines of up to £50k, minimal or no safeguarding and duty of care impacts, not impacting any residents, not impacting any of the thematic areas in the Climate Emergency Strategy.	LOW	LOW	LOW	LOWMED	LOWMED

Risk monitoring and reporting

Risk monitoring and reporting forms part of the quarterly Business Planning and Performance Management cycle which is led by the council's Business Intelligence Service. It follows a structured process from service level monitoring through to reporting to the public.

1. Risks are monitored in the first instance at service level where the lead officer scores the risk using the scoring matrix and associated guidance. These scores are then reported to the Business Intelligence Service.
2. BIS reviews all risk scores and challenges where necessary before reporting via the quarterly Integrated Performance Management dashboard to the Directorate Leadership Team.
3. All members of the DLT including the director review the risks on an exception basis (MEDHIGH or HIGH) to satisfy themselves that the risk is being controlled appropriately and if not to request more detail or adjust their scores.
4. Risks are then reviewed at Corporate Leadership Team also on an exception basis (MEDHIGH or HIGH) who undertake the same process on the Strategic Risk Register.
5. For each directorate quarterly monitoring sessions are held with the Leader of the council, the Chief Executive, the Executive Member, the Director, and the Head of Business Insight, Policy and Partnerships to review all Annual Directorate Statement Commitments and all Directorate Risk Registers.
6. The Audit Committee is also updated on quarterly basis where the Directorate and Strategic Risk Registers are discussed at committee.
7. All Scrutiny Panels receive a risk register update before the information is then published as part of the public Corporate Plan data dashboard available on our website.

At the end of this any newly identified risks or adjusted risks are folded into the next quarter's process.

Reporting and monitoring flow diagram

Services
↓
Directorate Leadership Team
↓
Corporate Leadership Team
↓
The Executive
↓
Audit Committee
↓
Scrutiny Panels
↓
Public website

North Somerset Council

Embedding the Framework page: gives the second aim and how we will achieve it (embedding the framework)

Embedding the framework

The risk management processes is embedded in our organisational activities to support decision-making

This Risk Management Strategy builds upon the previous strategy but now embeds risk management within our Business Planning and Performance framework, this ensures a clear link between our Corporate Plan and how we identify, manage and report risks. Alongside this the Risk Management Strategy is strongly embedded in decision making across the organisation to ensure that:

- Officers undertake a risk assessment on any proposal they are making using the standard risk management matrix.
- Officers ensure they have reviewed their proposal against their Directorate Leadership and Strategic Risk Registers – will the proposal impact on any of these risks i.e. will it help mitigate it?
- Where the risk assessment shows risks that are MEDHIGH to HIGH (either at inherent or residual stage) they are always reported as part of the overall proposal including any mitigating actions.
- Decision makers are able to review the proposal and be satisfied that it has been subject to a robust risk assessment.

Together these steps ensure that the decision making process has had effective scrutiny either at officer or at member level and there is strong assurance that the decision has been properly considered.

Decision making flow diagram

Proposal → Risk assessment of proposal inc. analysis and control → Review against DLT and strategic risk registers → Risk assessment complete → Report on any MEDHIGH and HIGH risks → Decision makers assurance → Decision agreed or refused → Update any risk registers as needed

North Somerset Council

Embedding the Framework page: continues the second aim and how we will achieve it (embedding the framework)

Embedding the framework cont...

To support embedding risk in our decision making:

- **Corporate decision making:** Executive, Committee and Corporate Leadership Team report templates include a section on 'Risk Management'. The section requires the report author to undertake a risk assessment using the 'decision making flow diagram'. Links are included in the report guidance to access the matrix and DLT and Strategic risk registers.
- **Financial planning:** the standard risk management matrix is used across Medium-Term Financial Planning to ensure consistency of risk scoring across budget planning. Finance specific risk registers are held and managed by the Finance Service.
- **Project management:** the Programme Management Office (PMO) requires that all transformation and capital projects hold a risk register which considers the risks to delivering the project outcomes before and throughout the project.
- **Partnership working:** the Policy and Partnerships team holds and manages a risk register analysing threats and opportunities that may impact our partnerships objectives.
- **Climate emergency:** the Climate Emergency project manager holds and manages a risk register analysing threats and opportunities that may impact our achievement of being a net zero council and area by 2030.
- **Procurement:** contract standing orders clearly specify that all risks and actions associated with the purchase need to be identified and assessed, kept under review and amended as necessary during the procurement process.
- **Contract management:** all significant risks associated with all stages of contract management are identified and kept under review in line with this Risk Management Strategy.
- **Information governance:** a risk register is held by the ICT Architecture Board to assess the level of risk and compliance on the use of information.
- **IT:** a risk register is held by Agilisys and reported to the ICT Architecture Board to assess the level of risk and compliance around IT systems and performance.
- **Insurance:** the council's Insurance team manages insurable risks and self-insurance arrangements.
- **Health and Safety:** the council has a specific risk assessment policy to be followed in relation to health and safety risks.

Individual services will also hold their own risk registers where appropriate.

North Somerset Council

Governance page: gives the third aim and how we will achieve it (governance and line of defence)

Governance

The risk management processes is well managed through a robust governance structure

To ensure risk management is effectively implemented, all officers and members should have a level of understanding of the Council's Risk Management Strategy and regard risk management as part of their responsibilities. Alongside this some officers and members will have specific governance responsibilities.

Who?	Governance responsibilities	Line of defence
Service and Project Managers	• Responsible for identifying, assessing and appropriately documenting risk within their area. • Responsible for managing their risks in line with the Risk Management Strategy and escalating risk where needed.	First line
Heads of Service	• Responsible for the effective leadership and management of risk in their service area to meet Corporate Plan aims and priorities in line with the Risk Management Strategy. • Be a champion for the Risk Management Strategy and encourage open and honest reporting.	First line
Directorate Leadership Teams	• Responsible for the strategic leadership and management of risk in their directorate to meet Corporate Plan aims and priorities in line with the Risk Management Strategy. • Constructively review and challenge the risks involved in decision making for their directorate. • Be a champion for the Risk Management Strategy and encourage open and honest reporting.	Second line
Corporate Leadership Team	• Responsible for the strategic leadership and management of risk across the organisation, ensuring an embedded, council-wide risk management culture. • Responsible for owning and managing the Strategic Risk Register in line with the Risk Management Strategy. • Ensure members receive regular risk management updates.	Second line
Internal audit	• Provide evaluation and challenge on the strategy and on risk registers	Third line
Executive members	• Regularly consider and challenge the risks involved in achieving Corporate Plan aims and priorities.	Third line
Audit Committee	• Provide guidance and assurance on the development and implementation of the Risk Management Strategy • Approve the Risk Management Strategy. • Regularly consider and challenge the risks involved in achieving Corporate Plan aims and priorities	Third line
Scrutiny Panels	• Regularly consider and challenge the risks involved in achieving Corporate Plan aims and priorities	Third line

Information and expertise page: gives the fourth aim and how we will achieve it (information and expertise)

Information and expertise

Risk management is collaborative, is informed by the best available information, and is continually improved through learning and experience

Our risk management framework is structured in line with best practice guidance from HM Treasury and we are committed to reviewing any new best practice guidance during the annual refresh of the strategy.

This risk management strategy is supported through a toolkit which includes the following:

- Risk identification tool
- Risk management matrix
- Escalating risk
- Decision making and governance guidance
- The Strategic Risk Register
- The Directorate Risk Registers

The strategy is also supported by the following training materials:

- An overview of managing risk as part of business planning and as part of the PMO.

Our values
As we manage risk throughout the organisation we will always do so in line with our values:

North Somerset Council

End page

North Somerset Council

Supporting toolkit links:

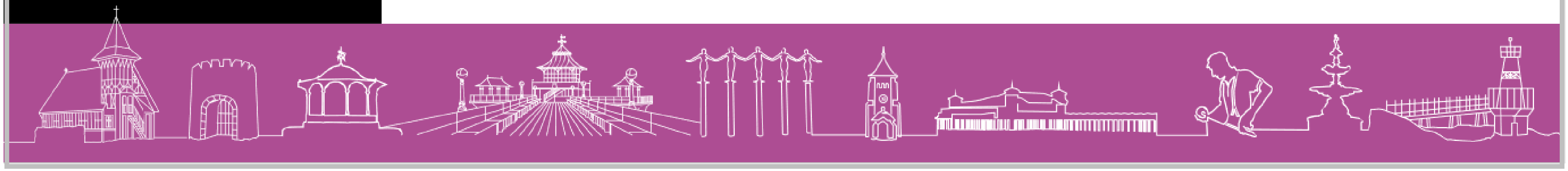
- Risk toolkit (within the PMO)
- Decision making and governance guidance
- The Strategic Risk Register
- The Directorate Risk Registers

Strategy links:

- Corporate Plan
- Climate Emergency Strategy
- Health and Wellbeing Strategy

Questions:

Business.planning@n-somerset.gov.uk



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North Somerset Council

Report to the Audit Committee

Date of Meeting: 24th November 2022

Subject of Report: Internal Audit Update November 2022

Town or Parish: None

Officer/ Member Presenting: Peter Cann - Audit West

Key Decision: No

Recommendations

The Audit Committee is asked to:

- Note progress in delivery of the 2022/23 Annual Internal Audit Assurance Plan.

1. Summary of Report

This report provides an update on progress in delivering the 2022/23 Annual Assurance Plan and summarises activity from 1st April to 1st November 2022.

2. Policy

The work of the Internal Audit Service is to provide independent assurance to the council's senior officers and members that governance, risk management and controls are sufficient in ensuring delivery of the council's objectives.

3. Details

The summary position as of November 2022 is as follows:

- Work on the plan continues to progress and as at the 1st November approximately 69% of audit activity was in progress or complete.
- There has been one audit report issued in draft where it was considered that the overall systems of control provided 'Limited Assurance'.
- All recommendations that were due to be implemented have been followed up.
- One investigation was started and completed. Separate to this, a detailed fact-finding piece of work was also completed at the request of Senior Management.
- Whilst no major changes to our planned work are required, due to the additional time spent on the investigation, the fact-finding work and also extended work that will likely be needed on a planned audit (Home to School Transport), it is possible that we may have to defer a small amount of audit activity into 2023/ 2024.
- A range of fraud prevention and detection measures are in place, including recent provision of new fraud prevention training material, and also staff guidance in association with International Fraud Awareness Week.

1) SIGNIFICANT ISSUES

Assurance Levels and Significant Risks

1.1 From the audits completed since April where an assurance rating has been given, there have been no internal audit reports issued so far this year where it was considered that the systems of internal control were poor (‘Level 1’).

1.2 There has been one report issued in draft where it was considered that the overall systems of internal were weak (‘Level 2’) and this was in respect of an ICT review that covered Mobile Devices.

1.3 The key issues identified during the review concerned:

- Approximately 25% of mobile devices were running operating systems which are no longer supported
- Whilst an Asset Register is in place, details of mobile devices were not always kept up to date and did not always record the asset user
- There were no complete records held of lost or stolen devices and therefore we could not provide assurance that appropriate action was taken for missing devices

Further issues were also identified, relating to the allocation of devices, the need to update policies and procedures, excessive data being used on mobile devices, and IT devices for staff that have left being retained by service areas in some instances.

1.4 At the time of writing this update report, the Mobile Devices report was in draft form and a formal management response to the audit findings and recommendations was being awaited. The findings had, however, been verbally agreed with the service at the close of the audit.

Investigations and Unplanned Work

1.5 As previously reported to the Audit Committee, one investigation has been undertaken so far this year relating to two allegations within the Place Directorate which related to reported non-compliance with procurement processes. The investigation was completed and concluded that neither of the two allegations were substantiated.

1.6 In addition to the investigation described above, Internal Audit were also asked to undertake a detailed review of the project management and decision-making process around the council’s Garden Waste subscription service. Audit work in this service area was already planned for 2022/23, however the scope of the planned review changed and the depth of the work increased at the request of Senior Management. This work has now been completed and reported to the Assistant Director (Neighbourhoods & Transport) and the Council’s Section 151 Officer.

Counter Fraud

1.7 Members will be aware that we revised the Council’s Counter Fraud Strategy, the Whistleblowing policy, the Anti-Money Laundering policy, and the Anti-Bribery and Corruption policy in April this year.

1.8 We have continued to provide fraud prevention information to staff, including through some new bitesize training PowerPoint videos that we have developed entitled “5 Minutes of Fraud”. These videos can be accessed by staff at their convenience and give a broad overview of fraud risks to look out for, as well as what staff can do to prevent them. Videos produced so far cover:

- An Introduction to Fraud
- Mandate Fraud
- Payroll and HR Fraud
- Procurement Fraud
- Social Care Fraud

We will continue to produce these videos to cover further service areas and also to highlight new and emerging risks.

1.9. November also marked ‘International Fraud Awareness Week’ (13^{th}-19^{th}). To coincide with this, we also produced a special edition of ‘The Source’ newsletter which outlined all the key fraud prevention information available to officers. The intranet pages have also been updated to further signpost staff to guidance and training available to them.

1.10 Data analytics work has been undertaken in order to prevent and detect internal fraud and error. Internal data matching takes place throughout the year and this is partly completed via IDEA – an internal audit data analytics software tool. From the work completed, we have not identified any fraud. However, we did identify 59 duplicate payments with an average value of £997. The matches were investigated and it was identified that the payments had already been identified by the Accounts Payable and had either been cancelled or reversed. As a result, no outstanding duplicate payments remained, but we will be working with the Accounts Payable team to understand the root cause of how the duplicate payments originally occurred.

1.11 Work on the National Fraud Initiative (NFI) continues and is on track to be completed by the end of the financial year. The NFI results will be reported in detail to the Committee when complete.

1.12 We are also continuing to see an increase in Fraud referrals from external sources via the refreshed fraud/ whistleblowing reporting tool on the Council’s website. So far this year, we have already received 28 external referrals.

1.13 Our dissemination of fraud alerts to staff and continued work with areas of particular exposure to fraud continues to pay off and a recent example of this was that an attempted fraud of £58,560 was prevented. In this situation, the Accounts Payable team had received email correspondence from the ‘Director’ of a company asking the Council to replace an invoice already received with a revised copy which had different bank details, citing that their usual bank account had been blocked. The Accounts Payable team followed the correct procedures and telephoned the company Director to further verify the change of bank details. The Director confirmed that this was a scam and that his email address had seemingly been compromised.

The Accounts Payable team should be congratulated on preventing this large fraud and for continuing to follow the robust controls previously agreed with internal audit.

2) COMPLETION OF AUDIT PLAN

2.1 There are currently 48 pieces of audit work within the plan and there have been no major changes to it since it was agreed in April 2022. Of the total number of audits:

- 8 Audits had been completed and 5 were at reporting stage
- 13 Audits were in progress, 6 were ongoing pieces of work and 1 was in planning
- 15 Audits were yet to commence

A breakdown of detailed activity is shown below.

Audit Area	Status	Opinion	No of Rec's	High	Medium	Low
Fraud - Data Analytics	Complete	N/A	N/A	-	-	-
Fraud - National Fraud Initiative (NFI)	Ongoing					
Fraud - Training, Advice and Guidance	Ongoing					
Governance - Annual Governance Statement	Ongoing					
Governance - Audit Committee, Boards, Advice and Guidance	Ongoing					
Follow-up of Previous Year Recommendations	Ongoing					
Weston Town Centre Transport Enhancement Scheme	Complete	N/A	N/A	-	-	-
Travel Demand Management Grant	Complete	N/A	N/A	-	-	-
High Impact Families / Supporting Families	In Progress					
Metro West LGF	Complete	N/A	N/A	-	-	-
Weston General Stores	Complete	N/A	N/A	-	-	-
Transitions Fund	In Progress					
CBSSG	Complete	N/A	N/A	-	-	-
Test and Trace Payments	Not Started					
DFT Potholes, Highway Maintenance and City Deal	Complete					
Grant Thornton Value for Money Review	Not Started					
Budget Setting Process	In Progress					
Contracts/ Procurement	Not Started					
Agilisys/ Liberata KPI's	Reporting					
ICT - Network Access Configuration	In Progress					
ICT - 3rd Party Web Based Systems	Not Started					
ICT - Mobile Devices	Reporting					
Information Governance	Not Started					
Capital Governance	Not Started					
Register of Interests & Declaration of Gifts and Hospitality	In Progress					
Mandatory Training - Implementation of Revised Procedures	In Progress					
Lone Working	In Progress					
North Somerset Environment Company	Not Started					
Updates to Payroll System - Series of Audit/ Assurance Work	In Progress					
Garden Waste	Complete	N/A	N/A	-	-	-
Sea Front Concessions	Not Started					
Placemaking/ SEE MONSTER event - Advice and Guidance	Ongoing					
Home to School Transport Service	In Progress					
Fleet Management	Planning					
Car Parking Income	Not Started					
Planning Service	Not Started					
Direct Payments	Not Started					
Emergency Payments/ Welfare Provision	In Progress					
Housing - Homelessness Prevention Service	Not Started					
Payments to Foster Carers	In Progress					
Children's Services Placements - Governance & Procurement Arrangements	Not Started					
School Assurance Visit - Westhaven School	Reporting					
School Assurance Visit - St Joseph's School	Reporting					
School Assurance Visit - Golden Valley School	Reporting					
School - Follow-up work	In Progress					
School Financial Value Standard	Not Started					
School Fund Certificates	In Progress					
Capita System	Not Started					

2.2 As we pass the halfway stage of the financial year, we review progress against our planned activity and consider the impact of any unplanned work against completion of the overall plan.

2.3 No major changes to our planned work are anticipated. However, due to the additional time spent on the investigation within the Place Directorate, and the Green Waste subscription service fact-finding work, as well as the likelihood that the Home to School Transport service audit will be more in-depth than originally anticipated due to ongoing pressures within that service area, it is possible that we may have to defer a small amount of audit activity into 2023/ 2024. We will confirm this to Members in the January 2023 Audit Committee meeting.

3) IMPLEMENTATION OF RECOMMENDATIONS

3.1 A total of 37 recommendations have been made this financial year. This includes recommendations made from 2021/22 audits where the reports were issued in 2022/23. Specifically, there were 6 High, 26 Medium and 4 Low rated recommendations. One specific opportunity was also highlighted.

3.2 Whilst all of the recommendations that are due to be implemented have been followed up with the officer(s) responsible, we are still awaiting responses on eleven recommendations relating to the Housing Jigsaw System to confirm the recommendations have actually been implemented. These are shown in Table 1.

TABLE 1: Recommendations due - awaiting evidence to confirm implementation

	Recommendations Raised						
Audit Name	**High**	**Medium**	**Low**	**Opp**	**Total**	**Recommendation Status**	**Planned Implementation Date**
Housing – Jigsaw System	0	7	3	1	11	Followed-up – Awaiting evidence	03/10/2022

3.3 A full breakdown of recommendations raised this financial year is shown in Appendix B. This information will continue to be updated throughout the year and reported regularly to the committee so that Members can understand any common areas of weakness across various service areas. For transparency, any recommendations made which were not agreed by the auditee will also be recorded in this summary.

4) PSIAS ASSESSMENT

4.1 The Public Sector Internal Audit Standards (PSIAS) came into effect from 1st April 2013 and replaced the CIPFA Code of Practice for Internal Audit in Local Government, Central Government, and the NHS. The PSIAS are based on the Institute of Internal Auditors' International Standards.

4.2 An external assessment against the standards is required once every 5 years. An external review of our conformation against these standards is due later this year and we will report to Members on this accordingly

5. Consultation

In developing and delivering the Annual Audit Assurance Plan the Internal Audit Service has consulted widely with officers and members.

6. Financial Implications

There are no direct financial implications from this report which is focussed on updates.

7. Legal Powers and Implications

There are no direct legal implications from this report which is focussed on updates.

8. Climate Change and Environmental Implications

The council faces a wide variety of climate change and environmental impacts whilst delivering its many services to residents, some of which have a direct or indirect financial impact or consequence. There are referenced or noted, where appropriate, throughout the report.

9. Risk Management

Significant risks to the council arising from an ineffective Internal Audit Service include lack of internal control, failures of governance and weak risk management. Specific risks include supplementary External Audit Fees and undetected fraud. The Internal Audit Service assists the council in addressing its risk profile. Internal Audit helps by identifying risks, improvement areas and by institutionalising good practice.

10. Equality Implications

Embedded within the audit process is consideration of compliance with statutory guidance and regulations which includes those relating to equality and diversity.

11. Corporate Implications

Failure to deliver the agreed Annual Assurance Plan may result in an inability to provide assurance to officers, members, and the public of the soundness of the council's corporate governance.

