

Public Document Pack

Date of meeting Monday, 5th November, 2012
Time 7.00 pm
Venue Training Room 1. Civic Offices, Merrial Street,
Newcastle-under-Lyme, Staffs ST5 2AG
Contact Peter Whalan

Audit and Risk Committee

AGENDA

PART 1– OPEN AGENDA

- 1 Apologies for Absence**
- 2 DECLARATIONS OF INTEREST**
To receive Declarations of Interest from Members on items included in the agenda
- 3 MINUTES OF PREVIOUS MEETING** (Pages 1 - 4)
To consider the minutes of the previous meeting held on 27 September 2012.
- 4 Health and Safety Half Yearly Update Report** (Pages 5 - 12)
- 5 Corporate Risk Management Report for the Periods July to September 2012** (Pages 13 - 20)
- 6 Treasury Management Half Yearly Report 2012-13** (Pages 21 - 28)
- 7 Annual Audit Letter 2011/12** (Pages 29 - 32)
- 8 Internal Audit Progress Report - Quarter 2 2012/13** (Pages 33 - 42)
- 9 Adoption of Internal Audit High Risk Recommendations and Summary of Assurance - 1 July to 30 September 2012** (Pages 43 - 50)
- 10 URGENT BUSINESS**
To consider any business which is urgent within the meaning of Section 100B(4) of the Local Government Act 1972

Members: Councillors Loades, Waring, Miss Baker, Jones, Mrs Peers and Turner

'Members of the Council: If you identify any personal training / development requirements from the items included in this agenda or through issues raised during the meeting, please bring them to the attention of the Committee Clerk at the close of the meeting'

Officers will be in attendance prior to the meeting for informal discussions on agenda items.

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AUDIT AND RISK COMMITTEE

Thursday 27 September 2012

Present:- Councillor P Waring – in the Chair

Councillors Miss Baker, Jones, Loades and Turner

Also in attendance:

Phil Butters – Independent Member

David Jenkins – District Auditor

Tony Corcoran – District Auditor

1. APOLOGIES

An apology for absence was received from Councillor Mrs Peers.

2. DECLARATIONS OF INTEREST

There were none.

3. MINUTES OF PREVIOUS MEETING

Resolved:- That the minutes of the last meeting of this Committee held on 24 July 2012 be approved as a correct record subject to the deletion of “occurred “ in the first line of the final paragraph to minute 13 and its substitution with the word “accrued”.

4. CORPORATE RISK MANAGEMENT REPORT FOR THE PERIOD APRIL TO JUNE 2012

The Committee considered a revised report outlining progress made by the Council in enhancing and embedding risk management during the above period, including progress made in managing the identified corporate risks.

Members were reminded that the previously adopted risk management process had been reviewed to incorporate changes in the way the Council worked and to provide continuity and streamlined reporting of risks to the necessary stages so that it became embedded at each level of the Authority. This, it was stated, would further develop the identification of key risks that potentially threatened delivery of the corporate priorities.

It was also stated that the new Strategy would provide a formal and proportionate framework to manage identified risks and reduce the Council's exposure.

The Council regularly reviewed and refreshed its risk registers in accordance with the risk management strategy, a process that was co-ordinated by the Strategic Risk Champion working closely with Directors, Operational Risk Champions and the Risk Owners.

Following the most recent review, it was indicated that through good risk management an issue relating to ICT Systems failure, mainly at Kidsgrove Town Hall, had been resolved.

The officer's report, within the Horizon Scanning Section, also provided a list of emerging legislation that could have an impact on the Council. It was agreed that where appropriate, other Council committees should be given the opportunity to consider the implications of the legislation where it affected its work.

In conclusion, and in response to discussions at the last meeting, the report also provided details of how embedded risk was at the Council including details of risk management training for appropriate officers and the Committee's Chair and Vice-Chair and regular communication with officer groups and committees. The management of risk was undertaken by the respective officers responsible for the risk profile, of which there were currently 107 held on the Council's GRACE system, and was then followed through on the review and communication process as detailed in the strategy.