12. Options Considered

None

AUTHORS

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BACKGROUND PAPERS

Annual Audit Assurance Plan 2022/23 Audit Committee April 2022

Appendix A – Internal Audit Opinions

Assurance Rating	Opinion
Comprehensive Assurance - Level 5	The systems of internal control are **excellent** with a number of strengths and comprehensive assurance can be provided over all the areas detailed in the Assurance Summary
Substantial Assurance – Level 4	The systems of internal control are **good** and substantial assurance can be provided. Only minor weaknesses have been identified over the areas detailed in the Assurance Summary
Reasonable Assurance – Level 3	The systems of internal control are **satisfactory** and reasonable assurance can be provided. However there is one area detailed in the Assurance Summary which requires improvement and specific recommendations are detailed in the Action Plan
Limited Assurance – Level 2	The systems of internal controls are **weak** and only limited assurance could be provided over a number of areas detailed in the Assurance Summary. Prompt action is necessary to improve the current situation and reduce the risk exposure
No Assurance – Level 1	The systems of internal controls are **poor**, no assurance can be given and there are fundamental weaknesses in the areas detailed in the Assurance Summary. Urgent action is necessary to reduce the high levels of risk exposure and the issues will be escalated to your Director and the Audit Committee

Appendix B – Recommendation Tracker

Ref	Status	Audit Name	Description	Priority	Agreed with Auditee	Final Report Date	Planned Implementation Date	Date Implemented
R1	Implemented	Financial Assessments (Non-Residential)	Quality checks should be conducted to ensure that the assessments are fully completed and that all appropriate documents are obtained. Customer records sheet not fully completed in all cases. Copies of bank details should be obtained where possible to ensure the service users do not have sufficient funds to pay for services themselves.	Medium	Yes	19/04/2022	30/06/2022	15/06/2022
R2	Implemented	Financial Assessments (Non-Residential)	A record log of appeals should be maintained which evidences the details of the appeal, the dates of all actions taken and the outcome or findings of the appeal. Details of the number and types of appeals should be reviewed so that they can be used to identify any issues or training requirement for staff. The ability to appeal the financial assessment and details of the process should be made available to the service user.	Medium	Yes	19/04/2022	30/06/2022	12/09/22 *this was a revised implementation date agreed with the client

R3	Not Yet Due	Financial Assessments (Non-Residential)	Procedure notes should be produced outlining all the steps required for the annual update of the system, to ensure that staff are aware of the process. Regular reviews of this procedural guidance should be undertaken on at least an annual basis or when important changes are made to the process. The procedure notes should be document controlled with the date of the review and any amendments included in a version control sheet within the document. Once updated the revised procedures should be disseminated to all appropriate staff in a timely manner and made easily accessible. A sign off sheet or other evidence should be retained to evidence that the annual update has been fully completed in line with the procedures.	Medium	Yes	19/04/2022	31/03/2023
R4	Not Yet Due	Financial Assessments (Non-Residential)	It is recommended that the review currently being undertaken out on the Financial Assessments toolkit is completed to ensure that it is up to date. Regular reviews of this document should be undertaken on at least an annual basis or when important changes are made to the process. The toolkit should be document controlled with the date of the review and any amendments included in a version control sheet within the document. Once updated the revised procedures should be disseminated to all appropriate staff in a timely manner and made easily accessible.	Medium	Yes	19/04/2022	31/03/2023

R5	Not Agreed	Financial Assessments (Non-Residential)	When the system was set up it was required to obtain a signature either a physical paper based or electronic on an iPad. The legal advice, whilst acknowledging presumed consent, also advises that it would be better to also obtain digital confirmation. It would be relatively simply to send out the physical letter to service users asking them to sign and return the letter to confirm acceptance. As a result, letters should be sent to service users requiring them to sign and accept the terms and conditions. Once face to face financial assessments resume after the conclusion of the pandemic, the system of obtaining digital signatures should be resumed.	Medium	No			*I do not envisage a time when face to face visits will recommence. Printing, sending and then monitoring return signatures will be onerous. I offer an alternative whereby we implement an on-line self-service financial assessment process. Investigations are underway. If we do not implement an on-line solution I will consider sending paperwork in the post for service users to sign and return.*
R6	Overdue	Housing Jigsaw System	The Housing Assessment Team Manager should develop a formal Quality Assurance process which should be referred to in the current policy (see M1 and M2 above). This would include (but not limited to) • maintaining a central record of all completed sample checks. • developing a methodology for picking work types included for sample checking • a risk-based approach should be considered.	Low	Yes	09/05/2022	03/10/2022	Client has not yet provided a response - we are continuing to chase-up
R7	Overdue	Housing Jigsaw System	The Housing Solutions team should ensure that procedure guidance is in place for this scheme and made available to the relevant parties including Housing Associations. Regular reviews of these procedures should be undertaken on at least an annual basis or when important changes are made to the process. The procedural manuals should be document controlled with the date of the review and any amendments included in a version control sheet within each procedural manual. Revised procedures should be disseminated to all appropriate staff in a timely manner and made easily accessible.	Medium	Yes	09/05/2022	03/10/2022	Client has not yet provided a response - we are continuing to chase-up

R8	Overdue	Housing Jigsaw System	The Housing Solutions team undertake a periodic review of users and user access levels. This would include regular review of third parties with access to the system.	Medium	Yes	09/05/2022	03/10/2022	Client has not yet provided a response - we are continuing to chase-up
R9	Overdue	Housing Jigsaw System	The Housing Service should undertake a review of the Home Choice Letting and Assessment Policy and where necessary ensure this is subject to formal consultation. The review of the policy should include: • Review of debt/arrears levels. • Adding a section on changes in circumstance. • Development of policy for when automatic bidding is applied. • Data protection /GDPR requirements including DPIA.	Medium	Yes	09/05/2022	01/10/2022	Client has not yet provided a response - we are continuing to chase-up
R10	Overdue	Housing Jigsaw System	The Housing Solutions team should work with the systems provider to resolve this issue. Where practicable, evidence should be maintained on one central record to enable the Housing teams to access to supporting records/evidence provided by customers.	Medium	Yes	09/05/2022	03/10/2022	Client has not yet provided a response - we are continuing to chase-up
R11	Overdue	Housing Jigsaw System	The Housing Solutions team should make use of the online forum to discuss usage/future development of the current system with other Local Authorities.	Opportunities	Yes	09/05/2022	03/10/2022	Client has not yet provided a response - we are continuing to chase-up
R12	Overdue	Housing Jigsaw System	The Housing Solutions team should develop the existing dashboard to enable them to monitor annual review process. We consider this would be useful for monitoring purpose and would provide assurance that the system/process are correctly identifying and processing annual reviews.	Low	Yes	09/05/2022	03/10/2022	Client has not yet provided a response - we are continuing to chase-up
R13	Overdue	Housing Jigsaw System	The Housing Solutions team should consider paper notification for vulnerable housing applicants. This would include annual review notifications.	Low	Yes	09/05/2022	03/10/2022	Client has not yet provided a response - we are continuing to chase-up

R14	Overdue	Housing Jigsaw System	The Housing Solutions team should develop standard user profiles linked to job roles. These profiles should be subject to regular review in line with recommendation M3 above.	Medium	Yes	09/05/2022	03/10/2022	Client has not yet provided a response - we are continuing to chase-up
R15	Overdue	Housing Jigsaw System	The Housing Solutions team should review the usage of checklists in future. This should include consultation within the team, and also with other Local Authorities who use this system.	Medium	Yes	09/05/2022	03/10/2022	Client has not yet provided a response - we are continuing to chase-up
R16	Overdue	Housing Jigsaw System	The Housing Solutions team should provide formal notification of any changes to banding (following their original application).	Medium	Yes	09/05/2022	03/10/2022	Client has not yet provided a response - we are continuing to chase-up

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R17	Not Yet Due	ICT - Software Asset Management	The Information & ICT Security Manager should: - Implement periodic spot-checks of internet logs to detect shadow IT /unauthorised web-based software use. Spot checks could target different service areas each time they are performed. - Shadow IT should be embedded into a self-assessment policy that invites service areas to identify and analyse their use of shadow IT, and feed results back to IT services for record keeping and resolution. - Instances of shadow IT detected should be reviewed and evaluated, highlighting any reasons why IT were not directly involved in sourcing the service. Periodic spot-checks of internet logs to detect shadow IT has been found to be too resource-intensive. Shadow IT self-assessment policy will form part of the revised Information Security Policy Framework which is due for completion on 31/12/2022. 3. Instances of shadow IT detected, for example, DropBox, have been identified by Information & ICT Security Manager, and blocks were enabled on the firewall.	Medium	Yes	09/08/2022	01/09/2022	Agreed with the client a revised date of 31/12/2022

R18	Implemented	ICT - Software Asset Management	The Information & ICT Security Manager, in liaison with the IT Service Provider, Agilisys, should request and review periodic reports on software purchased, deployed and available within the Council. The Information & ICT Security Manager should use custom reports to perform more detailed analysis, which may in turn help to inform decision making and produce cost saving benefits. Examples of periodic reports are: - Software installed reconciled against records of software purchased - New types of software procured - Software licenses expired - Maintenance and support agreements that have lapsed - Total software purchases (including licence and maintenance agreements) vs Savings made.	Medium	Yes	09/08/2022	01/09/2022		01/09/2022
R19	Implemented	ICT - Software Asset Management	The Information & ICT Security Manager, in liaison with the IT Service Provider, Agilisys, should review the user access listing, once received, for appropriateness. Agilisys should request an access list from Snow on at least an annual basis, or when a member of Agilisys staff leaves/changes role. This list should be reconciled to the existing access list to confirm accuracy.	Medium	Yes	09/08/2022	01/09/2022		01/09/2022

R20	Implemented	ICT - Software Asset Management	The Information & ICT Security Manager, in liaison with the IT Service Provider, Agilisys, should set agreed project milestones and a realistic completion date for the implementation and optimisation of Snow as the single inventory method for licensed software assets. Additionally, the Council should seek assurance regarding the adequacy of the backup arrangements of the Snow system.	Medium	Yes	09/08/2022	01/09/2022	01/09/2022
R21	Not Yet Due	ICT - Software Asset Management	The Information & ICT Security Manager, in liaison with the IT Service Provider, Agilisys, should create and implement a software asset disposal process. This process could be embedded within existing policy and procedure. Within the software asset disposal process, establish how sensitive data contained within licensed software is removed as part of the decommissioning process and the point at which the Software Inventory is updated.	High	Yes	09/08/2022	01/09/2022	Agreed with the client a revised date of 31/12/2022
R22	Implemented	ICT - Software Asset Management	The Information & ICT Security Manager should update the IT Risk Register to include risks and mitigating actions related to Software Asset Management. Examples of software asset risks are: - Risk of malicious, faulty, outdated, or unsupported software in use. - Risk of unregulated shadow IT.	Medium	Yes	09/08/2022	01/09/2022	01/09/2022

R23	Not Yet Due	ICT - Software Asset Management	The Information & ICT Security Manager should update the Council's Acceptable Use Policy to include guidance and direction aimed at regulating shadow IT (services that have not been approved by IT).	Medium	Yes	09/08/2022	01/09/2022	Agreed with the client a revised date of 31/12/2022
R24	Implemented	ICT - Software Asset Management	The Information & ICT Security Manager should include periodic awareness updates within the circular newsletter (‘The Knowledge’) that address the use of shadow IT.	Medium	Yes	09/08/2022	01/09/2022	01/09/2022

R25	Not Yet Due	Interfaces (Liquid Logic/ ContrOCC/ Agresso)	The exception reporting functionality should be switched on within the ContrOCC system for both Adults and Children's services. Exception reporting could include areas such as: • Accounts • Actuals • Care Package Line Items • Clients • Contract Payment Methods • Contract Payment Periods • Invoice Item • Payment Item • Service and Block Commitment Service Provision. Consideration should also be given to the exception reports referred to in the user guide, these include: • Invoices Exceptions – reports on a specific Invoice and all related entities, for example Cost • Items (in the Payment Reports section) • Payments Exceptions (Payment Reports) • Pending Payments Exceptions – report for authorised but not finalised Payments (Payment • Reports) • Scheduled Payments Exceptions (Payment Reports) • Clients Exceptions (Client Reports) • Provider Exceptions (Services Reports) We consider that exception reporting to be a key control within this system, and steps should be undertaken by both the Adults and Children's services to configure the level of exception reporting that is required.	High	Yes	11/08/2022	30/01/2023

R26	Implemented	Interfaces (Liquid Logic/ ContrOCC/ Agresso)	The Finance Business Partner should review spending limits within Liquidlogic/ContrOCC for each approved individual to ensure that they are appropriate and relevant. The spending limits applied to the authorised personnel should not exceed the levels as specified in the Council's Scheme of Delegation. Spending limits should be subject to at least an annual review or when an individual's role changes and records should be kept of the outcome, including any actions taken.	Medium	Yes	11/08/2022		11/08/2022
R27	Not Yet Due	Interfaces (Liquid Logic/ ContrOCC/ Agresso)	The Children's Systems Governance Board should liaise with Liquidlogic to ascertain if the system functionality can be amended to flag care packages that are: 1) approaching their end date; 2) where no end date has been entered; 3) packages where the child is approaching eighteen years of age. The contract wording with the provider should be reviewed to ensure that the provider is required to pay back funds if an overpayment is made due to an error by either party.	Medium	Yes	11/08/2022	01/01/2023	
R28	Not Yet Due	Interfaces (Liquid Logic/ ContrOCC/ Agresso)	The Information and ICT Security Manager should liaise with the Agilisys Systems Access team to ensure that they carry out a regular review of the users of ContrOCC Adults and ContrOCC Children's to verify that the level of access is appropriate for their job role, and to check if access needs to be removed for any persons who no longer need access or have left the council. The review should take place on at least an annual basis and a record should be held of the outcome of the review, including any actions taken.	Medium	Yes	11/08/2022	30/01/2023	

R29	Not Yet Due	Interfaces (Liquid Logic/ ContrOCC/ Agresso)	The Children's Systems Governance Board should liaise with Liquidlogic to determine whether system-controlled segregation of duties could be implemented for LCS. The Children's Systems Governance Board should also determine whether LAS has the same segregation of duties issue. In the interim period, the operational Manager for Adults Services and Children's Services should implement a monthly review of system audit trails to ensure that segregation of duties is maintained.	Medium	Yes	11/08/2022	30/01/2023
R30	Not Yet Due	Interfaces (Liquid Logic/ ContrOCC/ Agresso)	The NSC Lead for the care systems (LCS and ContrOCC) should develop formal training to ensure new and existing users are given appropriate and relevant training for their job function. Consideration should be given to ensuring that the training developed for LCS and ContrOCC is aligned with that of LAS. Refresher training and updates should also be provided on at least an annual basis and when procedures change. Evidence of staff training should be retained.	Medium	Yes	11/08/2022	01/01/2023

R31	Not Yet Due	Interfaces (Liquid Logic/ ContrOCC/ Agresso)	The Children's Systems Governance Board should liaise with the vendor to explore exception reporting and this should be documented within the relevant risk register and minuted. The Children's Systems Governance Board should investigate the reason for the overpayment of £476,850 in LCS and then identify manual compensating controls for example, checking controls could be introduced at the interface junction between LAS/LCS and ContrOCC. The outcome of the overpayment investigation should be documented and appropriate action taken to prevent a repeat occurrence.	High	Yes	11/08/2022	30/01/2023	
R32	Implemented	MetroWest & HIF	It is recommended that the Project Management Plans/ Delivery Manual are reviewed by management at pre-defined intervals. These intervals should be set In-line with the project, taking place at the end of each stage of the project's lifetime. These reviews should then be recorded on a version control sheet within the document.	Low	Yes	27/05/2022	01/09/2022	01/09/2022
R33	Implemented	Payments to Child Care Providers	It is recommended that the reconciliations are independently checked and signed by the Funding Manager each month and a record is held of completed account reconciliations. The record should include the date the reconciliation was approved, the reviewers name, and details of the independent check. This information could be recorded within an existing monthly checklist or signed and dated on a paper copy and retained as proof that the check has been undertaken.	Medium	Yes	05/04/2022		05/04/2022

R34	Not Yet Due	Payments to Child Care Providers	The Funding Manager should ensure that periodic audit visits are carried out to check childcare providers are providing accurate funding claim information. It is recommended the level of provider visits should be appropriate to the number of providers and / or problems identified during the claim process. It is recommended that attendance records are reviewed in detail to check they match the Parent Declaration Form and funding claims to confirm the funded hours being paid are accurate. Any queries raised should be recorded and retained to support all anomalies and where issues have been identified these should be reported to the childcare provider. Any inaccuracies should be followed up with an amended payment/ reclaim of funds and the outcome of the visits should be reported to the EY Service Manager to ensure appropriate management action can be carried out.	Medium	Yes	05/04/2022	31/03/2023	
R35	Not Yet Due	Payments to Child Care Providers	It is recommended that the Funding Officer should develop version controlled operational procedural guidance for the funding team to ensure that the early years funding claims are processed in a consistent manner.	High	Yes	05/04/2022	31/03/2023	
R36	Implemented	Payments to Child Care Providers	It is recommended that the Funding Team obtain a signed agreement from childcare providers to confirm they have read and understood the terms and conditions of the North Somerset Agreement. A record should be held of the signed agreements and if changes are made to the agreement a new signed copy should be held.	High	Yes	05/04/2022		05/04/2022
R37	Not Yet Due	Payments to Child Care Providers	It is recommended that additional staff within the funding team are trained to cover the role currently undertaken by the individual undertaking payments to childcare providers to ensure continuity in the service.	High	Yes	05/04/2022	31/03/2023	

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Grant Thornton

The Audit Findings for North Somerset Council

Year ended 31 March 2022

November 2022

Contents

Your key Grant Thornton team members are:

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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 planning 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 the Council or all 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.

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management and the Audit Committee.

Name : Barrie Morris
For Grant Thornton UK LLP
Date : 13 September 2022

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of North Somerset Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2022 for those charged with governance.

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Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the group and Council's financial statements give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed remotely during June-September 2022. Our findings are summarised on pages 5 to 20. In our work to date we have not identified any adjustments to the financial statements. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Our work is ongoing and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the following outstanding matters:

- ~~Sample testing of debtors, journals, payroll transactions, grants, fees and charges and cut off. This is a mix of part received samples and awaiting information from management~~
- ~~Review of employee remuneration disclosures~~
- Finalising of our Other Land & Buildings testing including review of assumptions used by the valuer ~~and confirmation of school's valuations~~
- Finalisation of our testing of pension liabilities including receipt of the updated pension fund auditor assurance response
- Group audit work to review and assess work undertaken by the component auditor
- Final review of audit file by the key audit partner
- Receipt of management representation letters; and
- Review of the final set of financial statements

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unmodified.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix G to this report. We expect to issue our Auditor's Annual Report by December 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified a risk in respect of financial sustainability. Our work on this risk is underway and an update is set out in the value for money arrangements section of this report.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory power or duties

We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion

Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the group's business and is risk based, and in particular included:

- An evaluation of the group's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that an audit of North Somerset Environment Company was required, which was completed by Thomas Westcott.
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion. These outstanding items include have been identified on page 3 of this report.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. As highlighted on page 18 of our audit plan presented to the Audit Committee in April 2021, the impact of the pandemic has meant that both your finance team and our audit team faced audit challenges again this year, such as remote accessing financial systems, video calling, physical verification of assets, verifying the completeness and accuracy of information provided remotely produced by the entity.

2. Financial Statements

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Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

We have revised the performance materiality from the Audit Plan on receipt of the first year group accounts.

We detail in the table below our determination of materiality for North Council and group.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	£7.85m	£7.75m	
Performance materiality	£5.9m	£5.8m	Our performance materiality has been set at 75% of our overall materiality
Trivial matters	£390k	£380k	This is set at 5% of financial statements materiality and reflects a level below which stakeholders are unlikely to be concerned by uncertainties
Materiality for senior officer remuneration	-	£20k	This is a politically sensitive figure of interest to the users of the accounts.

2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Management override of controls Under IAS (UK) 240, there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of controls, 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 misstatements.	We have: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals through our data analysis software Inflo • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness • we have reviewed manual journals within inflo to identify those deemed to be high risk being selected for testing. We have selected and shared the sample of journals with the Council for them to provide us with evidence to support the entries. • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration Our testing of journals followed the approach adopted in the previous year. During the year the Council posted 119,796 journals with a total value of £13.7bn. The number of journal users was 62. Within the journal population we identified one entry that had been posted by an officer that was no longer employed by the Council. Further investigation identified that this was an automated interface with a named officer for the purpose of administration. Whilst this has no impact on the financial statements it is still considered bests practice that all system information is updated to reflect officers no longer employed by the Council. We have raised a recommendation in relation to this finding. We have also noted that the control recommendation raised in prior year in respect of journals has not been implemented and remains a recommendation this year. Our testing of journal entries made in year is currently ongoing.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Income from Fees, Charges and other service income (ISA240 revenue risk) 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.	**For North Somerset Council, we have concluded that the greatest risk of material misstatement relates to 'Fees, Charges and other service income'. We have therefore identified occurrence and existence of 'Fees, Charges and other service income' as a significant risk.** Having considered the risk factors set out in ISA240 and the nature of the other revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition for these can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including North Somerset Council, mean that all forms of fraud are seen as unacceptable. • The majority of income in subsidiaries is a single source of funding from the Council in the form of a small number of management fees or loan transactions which are easily verifiable. This, along with minimal third party income, means there a limited opportunities to manipulate revenue. For 'Fees, Charges and other service income', we have: • Evaluated the groups accounting policy for recognition of income from 'Fees, charges and other service income' for appropriateness; • Gained an understanding of the Council's system for accounting for income from 'Fees, Charges and other service income' and evaluated the design of the associated controls; • Agreed, on a sample basis, amounts recognised as income from 'Fees, Charges and other service income' in the financial statements to supporting documents. ~~We have shared our sample with management and have been provided with supporting documentation which the audit team will review to provide assurance that disclosures are appropriate~~ Testing of fees and charges included low value items which were defined as those below £1,000 in line with the Council's accrual policy. This testing identified two errors from five sample items with an extrapolated misstatement value of approximately £3.5m although we would do not require that the Council adjust for an extrapolated error. The value is below materiality and therefore assurance has been provided that the Council's policy is appropriate. Testing of larger items within the sample population did not identify any errors.
The expenditure cycle includes fraudulent transactions In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period)	We have considered both pay and non pay costs and considered there to be little opportunity for fraudulent transactions. Pay costs are determined b employee contracts and are standard monthly payments. Non pay costs are based on supplier invoice transactions and have to be paid within a set timeframe. As part of the audit we have considered the completeness, accuracy and occurrence of expenditure transactions by: • Evaluating the design and implementation effectiveness of the accounts payable process • Testing a sample of transactions incurred around the year end to ensure these have been accounted for in the appropriate financial period • Testing a sample of accruals made at year end that have not yet been invoiced to assess whether the valuation has been calculated on an appropriate basis. Therefore we do not consider this to be a significant risk for North Somerset Council and have rebutted this presumed risk. Our testing has not identified any issues in relation to fraudulent transactions in the expenditure cycle

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2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings (rolling revaluation) The Council revalue it's land and buildings on a rolling basis. This valuation represents a significant estimate by management in the financial statements due to the size of the number involved £184m at 31/03/21) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council's 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). We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk of material misstatement	We have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation expert and the scope of their work. • evaluated the competence, capabilities and objectivity of the valuation expert. • written to the valuer to confirm the basis on which the valuations were carried out. • reviewed the fixed asset register and valuation reports to identify a sample of land and buildings which have been revalued in year for further testing. In doing this we considered those assets whose values at 31 March 2021 are above performance materiality, those assets where there has been a valuation movement or other change outside of our expectation and a sample of assets where the movement is in line with expectation • for each item within our sample requested detailed calculation sheets for the 2021 revaluation exercise to support and evidence the assumptions used to calculate the updated valuations. From our work we identified a trivial balance of assets that were last revalued in 2014-15 which is outside of the prescribed five year period as per the Code. This is a control issue that the Council should review to ensure that they are complying with the requirement of the code. Our work identified that there is no formal exercise undertaken to verify the existence of assets and reliance is placed upon additions and disposals transactions. We further noted that within the fixed asset register (FAR) there were a large number of assets that had a nil net book value, i.e. were fully depreciated and therefore at the end of their useful economic life. However, their gross book value remained on the FAR, with a value of £20.3m. We queried with management whether these assets remain operational and if so whether the useful economic life assumptions are appropriate. A recommendation has been raised.
Valuation of Investment Property The Authority revalue it's investment property on an annual bases to ensure that the carrying value is not materially different from the fair value at the financial statements date. 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. The Authority's commercial investment portfolio consists of the North Worle District Centre and the Sovereign Centre in Weston-Super-Mare. Management has engaged the services of a valuer to estimate the current value of these two assets as at 31 March 2022. We therefore identified valuation of investment property, particularly revaluations and impairments as a significant risk, which was one of the most significant assessed risks of material misstatements, and a key audit matter.	We have: • Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • Evaluated the competence, capabilities and objectivity of the valuation report; • Written to the valuer to confirm the basis on which the valuations were carried out; • Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • Engaged out own expert to assess the instruction to the Council's valuers, the Authority's valuer's report and the assumptions that underpin the valuation of the investment properties; • Tested revaluations made during the year to see if they have been input correctly into the Council's asset register; and • Tested on a sample basis, revaluations made during the year to ensure they have been input correctly into the Council's asset register. We have been provided with evidence by management and have agreed movements in year back to the supporting documentation No issues have been identified in relation to this area of work.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of pension fund net liability The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£266m in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 2% effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Council's pension fund net liability as a significant risk.	We: • Updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • Evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • Assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • Assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability • Tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary • Undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; Work to be completed: • We have discussed with the pension fund auditor the controls surrounding the validity and accuracy of membership data; contributions data and benefits data, sent to the actuary by the pension fund, and the fund assets valuation in the pension fund financial statements. Additional queries have been required to be made following clarification by the regulators that they expect admitted body auditors to gain sufficient assurances over the independent valuation of all investment assets and controls within the Pension Fund. We have requested this information and are awaiting the updated IAS19 assurance letter which we will review upon receipt and report any issues to members and management. Our discussions with the Pension Fund auditor has not identified any significant issues that we need to report at this present time. Our work is not yet complete in this areas we are awaiting the requested programme of work to be completed by the pension fund auditor, as outlined above, to be completed. We are expected this to be complete by the end of November 2022. Our work to date has not identified any issues

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2. Financial Statements – Key findings arising from the group audit

Component	Component auditor	Findings	Group audit impact
North Somerset Council	Grant Thornton	See pages 7 to 10 for significant risks work undertaken and any issues identified	There is no impact on the group audit opinion
North Somerset Environment Company	Thomas Westcott	Full scope UK statutory audit performed by North Somerset Environment Company Auditors, Thomas Westcott. The nature, time and extent of our involvement in the work included a discussion on risks and meeting with appropriate members of management. A review of the relevant aspects of North Somerset Environment Company auditor's audit documentation including a review of payroll transactions is to be carried out and we will report any findings to the Committee	We have yet to complete our work in this area and our enquiries to date have not identified any issues

2. Financial Statements – new issues and risks

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year

Issue	Commentary	Auditor view
Employee Expenditure: As part of our audit work we have tested a sample of starters and leavers within the year to ensure that these have been appropriately processed and that employee costs are accurately included in the statement of accounts.	Testing of a sample of starters and leavers identified the following issues: • The Council were not able to provide supporting documentation for an employee's start date. Management provided evidence for a secondary post undertaken by the employee with a separate start date. • Testing identified that the Council's HR function is not responsible for the hiring of temporary staff within schools. Confirmation is provided by schools and payment made by the Council. It is unclear what processes are in place to provide assurance over the validity of new temporary starters within schools. • The start dates recorded for new school staff is the date that the staff members details are been entered into the Schools SIMS database rather that the actual start date – this could lead to inaccurate start dates being recorded. • Our testing of a sample of leavers identified one leaver, a casual worker employed in a school, who was not removed from the system for a number of years after they had left the employment of the Council. The staff member was only removed once it had been ascertained that they had not completed any work in this time period and the leave date was when this was confirmed rather than their actual leave date.	Employee expense are a significant cost to the Council and testing has identified a number of weaknesses within the process. We have taken assurance over the overall value of employee expenses through our other audit procedures, including the overall reconciliation to monthly payroll records. The issues identified are control deficiencies rather than an indication of fraudulent activities and we have gained sufficient assurance that the employee expenses included in the statement of accounts are not materially misstated. We have raised a recommendation in appendix A

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £176m	Other land and buildings is comprised of specialised assets such as schools and libraries, which are required to be valued at depreciated cost (DRC) at year end, reflecting the modern equivalent asset necessary to deliver the same service provision. The remainder of land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council revalues its land and buildings on a rolling programme with a maximum period of five years between revaluations. The Council has engaged its internal valuer to complete the valuation of properties as at 1 January 2022 and 80% of land and building assets were revalued during 2021-22. Management has considered the year end value of non-valued properties, and the potential value change in the assets revalued at 1 January 2022 by applying indices to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the properties values. The total year end valuation of land and buildings was £176m, a net decrease of £8m from 2020-21 (£184m)	We have reviewed the detail of your assessment of the estimate considering: • The assessment of the Council's in-house valuers • The completeness and accuracy of the underlying information used to determine the estimate • The reasonableness of the overall decrease in the estimate • The adequacy of the disclosure of the estimate in the financial statements • The sensitivities used by the valuer to assess completeness and consistency with our understanding and • Consistency of the estimate against Gerald Eve reported indices Testing of the valuer's assumptions requires that sufficient evidence be provided to support any underlying assumptions or indices used to calculate a revaluation. Management have been able to provide appropriate audit evidence to support these underlying assumptions Where assets are revalued before the end of the financial year, assurance is required that these are not materially different to the current value at year end. Assets are valued at 1 January with a valuation date of 31 March and a report confirming that no material variance exist should be provided. We have undertaken a review of those assets not revalued in the year against the auditor's experts indices and considered any movement between the valuation date and the year end. This identified a variance of £6m which is not material but has required further assurance be provided by the valuer. This work is ongoing and we continue to be in discussion with management as to any impact on the statement of accounts	Light Purple

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Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Investment Property Valuation - £46m	The Council revalue its investment property on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date The Council's commercial investment portfolio consists of the North Worle District Centre and the Sovereign Centre in Weston-Super-Mare. The Council has engaged JLL, as an external expert, to complete the 2021-22 valuation of these two investment properties. The Council engaged its internal valuer to undertake the valuation of the remaining investment properties. The total year end valuation of investment properties was £46m, a net increase of £1m from 2020-21 (£45m)	We have reviewed the detail of your assessment of the estimate considering: • The assessment of the Council's internal valuers and management's expert JLL • The completeness and accuracy of the underlying information used to determine the estimate • The reasonableness of the overall increase in the estimate • The adequacy of the disclosure of the estimate in the financial statements • We have used an auditor's expert to review the work undertaken by both the external valuer. Our work requires that we review and gain assurance over the assumptions and any indices used and our work has not identified any issues in regards to this work. We have employed an auditor's expert to provide assurance over the assumptions used by management's external valuer. This considered that the underlying assumptions and metrics used by the valuer were appropriate and that the valuations were in line with market expectations.	Light Purple

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Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – £266m	The Council's net pension liability as 31 March 2022 is £266m (PY £299m) comprising the Local Government and unfunded defined benefit pension scheme obligations. The Council uses Mercer to provide actuarial valuations of the Council's assets and liabilities derived from these schemes A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in the intervening periods, which utilises key assumptions such as a life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pensions fund liability small changes in assumptions can result in significant valuation movements. There has been a decrease of £33m in the net actuarial deficit during 2021-22	• We 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. No issues were identified from our review of the controls in place. • We also 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. This included undertaking procedures to confirm the reasonableness of the actuarial assumptions made: (see table below) • We checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial reports and did not identified any inconsistencies. • The Council has considered that the impact of GMP equalisation is not material to the Statement of Accounts. Based on our review of this area we concur with this view	Light Purple

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.8%	2.7% - 2.8%	
Pension increase rate	3.5%	3% - 3.5%	
Salary growth	4.9%	CPI + 1.5% = 4.9%	
Life expectancy – Males currently aged 45 / 65	98% / 92%	92% - 131%	
Life expectancy – Females currently aged 45 / 65	88% / 87%	87% - 106%	

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Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Grants Income Recognition and Presentation- £95.5m	The Council receives a number of grants and contributions and is required to follow the requirements set out in sections 2.3 and 2.6 of the Code. The main considerations are to determine whether the Council is acting as principal/ agent, and if there are any conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income. The Council also needs to assess whether grants are specific, and hence credited to service revenue accounts, or of a general or capital nature in which case they are credited to taxation and non-specific grant income. There is a requirement to assess whether income received has conditions attached and should therefore be considered grant income or another classification of income. This will allow the Council to ensure the correction presentation of revenue in line with the Code.	• We have reviewed management's processes for identifying whether they are agent or principal for grant income and ensured that the appropriate disclosures have been made in the statement of accounts • We have agreed a sample of grant income to third party documentation including the grant paying body to ensure that revenue has been correctly disclosed • We have reviewed supporting documentation to identify any conditions an ensure that the Council has complied with these • We have reviewed year end accruals to understand how these have been calculated and that these are appropriately accounted for. • We have reviewed the Council's assessment as to whether they are acting as principal or agent in the treatment and recognition of grant revenue, and specifically covid grant funding, and considered that this is appropriate Testing of a sample of grants received in advance identified one transaction for which the Council was unable to provide supporting evidence. We have gained assurance over the value of the transaction through other audit procedures, but management should ensure all primary evidence is retained for audit purposes. This issue does not impact on our assessment and we still consider management's processed to be appropriate.	Light Purple

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £6m	The CLG guidance requires the Authority to approve an annual MRP statement each year end. For capital expenditure incurred before 1st April 2008 MRP will be determined on accordance with the former regulations that applied on 31st March 2008. For unsupported capital expenditure incurred after 31st March 2008 MRP will be determined by charging expenditure over the expected useful life of the relevant assets in equal instalments, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over the life of the asset. Where loans are made to other bodies for their capital expenditure, no MRP will be charged. However, the capital receipts generated by the annual repayments on those loans will be put aside to repay debt instead. This may be reviewed and replaced by a prudent provision if it becomes apparent that the loan may not be repaid	We have completed this work and are satisfied that the MRP calculation is appropriate.	Light Purple

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Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - Internal Control

Assessment	Issue and risk	Recommendations

●	• An ITGC review was undertaken by out IT audit team in 2019-20 which identified 4 control issues in regards to the Council's IT systems
	• The review identified 1 significant deficiency in relation to segregation of duty due to the system administrator's ability combined with their financial role and responsibilities
	• 3 deficiencies which we have followed up in our 2020-21 and 2021-22 audit. These deficiencies relate to:
	    • An excessive number of domain administrators as 101 accounts were identified
	    • A lack of service auditor reports
	    • Passwords were not compliant with the Council's own password policy
	• In discussion with management it has been ascertained that the issues identified are still applicable and that the significant deficiency still exists. This has impacted our risk assessment and in some cases, such as journals, has led to a larger sample size to address the issues and provide sufficient audit assurance.
	• We continue to discuss the issues with management and will give consideration to employing IT audit in 2022-23 to provide further assurance on the impact to our risk assessment for future audits.
		• Recommendations have been shared with management in a separate report for consideration. These recommendations have been accepted by management and management responses received.
		• These issues have still to be fully addressed and remain as outstanding within our audit. We have undertaken a fully substantive audit and this has concluded that the deficiencies identified have not materially impacted the statement of accounts and no further issues have been identified
		Management response
		• We have yet to receive the outcomes and recommendations from the 2021-22 update of the ITGC review. We will respond to any recommendations when they are raised

Assessment
- ● Significant deficiency – risk of significant misstatement
- ● Deficiency – risk of inconsequential misstatement

2. Financial Statements - matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary	Auditor view and management response
Infrastructure Assets: The Code requires infrastructure to be reported in the balance sheet at historic cost less accumulated depreciation and impairment and that where there is 'enhancement' to the assets, that the replaced components are derecognised. Where authorities are not fully compliant with these requirements, there may be a risk of material misstatement.	Most local government entities own infrastructure assets and the balance is likely to be material in most cases. For Local Government entities with material infrastructure assets, at either a gross or net value basis, there is therefore, a potential risk of material misstatement in relation to this balance. We have held discussions with management over their treatment of this balance and have sought further evidence to support these assertions. Further consideration of this issue has been undertaken by the key stakeholders, DLUHC, CiPFA, the NAO and the FRC, and it has been agreed that a statutory override will be applied. We have discussed the options with management which are, earlier completion but with a potential qualified opinion or waiting for the statutory override to come in to force. The statutory instrument is currently forecast to come into legislation on 25 December 2022 and waiting for this will mean that the reporting date of 30 November 2022 will not be met. Management have indicated their preference for waiting for the legislation to come into force and we continue to discuss the issue and provide updates to members.	We have yet to undertake detailed testing in relation to this balance as there is uncertainty due to the potential issue of the statutory override. It is likely that management will wait for this to come into legislation with the impact being that the reporting date will be missed. Whilst this has still to be formally agreed we continue to hold conversations with management and will inform members of any updates **Management response** Management have agreed with the audit team to wait for the statutory override before they give their audit opinion. This was a joint agreement, and hence the reporting date being missed is not a result of a decision taken solely by management. We have not been made aware of the details of the further work to be completed on this area by the audit team, or of any concerns that the proposed statutory override would not allow Grant Thornton to conclude their audit with an unqualified audit opinion.

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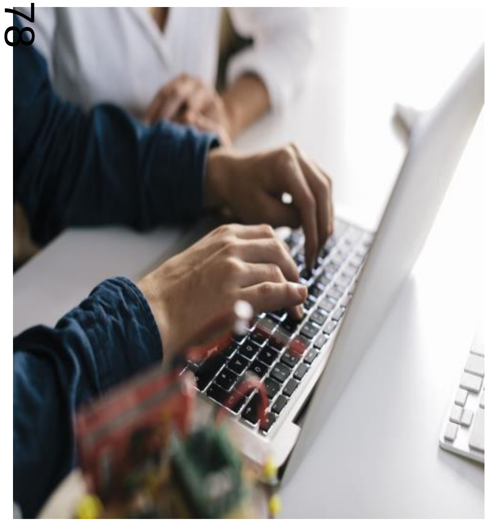
2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.



Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit & Standards Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation will be requested from the Council, including specific representations in respect of the Group.
Confirmation requests from third parties	We requested from management permission to send confirmation requests for bank and investment balances. This permission was granted and the requests were sent. We have yet to receive confirmation for four investment balances and continue to work with management to complete this process. Any issues identified from this work will be reported to members at Audit & Standards Committee. We requested from management permission to send confirmation requests to the Pension Fund auditor. This permission was granted and the requests were sent. We have not yet received the final response from the pension fund auditor and will require this prior to issuing our opinion.
Accounting practices	Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management were provided. We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

2. Financial Statements - other communication requirements

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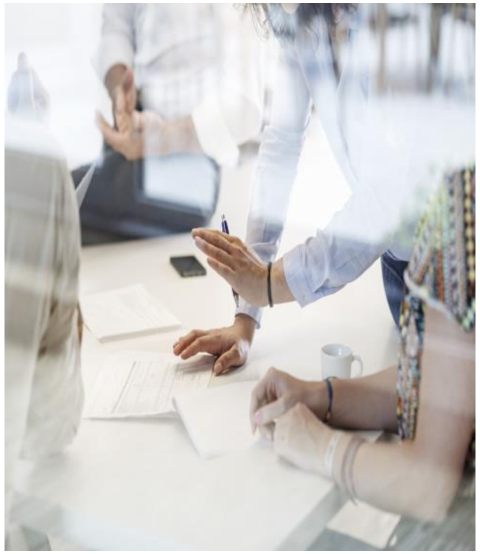
Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. Subject to review we have completed our work in this area and in the work undertaken to date no inconsistencies have been identified.
Matters on which we report by exception	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties Subject to review our work in this area is complete and to date we have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. This work is not required at North Somerset Council as they do not exceed the threshold required tor the completion of this work.
Certification of the closure of the audit	We intend to certify the closure of the 2021-22 audit of North Somerset Council in the audit report.



3. Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM - our procedures and conclusions

We have yet undertake our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix G to this report. We expect to issue our Auditor's Annual Report by December 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

4. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

4. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Teachers Pension Return	7,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £7,500 in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Housing Benefit Claim	18,850	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £18,850 in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

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These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. None of the services provided are subject to contingent fees.