Despite these positives, it was indicated that there were some areas still requiring attention. Of particular concern was that of the 103 Cabinet reports considered in 2012, only 4 had risk profiles against them and that not all of the Council's major strategies had risk plans. Although Members were advised that not all Cabinet items required risk profiles to be prepared, it was agreed that the importance of such profiles in reports, where appropriate, should be stressed to the Council's employees.

In answer to a question from a Member, it was stated that the number of risks quoted above was a typical figure for an authority of this size.

Resolved:- (a) That the report be received and the new risks identified between April and June 2012 be noted.

(b) That the Council's officers be advised of the importance of the inclusion of risk profiles in committee reports.

(c) That, where appropriate, details of existing and emerging legislation be the subject of reports to the Council's committees for consideration.

5. INTERNAL AUDIT PROGRESS REPORT - QUARTER 1 2012/13

The Committee received a report regarding the work undertaken by the Internal Audit Section during the period 1 April to 30 June 2012 (Quarter 1). The report also invited the Committee to raise any issues with the Cabinet and/or Executive Directors.

It was indicated that the Internal audit Plan for 2012/13 allowed for 534 days of work and Members were advised that this first progress report for the above period concentrated on:

- Actual against planned performance demonstrating progress against the plan.
- Details of audit reviews completed and final report issued.
- Consulting a non-audit work, including corporate work.

Details of how progress made against the plan was measured were set out in the officer's report and it was indicated that productivity at the end of Quarter 1 was 72%, slightly below the target of 74%.

Up to the end of June 2012, 348 recommendations had been made of which 279 had been implemented (80%), the target being 96% by the end of the financial year. It

was stated that with 80% of all recommendations implemented this provided a good indication that managers were responding in a positive way.

Details of the type of recommendations made were set out in the officer's report together with information about the audit reviews leading to those recommendations being made.

Resolved:- That the information be received.

6. QUARTERLY REPORT: ADOPTION OF INTERNAL AUDIT FUNDAMENTAL RECOMMENDATIONS AND SUMMARY OF ASSURANCE 1 APRIL TO 30 JUNE 2012

Consideration was given to a report on outstanding high risk fundamental recommendations and providing Members with an assurance opinion on internal contracts over Council Services.

High risk recommendations were explained as those where it was imperative to ensure that the Authority was not exposed to high risks with appropriate action being required to be implemented within 1 month of the recommendation being agreed with managers.

It was indicated that in the first quarter, there was only one high risk recommendation due for review and was at its first follow-up date with no further action being required at this stage.

A copy of the Assurance Summary for March 2012 was appended to the officer's report.

Resolved:- That the actions taken by the officers and levels of assurance be noted.

7. FIGHTING FRAUD LOCALLY - THE LOCAL GOVERNMENT FRAUD STRATEGY

Consideration was given to a report announcing the publication by the National Fraud Authority of the above strategy that dealt with key risks and pressures facing local government. It also identified good practice in fighting fraud and where Councils should review their current arrangements.

The main focus of the strategy was set out in the report to committee and it was indicated that the strategy was helpful in providing a range of tools to enable local authorities to deal with fraud.

Members were reminded that the Council had its own policies and procedures in place to deter and prevent fraud and that work was being done, using the checklist from the strategy, to ensure that they were fit for purpose and complied with the Strategy. Benchmarking arrangements were also in place to enable the Council to liaise with other local authorities and allow us to review and compare our policies, procedures and resources and to share best practice.

In receiving the report, the committee felt that it would be useful to receive details of the outcomes of investigations or complaints that had been undertaken following the Council's policy for whistleblowing.

Resolved:- (a) That the report be noted.

(b) That the question of reporting details of investigations undertaken as a result of the implementation of the Council's whistleblowing policy to this committee be looked at by the officers.

8. STATEMENT OF ACCOUNTS 2011-12 AND EXTERNAL AUDITOR'S GOVERNANCE REPORT

Consideration was given to a detailed report asking the committee to:-

- (a) Approve the Statement of Accounts 2011/12;
- (b) Receive the Audit Commission's Governance Report; and
- (c) Agree the Letter of Representation to the Auditor.