Appendices

A. Action plan – Audit of Financial Statements

We have identified 12 recommendations for the group as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Medium	Our review of related parties identified that two elected members had not made the appropriate declarations in line with the Council's requirements as stated in the Members Code of Conduct. Whilst we acknowledge that for one of the individuals concerned, there was a health related matter that precluded a return being made, we have been unable to identify any mitigating circumstances as to why Cllr Goddard has not complied with these requirements to make the necessary declarations. Elected members and senior officers are required to make appropriate and accurate declarations to ensure proper transparency in the governance arrangements of the Council and all Members and senior officers should ensure that they comply with these requirements	Management should continue to ensure that all appropriate declarations are received from members to provide assurance that Financial Regulations and Council Policy are being complied with **Management response** We accept the recommendation being made and will look to implement changes to the current arrangement so that Members provide declarations in accordance with the Code of Conduct
Medium	Management have provided monthly payroll reports for the purpose of ensuring that employee remuneration disclosures in the statement are accurate. Whilst management could provide monthly reports they were unable to provide a valid explanation for year on year variances. This was due to an issue with the way the i-Trent system was running reports in prior year.	We recommend that the Council reviews how the i-Trent system is generating FTE reports to ensure that going forward reliable reports are run from the system. **Management response** We will obtain and review the FTE reports on a regular basis throughout the year rather than at year end, and investigate significant variations with HR and payroll colleagues to ensure that the reports are meaningful

Key

- High – Significant effect on control environment or a potential material impact on the financial statements
- Medium – Some effect on control environment or on the accuracy of the financial statements
- Low – Best practice

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Medium	It has been identified again this year that finance users do not require journal authorisation prior to being posted to the system and that journals can be posted without a narrative being entered. We therefore continue to recommend this in 2021/22.	We recommend that risk-based journal authorisation controls are implemented in the form of a preventative (system based) control which requires authorisation before posting to the general ledger, or a detective/corrective control such as a retrospective review of journal entries by an individual other than the posted. We also recommend that a narrative is entered for each journal so that an audit trail is maintained. **Management response** As in previous years the council recognises the perceived risk being highlighted within the report which could result in potential fraud or error within the financial statements. We have reviewed the core system controls which indicate that it is not possible to implement an automated approval process for finance user batch journals prior to them being posted, but we will look to implement processes that would provide a review and approval of all batches prior to posting, as well as a retrospective review of material journals or those with significant impact. As a response to recommendations raised in previous years we have previously implemented changes to the template for posting batch journals to highlight lines missing narrative, and review for journals posted without narrative on a monthly basis, with feedback to officers posting such journals. We will continue with this robust scrutiny.
Medium	Within the journal population we identified one entry that had been posted by an officer that was no longer employed by the Council. Further investigation identified that this was an automated interface with a named officer for the purpose of administration. Whilst this has no impact on the financial statements it is still considered bests practice that all system information is updated to reflect officers no longer employed by the Council.. There is a risk that the Council do not have robust enough processes in place to identified and remove user access for leavers and that journals will be posted either inappropriately or fraudulently.	Management should review the processes for identifying and removing user access for officers no longer employed and ensure that these are appropriate and properly implemented. **Management response** The items highlighted were not journals (transactions initiated by a user, using judgement to decide on the coding of entries, and the amounts to be posted / adjusted), but the automated posting of interface files, posted by the system under the user name of a former system administrator, where the content of the file is set in the feeder system which is interfacing into Agresso. Hence, we do not agree that this indicates a weakness in identifying leavers, or removing their access rights to post in the financial ledger, or increased risk of inappropriate or fraudulent transactions. We have subsequently reviewed and updated all interfaces and processes using system administrators as the system user to a generic 'System' user.

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Key

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A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Medium	Assets are valued at 1 January with a valuation date of 31 March. There is, therefore, the possibility of significant movement in asset values between the date there are valued and the valuations date. The valuer does not currently provide formal assurance that this has not occurred and therefore the risk of a material movement has not been fully mitigated.	When providing the asset valuations the valuer should provide formal documented evidence to confirm that there has been no material movement in the asset valuations between the date they are valued and the valuation date **Management response** The council has a process in place to routinely review asset values to ensure that there are no material movement in the asset valuations between the date that they are valued and the valuation date and this is carried out in discussion with the qualified valuer however, we accept that this is not documented or included within the final reports. Changes will be made to the process to ensure that this is fully documented in future years.
Medium	There is a requirement within the code that where contingent rents are reviewed and an increase is applied that the increase in the rent is charged as financing and investment income and expenditure in the Comprehensive Income and Expenditure Statement. Review of leases identified that this has not happened and therefore rental increases are not being appropriately recognised. The value of the rental increased is £59k and there is a risk that expenditure will be understated.	Management should review disclosures in the statement of accounts and ensure that this is in line with the requirements of the Code. **Management response** The Council only holds 2 finance leases and the contingent rents in relation to these two leases has been quantified in the ledger, and any departure from the accounting treatment recommended in the is clearly not material, and considered to be below the external audit limit for triviality in reporting. As there are only this small number of relevant leases, we do agree that there is a risk of understatement of such leases, but accept the finding that if the council had more leases then this may have led to a potential understatement of such leases. The council's processes will be updated to ensure that such items are captured in future.
Low	We identified a trivial balance of assets that have not been valued since 2014-15 which is not in line with the requirement of the code. Whilst the balance is trivial there is a risk that failure to identify assets that have not been valued in an appropriate timeframe could have a material impact on the statement of accounts	We recommend that management ensure that all accounting policies are being adhered to and that all disclosures in the statement of accounts are in line with the requirements of the Code **Management response** The council has a process which seeks to revalue all of its assets over a three year period, which is more frequent than the Code requirements. Evidence shows that the council has also gone beyond this by revaluing approximately 80% of its assets during 2021/22 and so have established procedures which adhere to the accounting policies and recognise the risk being highlighted. Unfortunately an error has occurred meaning that an asset has been omitted and so the council will implement a further review step for future years.

Key

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- Medium – Some effect on control environment or on the accuracy of the financial statements
- Low – Best practice

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Low	Management gain assurance that information submitted to the actuary for the pension liability calculation is accurate. During the audit we identified that management had reviewed the month 9 data and that the pension fund had submitted the month 12 data to the actuary. This is the standard approach for all Avon Pension fund admitted bodies and there is currently no process in place for the pension fund to notify admitted bodies or for the Council to identify any significant changes in the data. There is a risk that data will be submitted to third parties that could have a material impact on the accounts that management have not reviewed.	We are satisfied that a process is in place to review data prior to submission and recommend that management ensure this is being used to review the most up to date and relevant information prior to submission to third parties. **Management response** As noted, The Council complies with the existing arrangements for reconciliation of information provided by the pension fund at month 9, relating to contributions and staff numbers within the pension scheme to the Council's ledger. The Council also complies with existing arrangements for the communication of significant changes impacting on the actuary's report between month 9 and month 12, such as bulk transfers of staff or schools achieving academy status. There is no agreed process across the bodies covered by the Avon Pension Fund for the information provided to the actuary to be provided to local authorities at month 12 for review or reconciliation. Hence the Council does not have the opportunity to review this data, and instead reviews the outputs included in the actuary's report for reasonableness. Hence any recommendation for such a process would not apply solely to the Council, but would need reported by auditors of the Avon Pension Fund and all member bodies, and processes agreed for future years.
Low	The net book value of assets is based on the depreciated replacement cost which is calculated using the useful economic life (UEL) of the asset and depreciating on a straight line basis. Review of the FAR identified assets with a gross book value of £20.3m that had been depreciated to nil and remain on the asset register. It is unclear from review whether these assets continue to be operational and whether it is the maintenance of the FAR or the calculation od the UEL that requires review. There is a risk that UELs are not appropriate and that the Council retain operational assets that are fully depreciated.	Management should review both the maintenance of the FAR and calculation of the UEL to ensure that these remain appropriate. Where fully depreciated assets are maintained on the FAR management should review these annually to assess whether they are operational or not and whether they should remain on the asset register. **Management response** Agreed – Review of assets held at nil Net Book Value will be included in next year's capital closure processes.

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Key

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- Medium – Some effect on control environment or on the accuracy of the financial statements
- Low – Best practice

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Low	Asset verification is required to ensure that assets maintained on the FAR are still owned by the Council and that any impairment can be identified where necessary. There is a risk that the Council are disclosing assets that they no longer own or that have not taken into account any impairment that would affect the valuation.	Management should undertake an annual asset verification exercise to ensure that all assets included within the Council's accounts are still owned by the Council and that no impairment review is required. **Management response** Not agreed – All land and building assets are covered by a cyclical programme of revaluations which ensures all assets are revalued at least every 3 years. Revaluations include review of the title of property, and generally include physical inspection of the property. In addition, processes are in place to identify the disposal of assets in the asset register, through identification of sales proceeds as capital receipts, and notifications from the Council's legal services team and other service managers.
Low	Audit work requires agreement to appropriate audit evidence to provide assurance that balances are accurately and appropriately stated in the financial statements. Where evidence is not available there is a risk that audit will not be able to gain that assurance and that further work, leading to potential material adjustments, may have to be undertaken. Testing within Grants received in Advance identified one transaction where evidence could not be provided. We were able to gain assurance over the transaction through other testing and no variance in disclosure amounts were identified.	Management should ensure that all evidence is retained for audit purposes to ensure full assurance can be gained over the balances in the statement of accounts. **Management response** Agreed
Low	Testing of employee expenses has identified a number of control weaknesses in regards to starters and leavers and retention of documentation. There is a risk that payments will be made to fictitious employees or that there will be errors made in employee payments leading to errors in the statement of accounts.	The Council should ensure that processes exist that allows review of casual posts, specifically at schools, to ensure these are appropriate expenses. Further management should ensure that starters and leavers forms are appropriately and accurately completed and that dates are those on which the employee actually started or left. **Management response** Agreed – Management will discuss controls over the documentation of start and leave dates of temporary staff in schools with the Head of Human Resources.

Key

- High – Significant effect on control environment or a potential material impact on the financial statements
- Medium – Some effect on control environment or on the accuracy of the financial statements
- Low – Best practice

B. Follow up of prior year recommendations

We identified the following issues in the audit of North Somerset Council's 2020/21 financial statements, which resulted in 4 recommendations being reported in our 2020/21 Audit Findings report. We have followed up on the implementation of our recommendations and note 2 are still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	**Related Parties** The Council has a policy whereby all members, together with the Council's Corporate Management Team, are required to sign a declaration detailing any relevant transactions entered into by them or close members of their family during the year It was identified that three declarations had not been completed by members at the time that the accounts were produced	We have reviewed the declarations in 2021-22 as part of our review of related party transactions and have identified that two members have failed to complete the declaration, although we accept that there were mitigating circumstances for one of these individuals. This has resulted in a recommendation being raised in appendix A
✓	**Disposals** The Council identified one primary school, which transferred from the Council's control to Academy status in 2017-18, was erroneously not included as a disposal in the Council's accounts that year. The transfer was for an immaterial balance and the Council included this as a disposal in the 2020-21 accounts	We have not identified any issues with disposals as part of our 2021-22 audit and, therefore, consider that the Council has appropriately addressed the recommendation
X	**Journals** Journals posted by finance users do not require authorization prior to being posted to the system. In addition, journals can be posted without narrative being entered	Testing of journals has identified that these issues have not been addressed and that users are still able to post journals without authorization. We have raised a recommendation in appendix A
✓	**Retention of supporting documentation** Sample testing noted weaknesses in documentation maintained to support transactions	Detailed transaction testing undertaken in 2021-22 has not identified any deficiencies in management's retention of documentation to support transactions and, therefore, we consider that this issue has been addressed

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Assessment

✓ Action completed

X Not yet addressed

C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2022.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
No adjustments identified to date.			

C. Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Auditor recommendations	Adjusted?
A small number of amendments were made to the Accounting Policies to more accurately reflect	Our review and audit of the draft accounts identified a small number of presentational changes to enhance the clarity of the accounts for the reader. We have shared the areas for presentational amendments and these will be reflected in the revised accounts.	✓
Related parties note in draft accounts show 3 Councillors disclosed and should state 2.	The Council should ensure that disclosures in the statement of accounts accurately reflect the organisational position	✓
The exit package was identified to relate to the prior year.	Management should review the statement of accounts to ensure that transactions are recorded in the correct period	✓
Figure representing 2020/21 total of (Surplus) / Deficit brought forward as at 1st April in the Collection Fund table does not agree with the prior year statement of accounts	Management should review the draft statement of accounts prior to issue to ensure that all prior year figures agree to the published final statements	✓
Leases - Note 36.2 - Discrepancy between supporting documentation and the statement of accounts. The disclosure should be updated to show 'The Council has leased out 6 secondary schools and 38 primary schools.	The Council should ensure that disclosures in the statement of accounts accurately reflect the organisational position	✓
Leases - Note 36.1 - Discrepancy between supporting documentation and Statement of Accounts. The disclosure should be updated to show 256 years for property.	The Council should ensure that disclosures in the statement of accounts accurately reflect the organisational position	✓
Some assets within the Land & Building category have useful lives which exceed the range (ie 1-50 years) as per accounting policy within the draft Statement of Accounts	The Council should ensure that all accounting policies are appropriately implemented and reviewed to ensure that they are fit for purpose.	✓

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C. Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021/22 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
No adjustments identified to date.				

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2020/21 financial statements

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
No prior year unadjusted misstatements.				

D. Fees

We confirm below our final fees charged for the audit and provision of non-audit services

Audit fees	Proposed fee	Final fee
Council Audit	151,784	TBC
Total audit fees (excluding VAT)	£151,784	£TBC

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services*		
Certification of Teacher's Pension Return	4,200	4,200
Certification of Housing Benefit Claim	15,776	15,776
Total non-audit fees (excluding VAT)	**£19,976**	**£19,976**

*these fees are those charged in the 2021-22 financial period and will differ to those on slide 24 which are agreed fees for delivery of the 2021-22 certification work which will be undertaken in 2022-23

Details of variations in final fees from the proposed fee per the audit plan

- fees per financial statements – £214,000
- Less additional fees 2019/20 - £12,000
- Less additional fees 2020/21 - £39,850
- Less VFM costs 2020/21 - £26,000
- Additional fees 2021/22 - £15,634
- total fees per above - £151,784

E. Audit letter in respect of delayed VFM work

Councillor J Cato
Chair of the Audit Committee
North Somerset Council
Town Hall
Walliscote Grove Road
Weston-super-Mare
BS23 1UJ

Dear Councillor Cato

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies we are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the delay and resource pressures as a result of pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than 31 December 2022.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

Barrie Morris, Director

On behalf of Grant Thornton UK LLP

grantthornton.co.uk

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North Somerset Council

Report to the Audit Committee

Date of Meeting: 24 November 2022

Subject of Report: Business Continuity co-ordination

Town or Parish: ALL

Officer/Member Presenting: Alex Stafford, Emergency and Business Continuity Manager

Key Decision: NO

Reason: Information item

Recommendations
That the Audit Committee notes the update on Business Continuity co-ordination.

1. Summary of Report

Business Continuity (BC) planning, preparedness and response underwent significant change in the 21/22 FY, as responsibility for BC co-ordination was brought back in house. This reversed a decision made in 10/11 FY to separate BC from emergency management functions and transfer BC to One West.

The reasons for the decision to re-integrate BC into the Emergency Management Unit's (EMU) overall remit are summarised below:

- Previous arrangement relied on good will as it didn't include response to BC events
- There are many synergies between Emergency Management and Business Continuity with BC and emergency plans dovetailing and complimenting each other
- The response structure within the BC Corporate Plan relies on the structures and roles within EMU procedures
- Following lessons learned from the COVID pandemic response, BC was identified as an area for improvement.

This paper provides an overview of the response structures of the EMU and the activities to improve and reintegrate BC into the EMU's programme of work. It also highlights the ongoing work to ensure critical services continue to function during Business Continuity impacts.

2. Policy

North Somerset Council's Business Continuity Management Strategy 2019-20 provides the Council's overarching strategy for Business Continuity Management (BCM) The Strategy's aim and objectives are:

- Direct available resources to ensure that the council's critical services and resources have robust, reliable and effective business continuity plans in place, which are subject to regular review and testing

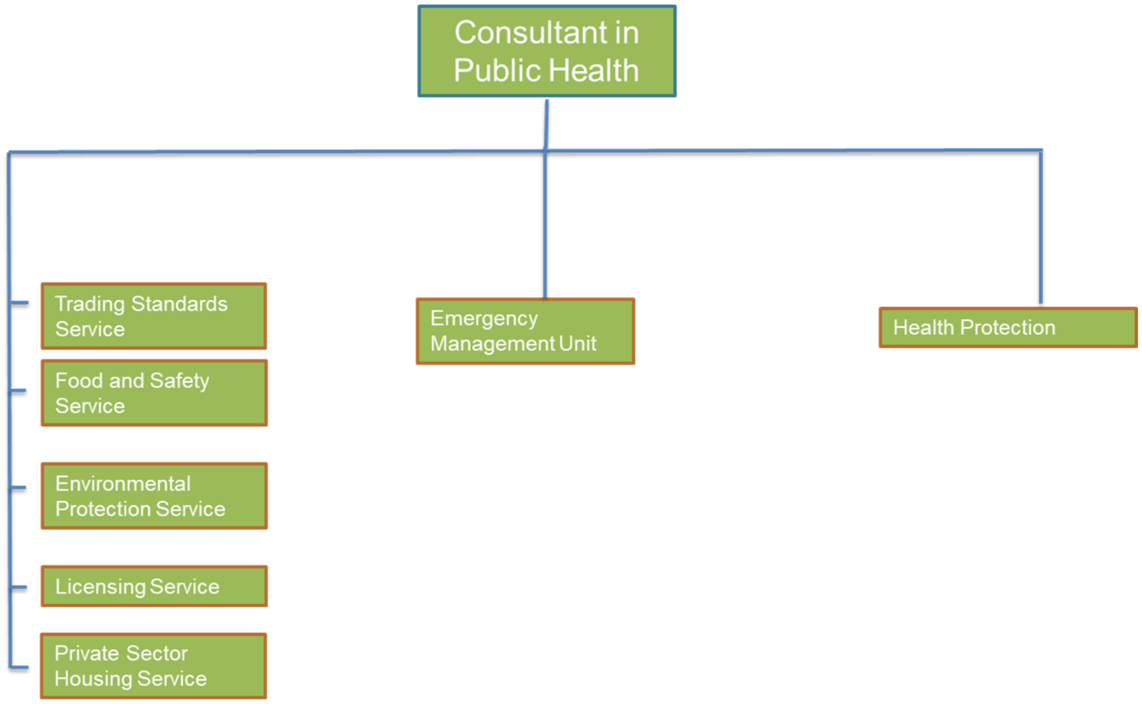
- Improve the integration of business continuity management into the culture and working practices of the council, its partnerships, contracts and the civil sector
- Meet the relevant requirements of the Civil Contingencies Act 2004
- Obtain commitment from all responsible officers for the implementation of all the actions specified in the annual Business Continuity Management action plan.

It should be noted the strategy is yet to be updated following the transfer of BC to the EMU.

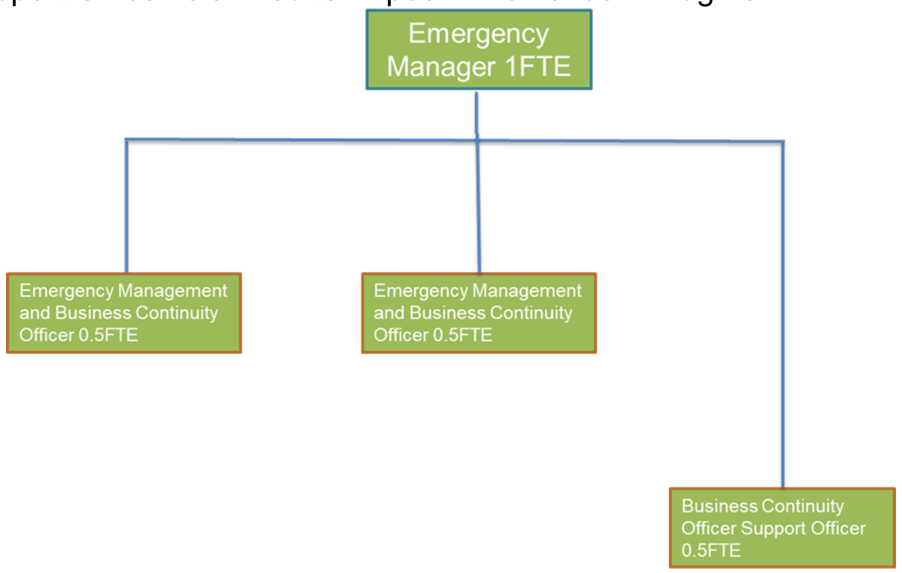
3. Details

Structure

Following the creation of Public Health and Regulatory Services Directorate (PHRS), the EMU moved from Corporate Services Directorate (CSD) to PHRS. The EMU sits with Regulatory Services and Health Protection, reporting to a Consultant in Public Health.



The EMU consists of The Emergency and Business Continuity Manager, 2x PT Emergency and Business Continuity Officer and 1x PT Business Continuity Support Officer. Including The Emergency and Business Continuity Manager the total FTE is 2.5. The Business Continuity Support Officer is a fixed term post which ends in Aug 23.



In response, the EMU uses resources from across the whole of NSC, whilst the EMU co-ordinates the response and acts as subject matter expert to key decisionmakers at Operational, Tactical and Strategic level.

2x times rotas are maintained, at a tactical level the Duty Emergency Management Officer (DEMO) rota includes all members of the EMU. At a strategic level, the Strategic Duty Officer (SDO) rota includes all Assistant Directors, Directors and the CEO. The rotas ensure key decisionmakers are available 24/7 365.

Identification and Planning for Critical Services

Criteria for a critical service has been agreed and the criteria used to identify all critical services across all directorates. The critical service criteria is:

- Service is required for the council to respond effectively to an emergency
- Failure to provide the service would cause potential loss of life/serious damage to human welfare
- Failure to provide the service would cause serious hardship to individuals
- A long gap in service provision (two weeks or more) would cause medium to long term damage to the environment
- Serious litigation is very likely if the service is not delivered, or delivered inadequately
- Failure to provide the service is very likely to lead to either a significant (more than £50,000) loss in revenue, or a requirement to pay compensation
- Failure to provide the service would have a serious impact on the credibility and public perception of the council such that it would likely be a lead story in the national media.

A new BC Critical Service Plan Template has been developed utilising experience gain from the COVID pandemic response. It's also been developed in line with existing Emergency Management structures to ensure consistency of response. The aim and objectives of the plan are:

- To safeguard the safety and welfare of staff, service users and visitors
- To identify those critical business activities within a service which should attract priority in the allocation of limited resources
- To maintain or resume provision of critical service functions at the earliest opportunity
- To return the service to business as normal as swiftly as possible
- Provide an overview of the corporate response.

The plan provides critical services with the following:

- The principles of the council's approach to Business Continuity
- Procedures to be followed in the event of service disruption
- A Business Impact Analysis (BIA) tool to set out the target recovery times, and minimum resourcing requirements, in order to protect or re-commence minimum acceptable service delivery
- A template for service specific recovery plans for dealing with service disruption.

The plan has been rolled out to 29 of 63 critical services (46%).

Learning and Development

A half day workshop has been developed with the following objectives:

- Improve NSC's Business Continuity planning and preparedness
- Provide Critical Service Managers with an understanding of BC management and why it's important

- Give an overview of the types of risks to BC
- Explain the Service BC plan template and the requirements to complete it
- Review the Corporate and Service BC plan's activation/escalation processes

The workshop has been delivered to 51 of 63 critical services (81%)

Response
At a corporate level in the last 12 months, NSC has responded to the following BC impacting events:
- Storm Eunice (rare red weather warning) – Feb 22
- Fuel price protests on the M5 - Summer 22
- 2x periods of heatwave – Summer 22
- ICT disruption affecting around 60% of the workforce - Oct 22

Other notable responses are:
- Covid pandemic 2020 (ongoing)
- Brexit planning 2019-2021
- Fuel supply disruption Sep 2021

These events were successfully managed and required activation of NSC Corporate Emergency Response Team (CERT) at a tactical level. The Covid pandemic also required activation of the CEO Strategy Group for strategic co-ordination.

Exercising
Exercises are a way of testing plans and arrangements outside of response. They vary in size, scope and complexity, ranging from complex live play involving all layers of command and control, to tabletop or workshop-based exercises. Exercises can be nationally or regionally driven and take place alongside multi-agency partners, these are managed via the Local Resilience Forum (LRF) or they may be local and only involve NSC's response. Notable exercises taken place are:
- Exercise Elon (Command and Control) Nov 19
- Exercise Joint Work Space (Cyber) Dec 20
- Exercise Governing (Counter Terrorism) Dec 21
- Exercise New Dawn II (Control of Major Accident Hazards) Jan 22
- Exercise Carnage Plus (Health System and Adult Social Care) May 22
- Exercise Lemur (National Power Outage) May 22

Future exercises:
- Artic Willow (Winter Pressures) Nov 2023
- Exercise Mighty Oak (National Power Outage) Mar 2023
- Cyber Exercise Name TBC Mar/Apr 2023

Debrief Process
Following any activation of NSC's Corporate BCM structures or an exercise, A debrief will be conducted. The debrief process involves capturing what went well and what didn't go well shortly after the response is complete, this is known as a hot debrief. These observations are captured and later discussed during a cold debrief. Following the cold debrief, a list of actions is produced to ensure the lessons identified become lessons learnt.

Next steps

Further actions have yet to be undertaken, with a target date of August 23(This is when a fixed term resource is due to leave the team).
The additional actions are:

- Review, update and renew BC Corporate Strategy – Includes applying COVID learning, aligning with EM plans and guides, ensuring compliance with statutory duties and in line with best practise
- Review, update and renew BC Corporate Plan – Includes applying COVID learning, aligning with EM plans and guides, ensuring compliance with statutory duties and in line with best practise. The Plan must define BC response roles and responsibilities at Corporate, Directorate and Service level
- Incorporate Corporate BC Strategy and Plan changes into Emergency Management plans and procedures
- Exercise the Corporate BC Plan

Ongoing workstreams – Throughout and following the above recommended actions, there will be ongoing workstreams which include:

- Training
- Reviewing contractors and suppliers BC arrangements
- Exercise schedule
- Ongoing plan maintenance and cyclical reviews
- Promotion of BC to local business.

4. Consultation

The criteria for defining a critical service is agreed by CLT and contained within the corporate BC strategy and service plans. The criteria was review by each directorate's Directorate Leadership Teams (DLTs) to establish each critical services and a responsible manager.

5. Financial Implications

None arising from this report

Costs

None arising from this report

Funding

None arising from this report

6. Legal Powers and Implications

The Civil Contingency Act 2004 requires all category 1 responders which includes local authorities, to have Business Continuity Management (BCM) in place. Additionally, under the act, local authorities are required to provide BC advice and assistance to the commercial sector and voluntary organisations.

Failure to discharge this duty can have a knock-on effect of NSC not discharging any other statutory duties through the failure of a critical service.

7. Climate Change and Environmental Implications

Climate change impacts will increase the number of BC impacting events due to increased severe weather events.

8. Risk Management

At a national level, central government produce the National Security Risk Assessment (NSRA). The NSRA identifies and assesses the most serious risks facing the UK and is used to determine the common consequences of these risks occurring.

At a local level, the Avon and Somerset Local Resilience Forum which includes NSC, localise the NSRA to produce a Community Risk Register (CRR). The CRR determines which risks require detailed and specific emergency and BC planning. For example, the EMU produces plans for fuel shortage and severe weather (heatwave and winter) which are specific BC impacting events. Other teams within NSC also hold specific risks and have plans in place, for example ICT's Cyber plan and Trading Standards animal health plan.

Any specific or emerging risks that require corporate wide planning/mitigation. Are escalated via the risk management process through PHRS's directorate risk register to the strategic risk register.

The risk to NSC if robust BCM is not in place can be scored as HIGH, likelihood "Almost certain", Impact "critical" on the below risk matrix. However, good BCM can reduce the impacts of BC events to MEDIUM, likelihood "Almost certain", Impact "Low".

Likelihood

Impact	Rare	Unlikely	Possible	Likely	Almost certain
Critical	LOW/MED	MEDIUM	HIGH	HIGH	HIGH
High	LOW	MEDIUM	MED/HIGH	HIGH	HIGH
Medium	LOW	LOW/MED	MEDIUM	MED/HIGH	HIGH
Low	LOW	LOW/MED	LOW/MED	MEDIUM	MEDIUM
Negligible	LOW	LOW	LOW	LOW/MED	LOW/MED

9. Equality Implications

Not having robust BCM in place will increase the likelihood of a critical service failing, this could disproportionally affect the most vulnerable service users.

10. Corporate Implications

The Corporate BC Strategy and Plan both need updating. The updates to the Strategy may include mandatory training, directorate roles, etc. these will be new requirements and increase workload across critical services.

The Corporate Plan is already in line with existing Emergency Management processes, and is tested regularly by exercises and actual BC events.

11. Options Considered

Do nothing – this is not an option as BCM is a statutory duty under the CCA 2004 and underpins critical services ability to function during a BC impacting event. No resource requirements.

Light touch – this is the previous approach which led to gaps and short coming in planning and response to BC impacting events. Minimal resource requirements.

Current approach – comprehensive and defensible approach, ensuring statutory duties under the CCA are met and that services do not fail if impacted by a BC event. Requires ongoing resource investment that is similar to the current level. The fixed term post is due to end in Aug 2023 with additional funding yet to be identified.

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Background Papers:

Corporate BC Plan
Corporate BC Strategy
Service BC Plan Template.

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North Somerset Council

Report to the Audit Committee

Date of Meeting: 24 November 2022

Subject of Report: Audit Committee Annual Report

Town or Parish: None

Officer/ Member Presenting:
Councillor John Cato – Chair of the Audit Committee

Key Decision: No

Recommendations

The Audit Committee approves the Annual Report for 2021/ 22 at Appendix 1.

Summary of Report

The Audit Committee has specific terms of reference given to it from Full Council and as such is required to report back annually to Council on its activities. Appendix 1 is the proposed summary report for approval by the Audit Committee.

The Committee is requested to consider the Annual Report and recommend its approval by Full Council.

1. Policy

There is no statutory obligation to have an Audit Committee, however they are widely recognised as a core component of effective governance as laid out in best practice from a number of professional bodies. The Audit Committee therefore has a key role in advising the council on the adequacy of its financial governance and other management arrangements for achieving the organisation's objectives.

2. Details

Appendix 1 sets out a report with details a high-level summary of the activities of the Committee. It provides a commentary over key areas of financial and corporate governance and associated assurance activities including:

- Internal audit
- External audit
- Risk management
- Governance
- Anti-fraud and corruption
- Audit Committee performance

The Annual Report also incorporates the Committee's outline programme for 2022/23, as shown in Appendix 2. In noting this work programme, it should be acknowledged that the programme may change during the year to accommodate any emerging significant governance, internal control, or risk issues.

Benefits for Customers/ Residents

The committee's work is based around ensuring the council's systems of control and arrangements for the management of risk are effective. This effectiveness is central to the council achieving its corporate objectives. In addition, a strong control environment and effective risk and governance arrangements enable the council to secure its assets and ensure that they are used in the best interests of customers and residents of the council.

3. Consultation

Prior to its production, this report has been discussed between the Chair and Vice-Chair of the Audit Committee, the S151 Officer, and the Head of Audit and Assurance.
Given the nature of the report, no further consultation and engagement was necessary beyond these interactions and those that there have been with the Committee over the period covered by the report. Committee Members will have the opportunity to comment and make suggestions in the meeting before it is approved.

4. Financial Implications

There are no direct financial implications in relation to this report.

5. Legal Powers and Implications

There are no direct legal implications from this report which is focussed on a high-level summary of the activities of the Committee.

6. Climate Change and Environmental Implications

There are no direct environmental implications from this report which is focussed on a high-level summary of the activities of the Committee.

7. Risk Management

The Audit Committee is tasked with ensuring that there are effective arrangements within the Council for managing significant risks. This responsibility is reflected in the Audit Committee's Terms of Reference. An effective Audit Committee demonstrates good governance in that democratically elected Members carry out an independent scrutiny role on behalf of the Community. This helps to ensure that the Council is delivering good value to its residents from its services and is managing its key risks appropriately. The Performance and Risk Management Framework is available on line by clicking here

8. Equality Implications

There are no specific equality implications. The elected members serving on the Audit Committee are representative of the council's political balance.

9. Corporate Implications

Good Corporate Governance and Risk Management is the responsibility of all officers and

Members of the Council.

10. Options Considered

None.

Authors

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Background Papers

Members requiring further information are requested to refer to the agenda, reports and minutes of the Committee meetings posted on the council's website.

https://n-somerset.moderngov.co.uk/ieListMeetings.aspx?CommitteeId=153

Appendix 1

Audit Committee Annual Report to Council - 2021/22

1. Introduction

This is the sixteenth annual report of the Committee since it was established by the Council in July 2006. It covers the work undertaken from August 2021 to July 2022. The purpose of this report is to comply with the Constitution that requires the Full Council to receive a report from the Audit Committee, detailing its activities and effectiveness for the year and the proposed work programme for the following year. The Committee's annual report is one of the means by which the Council is assured that the Committee is carrying out its role effectively.

2. General Approach

The Audit Committee is committed to the principles of openness, effectiveness, and collaboration. The Committee is a key component of the Council's governance framework. Its function is to provide an independent and high-level resource to support good governance and strong public financial management. The purpose of the Committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and governance processes. By overseeing both internal and external audit activity it makes an important contribution to ensuring that effective assurance arrangements are in place.

To this end, in the last year the Audit Committee has held informal working group meetings regularly over the year to keep abreast of issues which may be of concern to it and to receive appropriate briefings/ updates from officers. Discussions have given consideration to the following main areas:

- Internal Audit
- Internal Control Frameworks
- External Audit
- Council Performance and CMMI culture
- Understanding of the Council's participation in the National Fraud Initiative
- Risk Management and Risk Management Reporting Improvement
- Audit Committee Training
- Significant partnerships governance and assurance; clarity and visibility of their responsibilities, objectives and KPIs
- Requesting clarity and visibility of the organisation chart, roles, responsibilities, objectives and KPIs
- External Best Practice and Peer Education
- Asset and Treasury Management
- Amendments to the Council's Constitution exc. Financial Regulations and CSO's which will be reviewed in future meetings.

And has:

- Promoted access to the Audit Committee and to Audit Committee meetings to all members and scrutiny committees
- Pressed for improvements to resident/customer experience

- Pressed for quarterly Voice of Customer Report
- Developed a workplan ad hoc template agenda for further in year focus on issues
- Maintained dialogue with Audit Committees in other authorities in pursuit of best practice, continuous improvement and to understand lessons learned
- Identified gaps in Audit Committee skills and undertaken training
- The chair has regular informal meetings with officers, auditors, and executive members to monitor performance, including monthly meetings with the Chief Executive and Director of Corporate Services/ S151
- Has noted their concerns about HR - resilience, succession planning, work load, stress, training and continuous improvement.
- Continued challenge on the way that risks are presented to members to ensure that members are more aware when making decisions and caused action to be initiated on improving the council's Risk Management frameworks.
- Maintained peer connections outside of North Somerset Council.
- Recruited and appointed two skilled independent members of the audit committee

3. Review of Work Undertaken in 2021/22

a. Financial Governance – Annual Accounts

Due to the ongoing COVID-19 pandemic, local authorities were required to commence the public inspection period on or before the first working day of August 2021.

b. Financial Governance – Treasury Management

i. The Committee acts as a scrutiny function for the Council’s Treasury Management arrangements as recommended by CIPFA.

ii. The Committee formally received reports on the outturn of performance for the year 2021/22 including a mid-year update on performance and the strategy for the year 2022/23. Members had concerns about longer term treasury assets, risk monitoring, and control and request further assurance on integrated risk management of these assets at the January 2023 Audit Committee meeting. Members expressed their thanks to the officers and advisors on additional informal work explaining the complexities and technical aspects of Treasury Management and were pleased to see that the Council was taking a balanced view in how to exploit opportunities in this area to deliver increased value back to the Council.

c. Financial Governance - External Audit

i Alongside the audit of the accounts for 2020/21 which were examined during the last 12 months the external auditor also conducted work in relation to Value for Money for the Council following assessments of our financial resilience, economy, efficiency and effectiveness and a Satisfactory review of our main grant returns. The committee is pleased to note that there were no significant findings or recommendations arising from the first Value for Money report.

ii. The external auditor also presented their audit plans. No significant variances were proposed from the previous audit approach and update reports on their work continued to be presented to the Committee alongside references to key national reports and reviews which could impact on the governance framework.

The Committee supported the recommended option for the future procurement of External Auditors to the Council by Public Sector Audit Appointments Limited.

d. Corporate Governance (Including Risk Management) –

i. The Accounts and Audit Regulations require the Council to carry out an annual review of its governance arrangements, and to produce an annual statement detailing the results of that review.

ii. In terms of significant issues identified, the Committee did recognise through the Annual Governance Statement the state of the financial challenge facing the Council, not least due to the ongoing issues with COVID-19. Additionally, a significant issue has been added to reflect the need to ensure robust governance and transparency of risks to the Councils capital programme.

iii. During the year the Committee received updates on the Councils key risks. This included a presentation on Corporate Risk Registers. The Committee spent time discussing these and are looking to see further improvements in reporting for members.

iv. The Committee are pleased to note the Chief Executive, the Director of Corporate Services/ S151 and the Head of Business Insight, Policy and Partnerships have brought a commitment to a standard model dashboard for risk assessment and reporting which is in the process of being implemented.

v. The Audit Committee expressed continued interest in respect to the governance, transparency, and visibility to Councillors over major projects and will be following progress on this.

vi. The Committee reviewed and recommended the refresh of the Council's Constitution, including changes to parts of the Financial Regulations and Contract Standing Orders.

e. Corporate Assurance -

Internal Audit & Counter Fraud

i. The Committee was satisfied with the balance of the 2022/23 forward plan in relation to the Council's key corporate risks as well as the mix of its planned projects, unplanned commissions and follow-up of previous reports.

ii. In relation to performance the Committee received quarterly updates on key issues and service performance for 2021/22, notably high-risk audits and the impacts of COVID-19 unplanned work and investigations and follow-up of recommendations made during previous audits.

iii. The committee noted the annual opinion on the internal control framework and that with increased pressure on budgets as well as a continuing theme of staff homeworking, choices on the degree of internal control had to be made and, as per 2020/21 there was a continued heightened level of risk being accepted.

iv. The Committee received briefings on areas of Counter-Fraud work in reducing and eliminating fraud and corruption within the Council's activities and monitored progress. They also received and approved the Council's updated Counter-Fraud Strategy and associated policies.

f. Audit and Assurance Annual Report

This was the closing Internal Audit Annual Report to the Committee for the financial year 2021/22. Also included was a summary of audit performance and key issues, as well as the formal opinion on the internal control framework.

g. Audit and Assurance Plan

This report described the reasonable assurance model for internal audit and summarised the Audit and Assurance work plan as identified and prioritised by internal audit.

h. Internal Audit Charter

Internal Audit is an assurance function that primarily provides an independent and objective opinion to the Council on its control environment. Internal Audit helps the organisation to achieve its objectives through a systematic and disciplined approach to evaluate and improve the effectiveness of governance, risk management and control, processes. Its mission is to enhance and protect organisational value by providing risk based and objective assurance, advice and insight.

I. Awareness & Briefings

i. Updates and briefings continue to be a strong part of the Committee's approach to raising awareness of key governance issues with members and several briefings were given this year through the normal meeting cycle which included -

- Ongoing Impact of COVID-19 on Council Finances
- External Audit
- Internal Audit
- Treasury Management
- Annual Accounts
- Fraud Prevention/ Counter-Fraud inc. National Fraud Initiative
- Risk Management, Risk Assessment and Risk Registers

ii. This approach continues to be welcomed and has resulted in constructive and valuable debate of individual topic areas which will continue into 2022/23. The committee have also identified areas where they would like to receive briefings next year.

4. Audit Committee Training

The Chair and Vice-Chair are keen that external formal training for all Audit Committee members is undertaken as a regular annual process.

As well as attending the briefings identified in this report, in addition some Audit Committee Training has been achieved by free courses identified by audit committee members and voluntarily completed. All members of the audit committee also received formal training from CIPFA regarding Local Government Financial Statements.

The Chairman of the Committee is also a member of the South West Chairs of Audit and Governance Forum, which considers and compares best practice in areas of audit, governance and risk management. The Chairman shares this information with Members at North Somerset Council.

The committee is looking to find ways to achieve more external training for all committee members in the forthcoming year and a training plan is being developed in this respect. We have an intention to have a robust training plan ready for the next council elections.

5. **Work Plan for 2022/23**

The workplan is kept under review in the informal and formal meetings of the committee and in discussions with the officers and auditors. Planned subjects for 2022 – 2023 are shown in detail in Appendix 2, however it is acknowledged that it may not be possible to cover all of these areas within the financial year and thus the work plan will be update as necessary.

6. **Membership and Support**

i. Councillor John Cato is the Chair of the Committee. The Vice Chair is Councillor Sandra Hearne, and the other members are Councillors Patrick Keating, Marcia Pepperall and Richard Tucker. There were no independent co-opted members for year 21-22.

Work has been completed in-year to recruit independent co-opted members. Two members have been successfully recruited and looking ahead they will attend their first formal meeting in September 2022.

ii. The Committee is supported by a range of officers, notably the Director of Corporate Services (S151 Officer), engagement leads from Audit West, the Head of Finance, the Head of Business, Insight and Policy, the Assistant Director Legal & Governance and Democratic Services.

iii. The external auditors are currently represented by an Engagement Lead and Audit Manager from Grant Thornton.

iv. The Committee is in contact with Audit committees from other authorities to exchange views, methods of working, and ideas.

Appendix 2 – Audit Committee 2022/23 Formal Meetings Workplan

Main business provisional work plan:

Ad Hoc further items to be decided

Title	Frequency	Lead Officer	Purpose of Report	Sep-22	Nov-22	Jan-23	Apr-23	Sep-23	Nov-23
Governance - ad hoc reports when changes happen, a risk arises which requires additional assurance or as a result of audit recommendations									
Major Projects Governance Strategy Update	When require	Head of Major Proje	Major Projects Governance						
Outsourced Services Governance Strategy Update	When require	Director of Corporat	Strategic Procurement Govern						
Procurement Governance Strategy Update	When require	Director of Corporat	Outsourced Services Governa						
Support Services Contract Governance Briefing	When require	Director of Corporat	Support Services Governance						
Critical Incident and Emergency Response Audit and Gover	When require	Director of Corporat	Corporate Governance monito						
Information Technology Audit and Assurance	When require	Director of Corporat	IT Governance Assurance						
Climate Emergency Governance, Metrics and Control	When require	Director of Corporat	Corporate Governance monito						
Procurement Processes Governance Assurance	When require	Director of Corporat	Procurement Governance Ass						
Information Security Audit and Assurance	When require	Director of Corporat	Security Governance Assuranc						
Cyber Security Audit and Assurance	When require	Director of Corporat	Security Governance Assuranc						
Third Party Outsourced Services Governance Assurance	When require	Director of Corporat	Delegated/Outsourced Service						
Directorate Report on organisation and governance.	When require	As required	Directorate Governance and In						
Constitution Review and Update briefing - informal	When require	Assistant Director -	for recommendation of propos						
Significant Partnerships Governance Strategy Update	When require	Director of Corporat	Governance, Risk Managemen						
Contract Standing Orders	When require	Assistant Director -	Principles and structure of gov						
Voice of the Customer Report	When require	Director of Corporat	Governance, Customer/Reside						
Continuous Performance Improvement Update	When require	Director of Corporat	Governance, Risk Managemen						
Ethics and Standards	When require	Internal Audit?	Ethics and Standards Assuran						
HR matters	When require	Director of Corporat	HR Governance						
Council Continuous Improvement Update	When require	Director of Corporat	HR Governance						
Financial Regulations	When require	Head of Finance	Finance Governance and Assu						
Annual Training - suggest that training needs analysis is completed		**to ensure focusse**							
AC Member Training - stage 1 - plan/specify/establish		Director of Corporat	Redmond Review - Audit Com						
AC Member Training - stage 2 - training commissioned		Director of Corporat	Redmond Review - Audit Com						
Principles of Governance, Assurance and Audit		Director of Corporat	To ensure skills and knowledg						
Role of Audit Committee and deliverables		Director of Corporat	To ensure skills and knowledg						
Role of External Audit and deliverables		Director of Corporat	To ensure skills and knowledg						
Role of Internal Audit and deliverables		Director of Corporat	To ensure skills and knowledg						
Role of S151/Finance		Director of Corporat	To ensure skills and knowledg						
Role & Responsibilities of Senior Officers		Director of Corporat	To ensure skills and knowledg						
Annual Accounts		Director of Corporat	To ensure skills and knowledg						
Internal Controls		Director of Corporat	To ensure skills and knowledg						
Risk Management		Director of Corporat	To ensure skills and knowledg						
Business Performance		Director of Corporat	To ensure skills and knowledg						

North Somerset Council

REPORT TO THE AUDIT COMMITTEE

DATE OF MEETING: 24 NOVEMBER 2022

SUBJECT OF REPORT: TREASURY MANAGEMENT MID-YEAR REPORT 2022/23 & CONSIDERATIONS FOR THE 2023/24 STRATEGY

TOWN OR PARISH: ALL

OFFICER/MEMBER PRESENTING: MELANIE WATTS, HEAD OF FINANCE

KEY DECISION: N/A

REASON: Not an Executive decision – this is a report for information.

RECOMMENDATIONS

The Audit Committee is asked to note;

- the treasury management in-year monitoring report to 30th September 2022 which includes performance, prudential indicators, and commercial investments
- the proposed matters for inclusion in the Treasury Management Strategy 2023/24

1. SUMMARY OF REPORT

1.1 This report informs the Audit Committee of the council's;

- treasury management activities during the first six months of 2022/23 and confirms that the activities undertaken during the year have complied with both the requirements of the Accountability and Responsibility Framework and the approved Treasury Management Strategy approved by Council in February 2022, and also

- sets out the framework and issues to be considered when drafting the Strategy for the 2023/24 financial year

2. POLICY

1.2 Part 1 (7) of the Financial Regulations, sets out the councils' own policy framework with regards to treasury management activities.

1.3 Following the council's adoption of the 2021 edition of the Chartered Institute of Public Finance and Accountancy (CIPFA) *Treasury Management in the Public Services: Code of Practice*, Members are required to approve an annual treasury management strategy before the start of each financial year and then to receive an in-year monitoring report and an annual report after the end of each financial year. Such reports are required to include a range of core information and so the structure of this report meets those requirements.

3. DETAILS

1.4 The Section 151 Officer has the responsibility to put in place an effective framework to support the council's treasury management activities, which are undertaken by officers within the Finance Service within the Corporate Services Directorate.

1.5 The remit of the S151 and finance officers is broad and covers a range of day-to-day operational tasks relating to the management of cash-flows and resultant outcomes of borrowing and investment decisions, as well as setting and supporting the strategic direction required by the council to deliver its core services and cover key financial risks in this area, as well as linking to the council's other financial strategies and risks.

Key messages for the period 1st April 2022 to 30th September 2022

1.6 **Context** - the economic context that has prevailed during this period has clearly influenced the council's overall financial position as well as its treasury related activity and performance. In summary, the ongoing conflict in Ukraine continued to put pressure on global inflation and the economic outlook for both the UK and world growth remained weak. Uncertainty remained in control of financial market sentiment and bond yields remained volatile, continuing their general upward trend as concern over higher inflation and higher interest rates continued to dominate. Towards the end of September, volatility in financial markets was significantly exacerbated by the UK government's fiscal plans resulting in further impacts on borrowing rates.

1.7 **Borrowing** - the council's treasury strategy contained a borrowing requirement of £49m for 2022/23. At 30 September this has been reduced to £39m following in-year changes made to the capital programme, all of which have been reported separately to the Executive through the corporate monitoring process. Final levels of borrowing will be confirmed at the end of the financial year. In terms of borrowing transactions, no new additional external borrowing has been undertaken during the period 1 April to 30 September 2022 and £0.4m of borrowing was repaid, both as planned.

1.8 **Investment income** - following a series of bank base rate increases during 2022, gross interest income earned on all investments is forecast to be £1.905m, against a budget of £0.692m.

1.9 **Investment returns** - the average rate of investment return for cash deposit type investments managed by the in-house team for the first half of 2022/23 was 1.25%, which is broadly comparable to that achieved by Tradition (1.51%); and returns of 3.95% were achieved on external pooled fund investments.

1.10 **Cash-flows** - £360m of cash-flows were managed and turned around during the period; this is broadly comparable with the equivalent period last year (£375m).

1.11 **Indicators** - the council's Treasury Management Indicators for 2022/23 were approved by Council in February 2022. Performance against the key indicators is shown in **Appendix 1**. All indicators are currently within target levels.

Balance Sheet Summary

1.12 Treasury related sums are reflected within the council's balance sheet, with some elements being shown as liabilities and others as assets. An extract of the key components is shown in the table below, together with a comparison of the previous year and the change that has occurred.

Table 1 Treasury Management Balances within the Balance Sheet				
	Balance 31/03/22 £m	**Movement In Year £m**	**Balance 30/09/22 £m**	**Ave Rate %**
Long-term borrowing	136.8	0.0	136.8	3.96
Short-term borrowing	7.4	-0.4	7.0	2.04
Total borrowing	**144.2**	**-0.4**	**143.8**	**3.87**
Long-term investments	10.0	0.0	10.0	3.95
Short-term investments - in-house	157.0	-10.0	147.0	1.25
Short-term investments - Tradition	10.0	0.0	10.0	1.51
Total investments	**177.0**	**-10.0**	**167.0**	
Net (borrowing) / investments	**32.8**	**-9.6**	**23.2**	

1.13 It should be noted that the values reflected within this table are the principal sums of borrowing and investments made which may be different to the final values reflected within the council's statutory accounts at the end of the financial year. This is because the council is required to follow accounting regulation and gross up these values to include technical adjustments such as accrued interest or reflect impairment assessments at that point.

1.14 Balances at 30th September 2022 were comparable with the equivalent in the previous year.

Summary of Investment Returns & Activity

1.15 **Overview** – Table 3 provides an overview of the council's investment portfolio, which is diversified across Money Market Funds, Local Authorities, the CCLA Property Fund, highly rated UK and Foreign Banks and UK Building Societies. The council uses AAA rated Money Market funds to maintain very short-term liquidity and had overall investments of £167m as at 30th September 2022. (CCLA – Charities, Churches & Local Authorities).

1.16 The table below shows further analysis of the investments held at 30th September 2022 and 31st March 2022 which adhered to the approved Investment Strategy.

Table 3 Analysis of External Investments (principal sums)			
	31/03/2022 £m	Movement £m	**30/09/2022 £m**
UK Banks	14.0	-8.0	**6.0**
Overseas Banks	0.0	32.0	**32.0**
UK Building Societies	32.0	15.0	**47.0**
Debt Management Office (DMO)	28.0	-17.0	**11.0**
Local Authorities	93.0	-32.0	**61.0**
Pooled Investment Funds	10.0	0.0	**10.0**
Total	**177.0**	**-10.0**	**167.0**

1.17 **Security and liquidity** - the investment strategy continued to prioritise security and liquidity of cash-flows during the first six months of 2022/23, which meant that a large proportion of funds were placed into "safe havens" for short periods of time. It can be seen from the table above that at the end of September a total of £72m was being held with other local authorities (£61m) and the governments' Debt Management Office (DMO) (£11m).

The DMO provides a AAA rated investment and whilst the majority of local authorities are not rated by external agencies, they are also considered more stable than other types of counter-parties. Care is taken to assess all individual local authorities before investments are placed, through reviewing their own treasury management strategies as well as their published accounts.

The approach to invest in higher rated institutions would clearly have reduced some areas of risk, i.e. operational service delivery by retaining a degree of liquidity over funding, as well as counter-party and country related risks by reducing exposure to volatile organisations and countries across Europe, although it is recognised that this could have impacted on inflationary risks and returns. That being said, the council was aware that it did not want to lock in all of its longer-term cash-flows during a period whereby interest rates continued to rise rapidly as this may curtail future opportunities from being taken.

1.18 **Cash-flows and market rates** – Daily cash inflows and outflows vary over the year with semi-regular peaks and troughs in income and expenditure. Forecasts show that for the first 6 months of the year, income tends to exceed expenditure, resulting in a build-up of cash balances and this has been the case during the current financial year.

During 2022/23 investments were placed for shorter durations, in part to ensure that the council's ongoing liquidity needs continued to be met, but largely because of the ongoing expectations of continued base rate increases meaning that it would not be appropriate to lock in longer-term investments when rates would be surpassed shortly afterwards. The council's portfolio was rebalanced to ensure an increased, but not excessive, share of the council's investments were placed across a range of counterparties, e.g. banks, building societies and local authorities as well as the DMO.

1.19 **Investment returns** - the table below shows the average rates of return achieved during the first half of 2022/23 on investments placed by both treasury teams.

Table 4a Analysis of Investments – non-pooled funds

	In-house				Tradition			
	Ave Return (%)	Return (£m)	Ave Time (days)	Ave Loans (No.)	Ave Return (%)	Return (£m)	Ave Time (days)	Ave Loans (No.)
Qtr 1 – to 30th Jun	0.98%	0.984	207	56	1.09%	0.082	345	5
Qtr 2 – to 30th Sept	2.50%	0.555	112	13	3.35%	0.057	206	1
Annual Average for Fixed Term Cash Deposits	**1.25%**	**1.539**	**145**	**69**	**1.51%**	**0.139**	**299**	**6**

Table 4b Analysis of Investments – pooled funds								
	In-house				Tradition			
	Ave Return (%)	Return (£m)	Ave Time (days)	Ave Loans (No.)	Ave Return (%)	Return (£m)	Ave Time (days)	Ave Loans (No.)
CCLA pooled fund	4.31%	0.215	365	NA	NA	NA	NA	NA
UBS Multi Asset Fund	4.41%	0.044	365	NA	NA	NA	NA	NA
Ninety-one Diversified Income Fund	3.39%	0.136	365	NA	NA	NA	NA	NA
Annual Average for Pooled Funds	**3.95%**	**0.395**	365	NA	NA	NA	NA	NA

1.20 The first section covers fixed term cash deposits, which are traditional investments placed with banks, building societies, the DMO and other local authorities, where a principal sum is paid to the investor and a yield received at maturity along with the returned investment. The second section covers pooled investment funds where the councils' investment buys shares. Returns are given to the council on a quarterly basis depending on the value of the share price at that time.

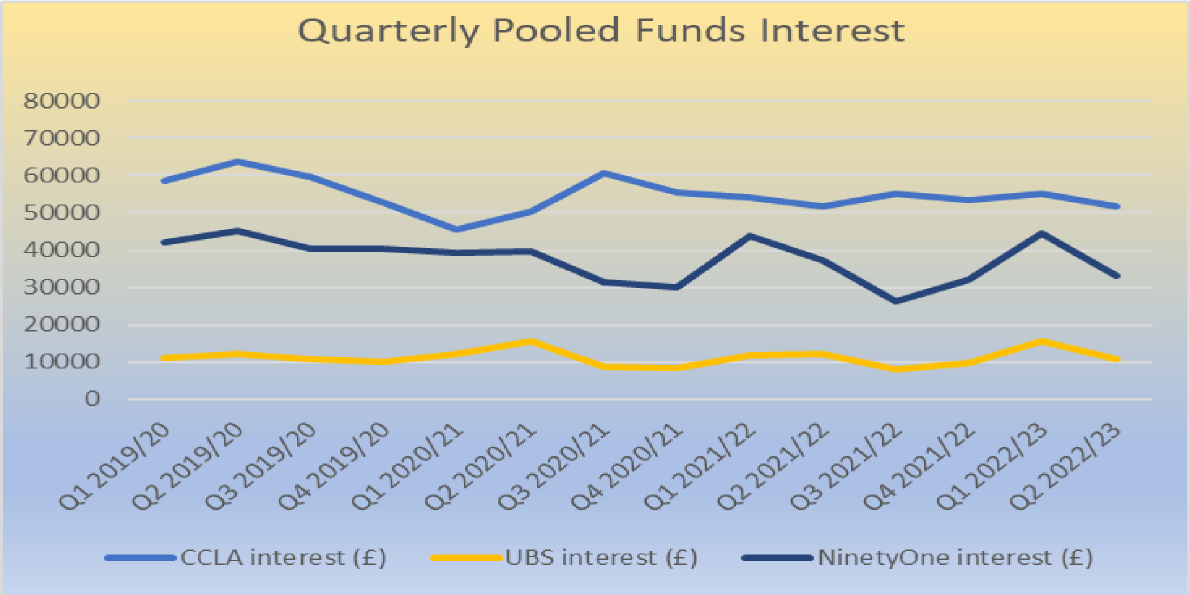
1.21 The council's average investment return from its fixed term cash deposits for the 6-month period was around 1.25%. However, it can be seen that the average rate achieved between July and September 2022 was 2.50%, reflecting the increases in the base rate and resultant market activity. This pattern is expected to improve further in the second half of the year.

1.22 The table also shows that the council's in-house team achieved a marginally lower average rate of return during the period compared to that of the external fund manager for similar types of investments. This would be expected as the primary purpose of the in-house team is to manage cash-flows to support the operational delivery of council services, whereas the external managers have no such constraints and can seek the best opportunities within the market. The number and 'duration' of investments placed by each team differs significantly with the fund manager being able to take opportunities throughout the year to assess the yield curve, which offers higher rates of return for longer investment periods.

1.23 The council's average return from its £10m of pooled investment funds returns of 3.95%.

1.24 The chart below shows the quarterly returns achieved on the council's pooled funds over recent years and whilst they are higher than returns on traditional fixed term cash deposits, they are more volatile and susceptible to changes within the market and so often act conversely to the money markets as they can be linked to bonds and gilts.

1.25 The chart below shows a slight dip in the performance at the end of September compared to the levels achieved at the end of the first quarter however, they remain comparable to the levels achieved at the same point last year. As per the key controls and framework in place, care will be taken to assess performance for these investments during the remainder of the current financial year to ensure that they still meet the core requirements of the council, as described in previous reports.



1.26 The council has created a pooled funds smoothing reserve as part of its risk management measures at the end of the 2021/22 financial year which will be available to smooth annual fluctuations on the council's revenue budget if needed.

Budget Implications

1.27 The table below shows that the council received **£1,905k** from interest income during the year, which is £1,213k more than budgeted. This is due to a combination of the increased interest rates in the first six months and stronger than expected CCLA income.

Table 5 Investments Interest Budget						
	In-House – Cash Deposits £000	Money Market Funds £000	Tradition UK Ltd £000	CCLA Property Fund £000	Other Pooled Funds £000	**Total £000**
Interest generated	1,360	61	82	214	188	**1,905**
Investment Interest Budget	262	16	15	206	193	**692**
Variance to Budget	1,098	45	67	8	-5	**1,213**

1.28 It can be seen through regular reports to the Executive that the current economic backdrop as referred to within para 3.3, is having a significant impact on the council's financial position, most notably as a result of rapidly rising inflation increasing its cost base. The largest increases relate to energy, pay and contract inflation, which when added to rising levels of demand for childrens services and home to schools transport provision, means that the council is projecting a net deficit of over £4m on its budget for the year.

1.29 The increase in investment interest shown in the table above is currently being reflected as a budget mitigation, i.e. as a way of reducing overspending in other areas of the budget and means that the council's financial position would be much worse without this windfall. Therefore the issue of interest rates and their projected levels for next year, should not only be a key consideration within the treasury management strategy, but also feature within the medium term financial strategy proposals.

Borrowing activity and further update

1.30 At 30th September 2022 the council held £155.6m of external borrowing on its balance sheet which is held with the following counter-parties;

- £140.4m is held with the **Public Works Loan Board** (PWLB),
- £2.9m with SALIX,
- £0.5m with Town Councils
- £11.8m managed by Bristol City Council on behalf of 4 councils

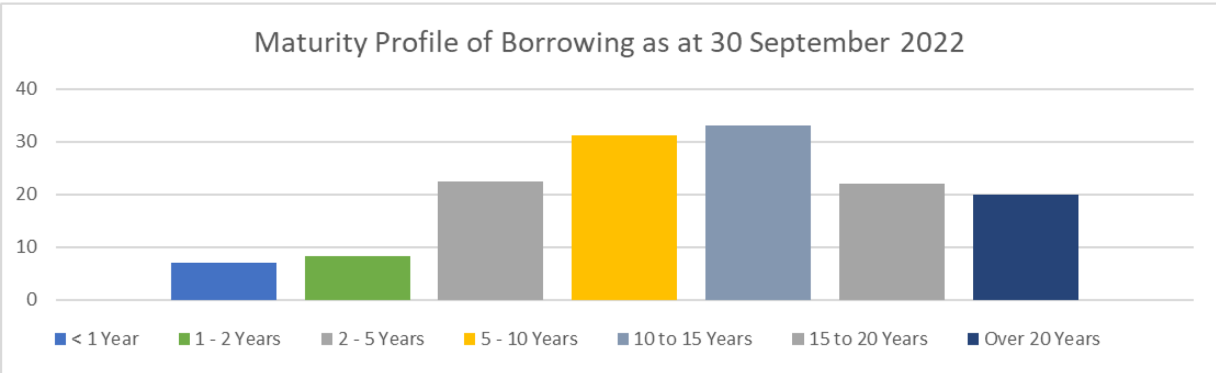
The PWLB is operated by the UK Debt Management Office on behalf of HM Treasury and provides loans to local authorities, and other specified bodies, from the National Loans Fund, with borrowing only available for capital purposes.

Salix is an executive non-departmental public body, sponsored by the Department for Business, Energy, and Industrial Strategy (BEIS) who deliver government funding to the public sector to improve energy efficiency, reduce carbon emissions and lower energy bills.

1.31 The maturity profile of PWLB debt is shown in the table and chart below.

Table 6 Long-term PWLB debt profile (principal) as at 30th September 2022

	Debt £m	Average Rate %
Less than 1 year	6.96	2.04
Between 1 and 2 years	8.31	3.65
Between 2 and 5 years	22.45	3.58
Between 5 and 10 years	31.17	4.06
Over 10 years	74.95	4.08
	143.84	**3.87**



1.32 No new PWLB borrowing was undertaken; £6m of existing PWLB loans is due to be repaid by March 2023. Interest payments totalling £5.564m are due to be paid in year.

1.33 SALIX have provided funding to North Somerset for green initiatives, in this case energy efficient replacement street lighting. During the year, the council has made a partial repayment of £0.4m from the original loan funding from SALIX bringing the total loan balance to £2.9m. Borrowing is repayable in 10 equal six-monthly instalments over 5 years. There are no interest obligations on this borrowing, although as a result the council does need to recognise this as a soft loan within its statutory accounts.

1.34 The council's balance sheet also reflects long-term borrowing obligations of £11.8m at the end of the year in respect of the former Avon County Council, which is paid off over a period. A partial repayment of £0.480m will be paid during the year. These loans are currently held and administered by Bristol City Council.

1.35 The Capital Strategy report approved in February 2022 did indicate that the council would be required to borrow £49m to fund its capital programme in 2022/23 however, following a series of reviews and rephasing, the revised borrowing forecast for 2022/23 is now £39m. Given the surplus cash-flow position, as expected the council has not drawn down any external borrowing in 2022/23. Capital spending plans and forecasts will continue to be reviewed to provide an updated assessment to inform future borrowing decisions and will be a consideration within the 2023/24 Strategy. Core drivers would include capital expenditure spending profiles, market rates, current and future cash-flow forecasts.

Economic Impacts

1.36 Our treasury management advisor's detailed economic and market review for 2022/23 is included in **Appendix 3,** although highlights are listed below.

1.37 The ongoing conflict in Ukraine has continued to put pressure on global inflation and the economic outlook for UK and world growth remains weak. The UK political situation towards the end of the period following the 'fiscal event' increased uncertainty further.

1.38 Having increased Bank Rate from 0.75% to 1.00% in May and again to 1.25% in June, the Bank of England raised it further to 1.75% in August and 2.25% in September 2022.

1.39 Arlingclose expects Bank Rate to rise further during 2022/23 to reach 5% by the end of the year.

	Current	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
Official Bank Rate													
Upside risk	0.00	0.50	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	**2.25**	**4.25**	**5.00**	**5.00**	**5.00**	**5.00**	**5.00**	**5.00**	**5.00**	**4.75**	**4.25**	**3.75**	**3.25**
Downside risk	0.00	-1.00	-1.00	-0.75	-0.50	-0.50	-0.50	-0.75	-1.25	-1.50	-1.75	-1.75	-1.75

1.40 The MPC is particularly concerned about the demand implications of fiscal loosening, the tight labour market, sterling weakness and the willingness of firms to raise prices and wages.

1.41 The MPC may therefore raise Bank Rate more quickly and to a higher level to dampen aggregate demand and reduce the risk of sustained higher inflation. Arlingclose now expects Bank Rate to peak at 5.0%, with 200bps of increases this calendar year.

1.42 This action by the MPC will slow the economy, necessitating cuts in Bank Rate later in 2024.

1.43 The market volatility seen in September and October, and the impact of the chancellor's fiscal event and accompanying Office for Budget Responsibility (OBR) report in November may affect the scale and timing of the above assumptions.

Commercial Investments

1.44 As noted in previous reports the council's Commercial Investment Strategy was initially approved by Council in July 2017 although was subsequently revised and updated as part of the Capital Strategy in February 2019, following recommendation by the Executive. In line with this Strategy, the council made two investments in commercial property within the geographical boundary of North Somerset with the aim of earning both an annual return into the revenue budget as well as the potential for long-term capital appreciation. Investment income is received in year through a combination of rental and car parking income at the sites.

1.45 The investments made under the strategy were all agreed in previous years and consist of one outright purchase funded from long term borrowing, the North Worle District Centre, and one property acquired under a finance lease, the Sovereign Centre in Weston-super-Mare. Indicative sums have been set aside for potential improvements to the Sovereign Centre although no decisions to approve spending have taken place because the Council has been able to access grant funding to progress projects. There were no purchases or sale of assets during the 2022/23 financial year and there are no plans to undertake any further commercial investments in the future.

1.46 Performance and management of these assets is supported by specialist property advisors Montagu Evans and their activity is tailored to the specific requirements of each site. The North Worle site is leased to a single tenant and performance since purchase has been as expected within the original business plan. The Sovereign Centre site is more complex as it is an internal shopping centre within the town centre and has been impacted by several factors since acquisition. Monthly meetings are held on site to discuss all aspects of operational delivery and performance.

1.47 Any financial impacts or issues arising from these commercial investments are within the council's regular budget monitoring framework which is presented to the Executive throughout the year. Decisions surrounding capital investments would follow the council's capital governance routes, which will include Boards such as the Capital Programme, Planning and Delivery Board or the Capital Delivery Strategic Group.

1.48 Details of the financial performance are contained within the following sections of the report and these investments continued to be accounted for as investment properties within the balance sheet. The council currently has no plans to dispose of its commercial investment properties.

Cost and valuation

1.49 The council's portfolio of commercial investment property was valued at £33.0m at 31st March 2022 as part of the annual review process and is not remeasured mid-year. The value in March 2022 represented an increase of £0.4m compared to the value at the 2020/21 year-end, although a reduction of £28.2m compared to the original acquisition cost. The properties will be subject to a further revaluation at the end of March 2023.

Table 7 Property held for investment purposes					
Property	**Acquisition cost (Incl fees) £m**	**31/03/2021 Valuation £m**	**31/03/2022 Valuation £m**	**Change over acquisition £m**	**Change over prior year £m**
North Worle District Centre	40.2	29.0	28.0	-12.2	-1.0
Sovereign Centre	21.0	3.6	5.0	-16.0	1.4
Total	**61.2**	**32.6**	**33.0**	**-28.2**	**0.4**

Income compared to budget

1.50 After servicing costs, fees and borrowing costs and contributions into smoothing reserve, commercial investments are budgeted to generate an annual net return to the revenue budget of £0.0m (2021/22 £0.2m). **Appendix 2** contains budget forecasts for each of the council's commercial investments.

1.51 The main Sainsbury's store at North Worle has remained open and trading through the first six month of the financial year, and the council has continued to receive income as planned.

1.52 Trading operations at the Sovereign Centre have also remained as planned, including the opening of the office accommodation and touch down spaces, which was an investment funded through the Getting Britain Building Fund to diversify the Centre away from purely retail markets. Monitoring also shows that the council expects to receive car parking income in line with budget.

1.53 The council has created a commercial investment smoothing reserve as part of its risk management measures which is available to smooth annual fluctuations on the council's revenue budget if needed. This would not only cover periods of higher cost prices or income reductions from vacant units, but the reserve would also cover income reductions that may arise because of lease renewals, as they often include rent free periods as part of the renewal terms.

Yield / Return on investment

1.54 As detailed in **Appendix 2**, combined the council's commercial investments are forecast to provide an annual yield / return on investment of 0% in 2022/23 (0.7% in 2021/22) although this is after a proposed contribution into smoothing reserve of £0.5m to cover potential future risks or investments.

1.55 Whilst the annual yields are currently below both the original acquisition terms and those defined within the Strategy, the council recognises the longer-term place-making impacts that these assets have on the geographical area and the benefits that they provide to residents and the wider community.

Revisions to CIPFA Codes

1.56 In December 2021 CIPFA issued the revised Codes and Guidance Notes to its Prudential Code and Treasury Management Code of Practice. These followed the Public Accounts Committee's recommendation that the prudential framework should be further tightened following continued borrowing by some authorities for investment purposes.

1.57 Due to the timing of the codes' publication councils were able to defer reflecting the changes until 2023/24. The changes are laid out in **Appendix 6**.

Initial considerations in relation to the draft Treasury Management Strategy for 2023/24

Background

1.58 Each year the Council is required to prepare and approve a Strategy that covers its proposed treasury management related activity for the year ahead and this will set out the proposed framework, activity, risks and approaches that the council will use within its operational arrangements.

1.59 The process shows that the draft Strategy is reviewed by the Audit Committee each year, it is then considered by the Executive at their meeting in February who then recommend it onto Council for their approval.

1.60 Much of the Strategy **framework**, its format and component parts are driven by external legislation, regulation or good practice, as well as the council's own internal financial regulations and governance arrangements, and so are likely to remain unchanged unless specific changes are made to any of these cornerstones.

1.61 Council Performance indicators and information, which feed into the Strategy, are variable and could change year-on-year which means that the Strategy will need to be updated for these at the appropriate time, i.e. the amount the council may need to borrow to fund its capital programme, the cash-flows associated with the delivery of services, the amount of investment balances available, how many commercial properties are owned or the financial risks reflected within the revenue budget and broader medium term financial plan.

1.62 There are also a range of external facts and information which either feed into the Strategy, or which may influence the council's approach to risk and so could result in a future change within the Strategy, examples of these might include inflation and interest rate forecasts or events or risk profiles of countries or individual counter-parties.

Draft proposal

1.63 It is anticipated that the annual Strategy for 2023/24 **will be updated** to include the amendments mandated by the Code. Given that the council has adopted the Code of Practice it is appropriate that we reflect these within our Strategy, for example;

- Borrowing Strategy - PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; this will be addressed either via a statement that the council intends to avoid this activity to retain its access to PWLB loans; or via an explanatory note on the liquidity implications of losing access to PWLB funding.

- Borrowing Strategy - the liability benchmark - this is an important tool to help establish whether the council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

- Investment Strategy - the requirements of the 2018 MHCLG Investment Guidance mostly refers to non-treasury investments. The 2021 Code requires the treasury management strategy, to address all the organisation's financial investments, including those which are not treasury management investments, as well as any non-financial assets held primarily for financial return (such as commercial property). Much of the information is already disclosed within the Strategy and so the presentation will be updated.

- Investment Strategy – the framework and ability to introduce Environmental, Social and Governance investment-based decisions (ESG) and / or increasing Greener investment opportunities will be included within the Strategy.

- Investment Strategy - the status of the statutory over-ride for Pooled funds capital gains / losses will be updated when a final decision, given that the future of the statutory override is currently out for consultation.

1.64 It is proposed that there will be **no material changes** made to the current operational framework of the Strategy itself, although investment risk levels will be reviewed in light of current economic forecasts, focused upon market changes, counterparties and ratings to ensure the current levels and counter-parties reflect the council's current risk appetite.

1.65 The rationale to support this statement is because;

- the current Strategy has been prepared through detailed consultation and engagement with the Members of the Audit Committee over the past three financial years, and also reflects the advice and guidance of the council's treasury management advisors,

- Members of the Audit Committee have been provided with several training sessions in this area, have received a series of mid-year and out-turn reports and are assured that the current framework meets the legislative requirements and good practice,

- The current Strategy is considered to be aligned to the council's current risk approach, i.e. it sets out very clear risks and ensures that robust mitigations are put in place to cover these,

- The current Strategy is fairly broad in nature and is robust enough to cover most eventualities that could occur within the council or within the financial markets. The key components ensure that the council has the choice and flexibility to adapt and adjust to a variety of events, operational requirements or opportunities that we may face during the year ahead without the need to request emergency powers or invoke remedial actions.

1.66 It is proposed that the annual Strategy **will be updated** to include the council's latest financial information when known, examples are listed below;

- Capital expenditure levels, reserves, borrowing requirement, cash-flow forecasts, updated budgets for borrowing costs, investment income, MRP etc

1.67 Local Treasury Management Indicators will consider the following updates:

- Introducing new indicators which look at ways to measure and assess Security, Liquidity and Interest Rate risk exposure.

4. CONSULTATION

1.68 A range of financial information and performance details are included within the council's monthly budget monitoring framework which sees reports presented to the Executive throughout the year and scrutinised by the relevant Policy and Scrutiny Panels, where an opportunity is provided for further consultation and engagement on financial matters. Given the scale of financial information and decisions, reports are focused on exceptions, drawing attention to material variances or pertinent highlights.

5. FINANCIAL IMPLICATIONS

1.69 Financial implications are contained throughout this body of the report within the relevant sections however, an additional summary has been included to provide a high-level overview of the key components linked with capital financing and investment decisions.

Table 8 - Budget impacts – capital financing and interest			
	2022/23 Budget £000	**2022/23 Forecast £000**	**2022/23 variance £000**
Interest payable on borrowing	5,809	5,564	-245
Interest receivable on investments	-692	-1,905	-1,213
Minimum revenue provision	7,121	6,730	9
Total	**12,238**	**10,789**	**-1,449**
MRP analysis;			
- Supported Borrowing Minimum Revenue Provision	900	900	0
- Prudential Borrowing Minimum Revenue Provision	5,410	5,410	0
- Ex-Avon Loan Debt Minimum Revenue Provision	461	470	9
- Finance Leases Minimum Revenue Provision	350	350	0

6. LEGAL POWERS AND IMPLICATIONS

1.70 This report is for information only and covers the council's required obligations.

7. CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS

1.71 The council will continue to avoid any direct treasury management investments in fossil fuel related companies and will engage with its advisors to explore and assess the potential for any future investment opportunities in funds with a Renewable Energy & Sustainability focus as these products continue to be developed by the market in response to the Climate & Nature Emergency agenda.

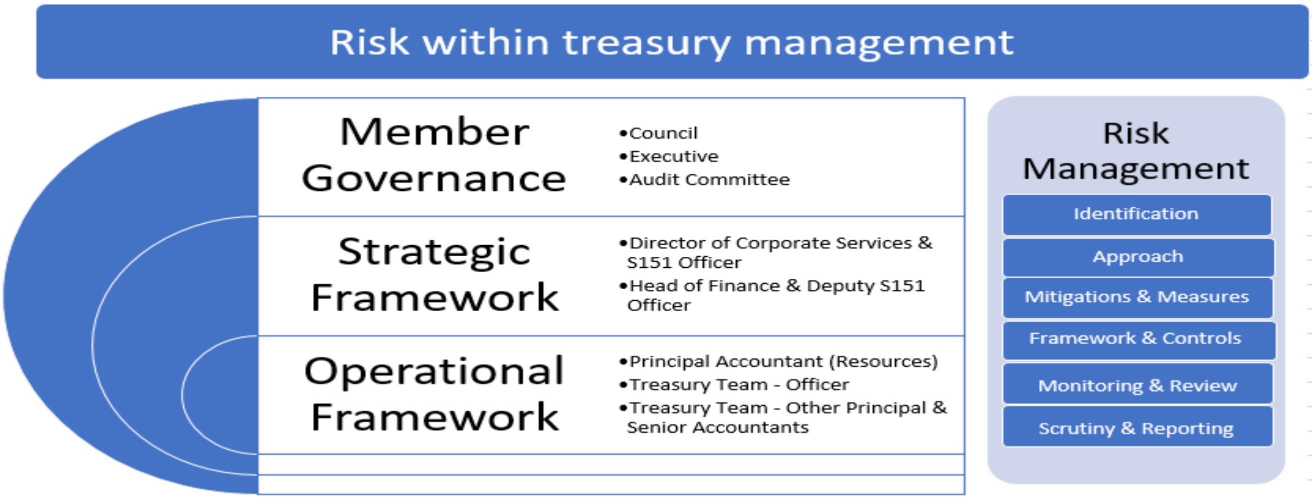
1.72 The council continued to hold an investment in a Green Deposit account with Barclays Bank. This forms part of the council's fixed term cash deposits and so will earn some interest in the usual way however, the Bank confirms that it will use these funds to support its Green Bond Purchase Programme which is an initiative whereby monies are used to invest in a variety of projects which support the environment such as tree plantation, renewable energy schemes and water waste management activities.

8. RISK MANAGEMENT

Overview

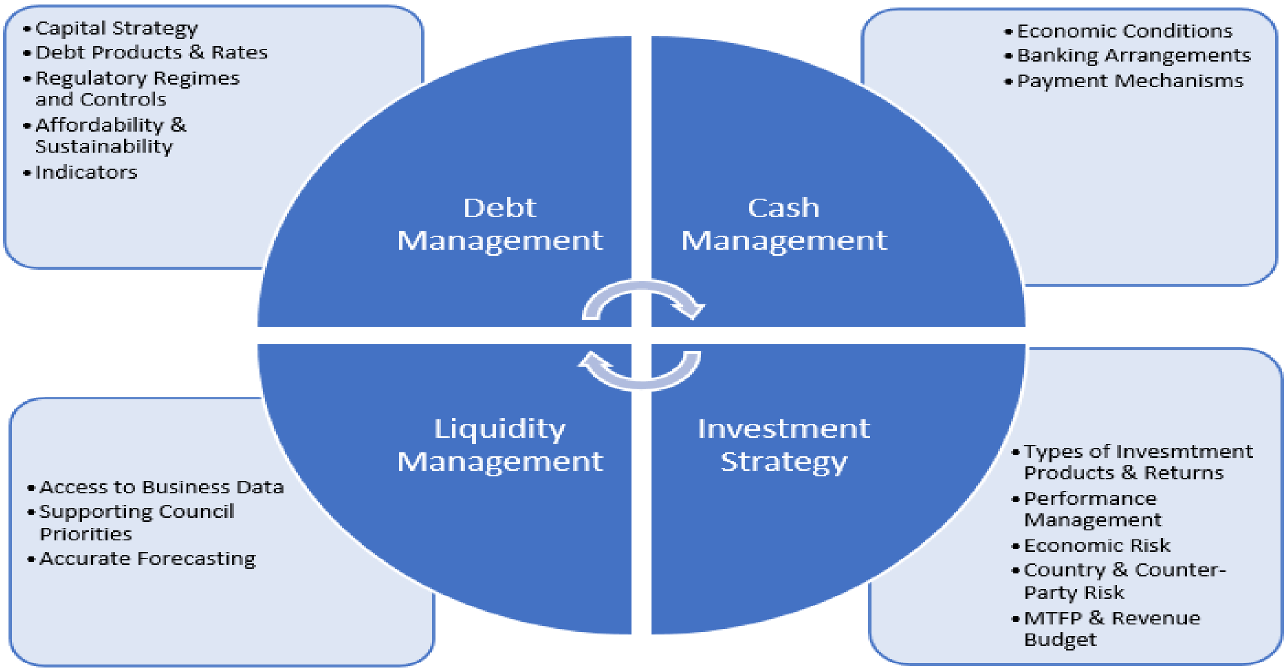
1.73 The council faces a myriad of risks when undertaking its treasury management function and activities, indeed it is not possible to deliver this function without encountering various types and degrees of risk, which could impact in a variety of ways and many of these have been referred to throughout the report.

1.74 The caption below summarises the key stakeholders and roles involved with the council's treasury management function and indicates that risk management can be seen within all of these roles. The chart also indicates points of escalation so that it is possible to understand how treasury management related decisions are made and issues escalated upwards.



1.75 The Treasury Management Strategy approved by Council each year provides the framework for officers to work within throughout the course of the year. It describes how the council will manage its money, whether it expects to have surplus or negative cash-flows, and goes into a lot of detail of what should be done in those instances by confirming 'acceptable' investment products, 'approved' categories of financial institutions and setting limits for potential investments.

1.76 The Strategy therefore identifies the strategic risks inherent within the treasury function and the caption below shows some of the most significant risks within the council's treasury function. Identification is clearly one of the most important stages in the management of risk because policies, strategies and mitigation measures cannot be put in place until that work has been completed.



1.77 Once identified, the council ensures that it implements, and adheres to, strict policies, principles and internal controls to mitigate such risks although it should be noted that these measures have been developed alongside the council's broader financial strategies to ensure that information is fully integrated. This is because it would not be appropriate to develop a policy for treasury activity, which then has an adverse impact within the council's revenue budget or vice versa.

Strategic Risk Management

1.78 Listed below are some of the council's more strategic risks together with commentary on how they are managed through the strategy and associated frameworks;

- The CIPFA Treasury Management in the Public Services: Code of Practice requires the council nominate a committee to be responsible for ensuring effective review of the Treasury Management Strategy. Within North Somerset the Audit Committee carries out this function and members have been provided with specific training sessions and workshops to support their role.

- The council's primary objectives for the management of its **investments** are to give priority to the security and liquidity of its funds, before seeking the best rate of return. Most of its surplus cash is therefore held as short-term cash-based investments and utilises a combination of UK Government and other highly rated financial institutions and / or pooled funds where appropriate.

- The council's primary objective for the management of its **debt** is to ensure its long-term affordability. Most of its loans have therefore been borrowed from the Public Works Loan Board at long-term fixed rates of interest.

- The council recognises however, that the increased level of security through the combination of short duration investments and long duration debt could expose the council to the risk of falling investment income during periods of low interest rates. This risk is partially mitigated by holding some longer-term investments and reviewing the option to prematurely repay long-term loans.

Operational Risk Management

1.79 The council also manages risk on an operational basis through undertaking a series of daily, weekly, monthly, quarterly and annual activities. Examples of some of these activities and decisions are described below all of which fall within the scope of the Strategy approved by Council and the guidelines of the Prudential Code;

- The council undertakes a daily assessment of its banking position and compares this to both the cash-flow forecast and operational business needs of the day.

  Should this daily review present a negative cash-flow position outside of permitted levels then the Principal Accountant (Resources) would take steps to bring additional resources into the bank accounts to ensure that the council does not breach any overdraft agreements with the Bank.

  Similarly, should the daily review present a surplus cash-flow position, then the Principal Accountant (Resources) would follow the appropriate process to ensure that funds are placed securely and not left within the bank account as this does not provide optimum levels of security or return in comparison to other options within the Investment Strategy.

- The council maintains a detailed analysis of its borrowing and lending transactions and these schedules are reviewed and updated on a daily basis to ensure that current and potential future counter-parties and countries still meet the council's required credit ratings and that balances do not exceed the limits defined within the approved Strategy.

  If these schedules are not updated then there is the risk that the council could place an investment with a counter-party that would either breach the limits set within the Strategy or which would not meet the highest security criteria. Clearly any change in credit rating could increase the risk of default by the investor.

- The council maintains detailed records of the transactions linked to borrowing and investment decisions, such as interest payments, receipts and the repayment of principal sums. These records are reconciled to both the bank account and the financial management system and provide the basis for all of the council's reporting requirements.

  Given the risks involved in this area they are extensive and information is regularly shared with a range of stakeholders at appropriate levels, for example, detailed analysis is provided to the Head of Finance, exception based reporting is provided to the Section 151 Officer, the Executive and the Audit Committee, detailed transactions are tested by internal and external auditors, summarised information is shared with Department for Levelling Up Communities and Housing through the Monthly Borrowing and Lending (MBL) return and more detailed information is shared annually shared within the Whole of Government Accounts (WGA) return.

1.80 The latest monitoring shows that all treasury related activity undertaken during the six-month period to September 2022 fell within approved limits and with approved institutions.

9. EQUALITY IMPLICATIONS

1.81 Not applicable, this report is for information only.

10. CORPORATE IMPLICATIONS

1.82 Treasury management is an integral part of the council's wider financial strategies.

11. OPTIONS CONSIDERED

1.83 The council is required to undertake a treasury management function to support its financial affairs and there are many options within the component parts.

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APPENDICES:
Appendix 1 Performance against Treasury Management Prudential Indicators
Appendix 2 Performance of Non-Treasury Management commercial investments
Appendix 3 External context provided by Arlingclose Ltd (treasury advisers)
Appendix 4 Summary Guide to Credit Ratings
Appendix 5 Glossary of Terms
Appendix 6 Revisions to CIPFA Codes

BACKGROUND PAPERS:
Treasury Management Strategy 2022/23, Executive & Council – February 2022

Appendix 1: Performance against Treasury Management Prudential Indicators

Prudential Indicators: 'Prudential' Code

1.1 CIPFA published its revised Treasury Management Code of Practice [the TM Code] and Prudential Code for Capital Finance in December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments. The principles within the two Codes took immediate effect although local authorities could defer introducing the revised reporting requirements within the revised Codes until the 2023/24 financial year if they wish which the Authority has elected to do.

1.2 The following Treasury Management prudential indicators were set in the Treasury Management Strategy for 2022/23. The limits are shown below, together with the actual indicators for 2022/23.

<u>Affordable borrowing limit / Authorised limit</u>

1.3 The council is legally obliged to set an affordable borrowing limit (also termed the 'authorised limit' for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the affordable limit.

1.4 The council approved the following authorised limit for its total external debt gross of investments for 2022/23. This limit separately identifies borrowing from other long-term liabilities, such as finance leases or lease premium incentives. The actual level of external debt is shown and is well within the limits set at the start of the year.

Authorised Limit for External Debt	**2022/23 Limit £m**	**2022/23 Actual £m**
Borrowing – NSC Other Long-Term Liabilities (Avon debt, leases, temporary borrowing etc)	213.0 30.0	155.6 22.1
Authority Total	**243.0**	**177.7**

1.5 The council also approved the following operational boundary for external debt for the same period. The operational boundary for external debt was based on the same estimates as the authorised limit, but reflected estimates of the most likely, prudent, but not worst-case scenario, without the additional headroom included within the authorised limit to allow for unusual cash movements. As can be seen below, the actual level of external debt is well within the operational boundary set at the start of the year.

Operational Limit for External Debt	**2022/23 Limit £m**	**2022/23 Actual £m**
Borrowing – NSC Other Long-Term Liabilities (Avon debt, leases etc)	208.0 30.0	155.6 22.1
Authority Total	**238.0**	**177.7**

Treasury Management Indicators: 'Treasury Code'

Interest rate exposures

1.6 The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget, and which is used to update the budget quarterly during the year. This allows any adverse changes to be accommodated. The analysis will also inform whether new borrowing is taken out at fixed or variable interest rates.

Maturity structure of borrowing

1.7 The maturity date of borrowing is the earliest date on which the lender can demand repayment. This indicator is set to control the council's exposure to refinancing risk. These limits are shown below, together with the actual percentage of borrowing that is maturing in each period.

Maturity Structure of Borrowing	Upper Limit	Lower Limit	Actual 2022/23	Complied?
Under 12 months	50%	0%	4.84%	Yes
12 months and within 24 months	30%	0%	5.78%	Yes
24 months and within 5 years	40%	0%	15.60%	Yes
5 years and within 10 years	50%	0%	21.67%	Yes
10 years and above	100%	0%	52.11%	Yes

Principal sums invested for periods longer than 364 days

1.8 The purpose of this indicator is to control the council's exposure to the risk of incurring losses by seeking early repayment of its investments. The total principal sums invested to final maturities beyond the period end are shown below. The council is required to set a maximum amount to be invested beyond the end of the financial year for the forthcoming financial year and the following two years.

Principal sums invested for periods longer than 364 days	2022/23 £m	2023/24 £m	2024/25 £m
Upper Limit of Principal sums invested beyond the year	60	50	50
Actual principal sums invested beyond one year	10	N/A	N/A
Complied?	Yes	N/A	N/A

Proportion of financing costs to net revenue stream

1.9 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans, the MRP, and loans fund repayments are charged to revenue, offset by any investment income receivable. The net annual charge is known as the council's financing costs. In this indicator, financing costs are compared to the net revenue stream i.e., the amount funded from Council Tax, business rates and general government grants, to provide a measure of the affordability of the council's forecast borrowing.

	Actual 2020/21	Actual 2021/22	Forecast 2022/23
Net Financing costs (£m)	£10.3m	£10.7m	£9.3m
Proportion of net revenue (%)	5.1%	6.0%	5.0%

Total investment exposure in £millions

1.10 The indicator below shows the council's total exposure to potential investment losses.

Total investment exposure	**Actual Held as at 31/03/2021 £m**	**Actual Held as at 31/03/2022 £m**	**Actual Held as at 30/09/2022 £m**
Treasury management investments	143.0	177.0	167.0
Service investments: Loans	0.8	0.8	0.8
Commercial investments: Property*	32.6	33.0	33.0
TOTAL EXPOSURE	**176.4**	**210.8**	**200.8**

** Commercial investment properties are re-valued annually by the council's valuers - valuations as at 31/3/23 are not yet available and cannot be forecast with reasonable certainty*

Investment rate of return (net of all costs)

1.11 This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Investments net rate of return	**Actual 2020/21 %**	**Actual 2021/22 %**	**Forecast 2022/23 %**
Treasury management investments	0.56	0.37	1.66
Service investments: Loans	2.38	2.36	3.90
Commercial investments: Property	-0.20	-0.70	0.00
ALL INVESTMENTS	**0.42**	**0.35**	**1.15**

Appendix 2: Performance of Non-Treasury Management commercial investments

1.12 The council's commercial investments are forecast to provided net income of £0.0m in 2022/23, after a £0.5m transfer to reserves. Net income from commercial investments for the year 2021/22 was £0.1m.

Property held for investment – Net return compared to budget (£)

Property	**Budget 2021/22 £m**	**Out-turn 2021/22 £m**	**Budget 2022/23 £m**	**Forecast 2022/23 £m**
North Worle District Centre	-0.6	-0.6	-0.6	**-0.7**
Sovereign Centre	0.2	0	0.6	**0.5**
Fees	0.2	0.2	0.2	**0.2**
Total (income) / expenditure	**-0.2**	**-0.4**	**0.2**	**0.0**

1.13 After a £0.5m contribution into a smoothing reserve in 2022/23, the council's commercial investments are forecast to provide a yield / return on investment of 0.0% in 2022/23, compared to 0.2% in 2021/22.

Property held for investment – Net return compared to budget (Yield)

Property	**Budget 2021/22 £m**	**Out-turn 2021/22 £m**	**Budget 2022/23 £m**	**Forecast 2022/23 £m**
North Worle District Centre				
- Net return	-0.6	-0.6	-0.5	-0.7
- Cost	40.2	40.2	40.2	40.2
- (Return) / Loss on investment	**-1.5%**	**-1.5%**	**1.2%**	**-1.7%**
Sovereign Centre				
- Net return	0.2	0.0	-0.8	0.5
- Cost	21.0	21.0	21	21
- (Return) / Loss on investment	**1.0%**	**0.0%**	**-3.8%**	**2.4%**
Fees	**0.2**	**0.2**	**0.1**	**0.2**
Total (Return) / Loss on all investments	**-0.3%**	**-0.7%**	**-0.3%**	**0.0%**

Appendix 3: External context provided by Arlingclose Ltd (treasury advisers)

1.1. **Economic background:** The ongoing conflict in Ukraine has continued to put pressure on global inflation and the economic outlook for UK and world growth remains weak. The UK political situation towards the end of the period following the 'fiscal event' increased uncertainty further.

1.2. The economic backdrop during the April to September period continued to be characterised by high oil, gas and commodity prices, ongoing high inflation, and its impact on consumers' cost of living, no imminent end in sight to the Russia-Ukraine hostilities and its associated impact on the supply chain, and China's zero-Covid policy.

1.3. Central Bank rhetoric and action remained robust. The Bank of England, Federal Reserve and the European Central Bank all pushed up interest rates over the period and committed to fighting inflation, even when the consequences were likely recessions in those regions.

1.4. UK inflation remained extremely high. Annual headline CPI hit 10.1% in July, the highest rate for 40 years, before falling modestly to 9.9% in August. RPI registered 12.3% in both July and August. The energy regulator, Ofgem, increased the energy price cap by 54% in April, while a further increase in the cap from October, which would have seen households with average energy consumption pay over £3,500 per annum, was dampened by the UK government stepping in to provide around £150 billion of support to limit bills to £2,500 annually until 2024.

1.5. The labour market remained tight through the period but there was some evidence of easing demand and falling supply. The unemployment rate 3m/year for April fell to 3.8% and declined further to 3.6% in July. Although now back below pre-pandemic levels, the recent decline was driven by an increase in inactivity rather than demand for labour. Pay growth in July was 5.5% for total pay (including bonuses) and 5.2% for regular pay. Once adjusted for inflation, however, growth in total pay was -2.6% and –2.8% for regular pay.

1.6. **With** disposable income squeezed and higher energy bills still to come, consumer confidence fell to a record low of –44 in August, down –41 in the previous month. Quarterly GDP fell -0.1% in the April-June quarter driven by a decline in services output, but slightly better than the 0.3% fall expected by the Bank of England.

1.7. The Bank of England increased the official Bank Rate to 2.25% over the period. From 0.75% in March, the Monetary Policy Committee (MPC) pushed through rises of 0.25% in each of the following two MPC meetings, before hiking by 0.50% in August and again in September. August's rise was voted by a majority of 8-1, with one MPC member preferring a more modest rise of 0.25%. the September vote was 5-4, with five votes for an 0.5% increase, three for an 0.75% increase and one for an 0.25% increase. The Committee noted that domestic inflationary pressures are expected to remain strong and so given ongoing strong rhetoric around tackling inflation further Bank Rate rises should be expected.

1.8. On 23rd September the UK government, following a change of leadership, announced a raft of measures in a 'mini budget', loosening fiscal policy with a view to boosting the UK's trend growth rate to 2.5%. With little detail on how government borrowing would be returned to a sustainable path, financial markets reacted negatively. Gilt yields rose dramatically by between 0.7% - 1% for all maturities with the rise most pronounced for shorter dated gilts. The swift rise in gilt yields left pension funds vulnerable, as it led to margin calls on their interest rate swaps and risked triggering large scale redemptions of assets across their portfolios to meet these demands. It became necessary for the Bank of England to intervene to preserve market stability through the purchase of long-dated gilts, albeit as a temporary measure, which has had the desired effect with 50-year gilt yields falling over 100bps in a single day.

1.9. Bank of England policymakers noted that any resulting inflationary impact of increased demand would be met with monetary tightening, raising the prospect of much higher Bank Rate and consequential negative impacts on the housing market.

1.10. After hitting 9.1% in June, annual US inflation eased in July and August to 8.5% and 8.3% respectively. The Federal Reserve continued its fight against inflation over the period with a 0.5% hike in May followed by three increases of 0.75% in June, July, and September, taking policy rates to a range of 3% - 3.25%.

1.11. Eurozone CPI inflation reached 9.1% y/y in August, with energy prices the main contributor but also strong upward pressure from food prices. Inflation has increased steadily since April from 7.4%. In July the European Central Bank increased interest rates for the first time since 2011, pushing its deposit rate from –0.5% to 0% and its main refinancing rate from 0.0% to 0.5%. This was followed in September by further hikes of 0.75% to both policy rates, taking the deposit rate to 0.75% and refinancing rate to 1.25%.

1.12. **Financial markets:** Uncertainty remained in control of financial market sentiment and bond yields remained volatile, continuing their general upward trend as concern over higher inflation and higher interest rates continued to dominate. Towards the end of September, volatility in financial markets was significantly exacerbated by the UK government's fiscal plans, leading to an acceleration in the rate of the rise in gilt yields and decline in the value of sterling.

1.13. Due to pressure on pension funds, the Bank of England announced a direct intervention in the gilt market to increase liquidity and reduce yields.

1.14. Over the period the 5-year UK benchmark gilt yield rose from 1.41% to 4.40%, the 10-year gilt yield rose from 1.61% to 4.15%, the 20-year yield from 1.82% to 4.13% and the 50-year yield from 1.56% to 3.25%. The Sterling Overnight Rate (SONIA) averaged 1.22% over the period.

1.15. **Credit review:** In July Fitch revised the outlook on Standard Chartered from negative to stable as it expected profitability to improve thanks to the higher interest rate environment. Fitch also revised the outlook for Bank of Nova Scotia from negative to stable due to its robust business profile.

1.16. Also in July, Moody's revised the outlook on Bayerische Landesbank to positive and then in September S&P revised the GLA outlook to stable from negative as it expects the authority to remain resilient despite pressures from a weaker macroeconomic outlook coupled with higher inflation and interest rates.

1.17. Having completed its full review of its credit advice on unsecured deposits at UK and non-UK banks, in May Arlingclose extended the maximum duration limit for five UK banks, four Canadian banks and four German banks to six months. The maximum duration for unsecured deposits with other UK and non-UK banks on Arlingclose's recommended list is 100 days. These recommendations were unchanged at the end of the period.

1.18. Arlingclose continued to monitor and assess credit default swap levels for signs of credit stress but made no changes to the counterparty list or recommended durations. Nevertheless, increased market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

Appendix 4: Summary Guide to Credit Ratings

Rating	Details
AAA	Highest credit quality – lowest expectation of default, which is unlikely to be adversely affected by foreseeable events.
AA	Very high credit quality - expectation of very low default risk, which is not likely to be significantly vulnerable to foreseeable events.
A	High credit quality - expectations of low default risk which may be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
BBB	Good credit quality - expectations of default risk is currently low but adverse business or economic conditions are more likely to impair this capacity.
BB	Speculative - indicates an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time.
B	Highly speculative - indicates that material default risk is present, but a limited margin of safety remains. Capacity for continued payment is vulnerable to deterioration in the business and economic environment.
CCC	Substantial credit risk - default is a real possibility.
CC	Very high levels of credit risk - default of some kind appears probable.
C	Exceptionally high levels of credit risk - default is imminent or inevitable.
RD	Restricted default - indicates an issuer that has experienced payment default on a bond, loan, or other material financial obligation but which has not entered bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, and which has not otherwise ceased operating.
D	Default - indicates an issuer that has entered bankruptcy filings, administration, receivership, liquidation, or other formal winding-up procedure, or which has otherwise ceased business.

Appendix 5: Glossary of Terms

Authorised Limit – the maximum amount of external debt at any one time in the financial year.

Bank Rate – the Bank of England base rate.

Capital Financing Requirement – financing needs of the council – i.e., the requirement to borrow.

CIPFA - the Chartered Institute of Public Finance and Accountancy. The institute is one of the leading professional accountancy bodies in the UK and the only one which specialises in the public sector. It is responsible for the education and training of professional accountants and for their regulation through the setting and monitoring of professional standards. Uniquely among the professional accountancy bodies in the UK, CIPFA has responsibility for setting accounting standards for a significant part of the economy, namely local government. CIPFA's members work, in public service bodies, in the national audit agencies and major accountancy firms.

CLG – Communities and Local Government – see MHCLG.

Counterparty – the organisation the council is investing with.

Credit Rating – an assessment of the credit worthiness of an institution.

Creditworthiness – a measure of the ability to meet debt obligations.

DLUHC, which is the **Department for Levelling Up, Housing and Communities**. The Government department that sets policy on supporting local government, communities and neighbourhoods, regeneration, housing, planning building and the environment and fire. (Formerly known as MHCLG)

Finance Lease - a finance lease is a lease that is primarily a method of raising finance to pay for assets, rather than a genuine rental. The latter is an operating lease. The key difference between a finance lease and an operating lease is whether the lessor (the legal owner who rents out the assets) or lessee (who uses the asset) takes on the risks of ownership of the leased assets. The classification of a lease (as an operating or finance lease) also affects how it is reported in the accounts.

Gilts – long term fixed income debt security (bond) issued by the UK Government and traded on the London Stock Exchange.

Liability Benchmark - The liability benchmark represents an estimate of the cumulative amount of external borrowing the council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

LIBID – London Interbank BID Rate – the interest rate at which London banks are willing to borrow from one another.

MHCLG – Ministry of Housing, Communities and Local Government. The Government department that sets policy on supporting local government, communities and neighbourhoods, regeneration, housing, planning building and the environment and fire. The name for this Government department has recently changed and is now known as **DLUHC**, which is the **Department for Levelling Up, Housing and Communities**.

Minimum Revenue Provision - the minimum amount which must be charged to an authority's revenue account each year and set aside towards repaying borrowing.

Money Market - the market in which institutions borrow and lend.

Money Market Rates – interest rates on money market investments.

Ninety-One – one of the council's cash managers who invest in multi-asset funds. They were previously known as Investec.

Operational Boundary – the most likely, prudent but not worst-case scenario of external debt at any one time.

Pooled Funds – investments are made with an organisation who pool together investments from other organisations and apply the same investment strategy to the portfolio. Pooled fund investments benefit from economies of scale, which allows for lower trading costs per pound, diversification, and professional money management.

Prudential Code – a governance procedure for the setting and revising of prudential indicators. Its aim is to ensure, within a clear framework, that the capital investment plans of the council are affordable, prudent, and sustainable and that treasury management decisions are taken in accordance with good practice.

Prudential Indicators – indicators set out in the Prudential Code that calculates the financial impact and sets limits for treasury management activities and capital investment.

PWLB (Public Works Loans Board) - a central government agency which provides long and medium-term loans to local authorities at interest rates only slightly higher than those at which the Government itself can borrow. Local authorities can borrow to finance capital spending from this source.

Sovereign – the countries the council can invest in.

Tradition UK Ltd – is one of the council's cash managers who manage £10m of investments on our behalf. Tradition place funds in fixed term cash deposits with a range of financial institutions.

Treasury Management – the management of the council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risk associated with those activities and the pursuit of optimum performance with those risks.

Treasury Management Practices – schedule of treasury management functions and how those functions will be carried out.

Variable Net Asset Value money market funds – the principal invested may fluctuate below that invested.

Appendix 6: Revision to CIPFA Codes

1.19. Revisions to CIPFA Codes

1.20. In December 2021 CIPFA updated their treasury management and capital financing Codes of practice - formally the Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (TM Code) and The Prudential Code for Capital Finance in Local Authorities (Prudential Code). There are changes that will need to be included in 2023/24 treasury and capital strategy documents, having been able to delay reflecting these in 2022/23 reports given the timing of the Codes' publication.

1.21. The changes include:

- Clarification that (a) local authorities must not borrow to invest primarily for financial return (b) it is not prudent for authorities to make any investment or spending decision that will increase the Capital Financing Requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the council.

- Categorising investments as those (a) for treasury management purposes, (b) for service purposes and (c) for commercial purposes.

- Defining acceptable reasons to borrow money: (i) financing capital expenditure primarily related to delivering a local authority's functions, (ii) temporary management of cash flow within the context of a balanced budget, (iii) securing affordability by removing exposure to future interest rate rises and (iv) refinancing current borrowing, including replacing internal borrowing.

- For service and commercial investments, in addition to assessments of affordability and prudence, an assessment of proportionality in respect of the council's overall financial capacity (i.e., whether plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services).

- The code does not require existing commercial investments to be sold, but options to exit investments as an alternative to borrowing should be reviewed in the strategy.

1.22. Prudential Indicators

- New indicator for net income from commercial and service investments to the budgeted net revenue stream.

- Inclusion of the liability benchmark as a mandatory treasury management prudential indicator. CIPFA recommends this is presented as a chart of four balances – existing loan debt outstanding; loans CFR, net loans requirement, liability benchmark – over at least 10 years and ideally cover the council's full debt maturity profile.

1.23. Incorporating Environmental Social and Governance (ESG) issues as a consideration within investment counterparty approach.

1.24. Additional focus on the knowledge and skills of officers and elected members involved in decision making.