Mr Corcoran of the Audit Commission updated the committee on the issues arising from the Governance Report for 2011/12 indicating that the Statement of Accounts had, once again, been well presented and that the Council had in place good internal arrangements for securing financial resilience and challenging how it secured economy, efficiency and effectiveness.

A very small number of minor amendments to the Statement of Accounts had been agreed with the Auditor and these were detailed in the Annual Governance Report. None of the amendments changed the amount or the negative variance on the General Fund Revenue Account (£162,808) as reported to the committee in July.

The Council was complimented on the Jubilee 2 project and its work on Heritage Assets and it was indicated that the Council appeared to be on target to recover up to 95% the amount originally invested with the Heritable Bank.

Resolved:- (a) That the Statement of Accounts 2011/12 be approved and signed by the Chairman.

(b) That the Annual Governance Report 2011/12 be received.

(c) That the letter of Representation be approved for signature by the Council's Section 151 officer.

(d) That the officers be congratulated on their excellent work leading to presentation of the Statement of Accounts for 2011/12.

P WARING
Chair

HEALTH AND SAFETY HALF-YEARLY UPDATE REPORT

Submitted by: Nesta Henshaw – Head of Environmental Health Services

Portfolio: Resources and Efficiency

Ward(s) affected: None

Purpose of the Report

To inform Members of issues and trends regarding health and safety at the council.

Recommendation

That the report be noted.

1. **Background**

1.1 Attached as an Appendix is the seventh health and safety report submitted to the council. It covers the period April to September 2012.

2. **Legal and Statutory Implications**

2.1 The Council is required to comply with all relevant Health and Safety legislation.

3. **Equality Impact Assessment**

3.1 Our health and safety policy and procedures apply equally to all employees. Training is available to all employees as required.

4. **Financial and Resource Implications**

4.1 The majority of health and safety training courses are carried out in-house. On occasions, external providers are required to conduct specialist training courses. The cost of this is met from within the existing Corporate Training budget.

5. **Risks**

5.1 Failure to adopt best practice health and safety standards could result in wastage of council resources and the provision of an inefficient service.

6. **Issues**

There are no particular trends or emerging themes in comparison to previous years.

7. **List of Appendices**

Appendix – Health and Safety Report: April to September 2012.

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Newcastle-under-Lyme Borough Council

HEALTH AND SAFETY HALF-YEARLY REPORT APRIL-SEPTEMBER 2012

1. INTRODUCTION

- 1.1 This is a short report giving a brief outline of progress in health and safety matters during the half year from April to September 2012. It forms part of the Health and Safety Annual Report 2012/13 which will be reported to the Committee in June 2013.

2. POLICIES AND GUIDANCE

- 2.1 The General Health and Safety Policy was updated and presented for approval at the Corporate Health and Safety Committee meeting on 18 September 2012. The two significant alterations were that the roles and responsibilities for some Heads of Service was expanded to reflect the responsibility for Health AND Safety at the Depot and Leisure centres, and secondly that the Head of Environmental Health Services would be the competent person for Health & Safety in the absence of the Corporate Health & Safety Officer. The Policy is to be signed by the Chief Executive and published.

3. TARGET 100

- 3.1 Target 100 is the safety management system which the Council uses to manage and record health and safety policies, procedures, assess risk and organise routine assessments and tasks for the management and control of Health and Safety across the Council. This also provides practical Health and Safety advice and guidance to comply with the law. This was introduced in late 2010 and its use continues to be developed throughout the Council.
- 3.2 The Target 100 system providers undertake monthly independent audits on the Councils use of the system and score the performance of Health and Safety management. The monthly system usage audit reports are presented at, and monitored by, the Corporate Health and Safety Committee.
- 3.3 The use of Target 100 has been expanded to include the reporting and investigation of workplace accidents and incidents.

4. HEALTH AND SAFETY TRAINING

4.1 The following health and safety training has been completed –

- First Aid refresher – May 2012
- First Aid at Work– June/July 2012

4.2 Further training courses to be completed during the remainder of the year will include fire marshal refresher training, use of evac+chair, defibrillator training and in early 2013 the annual training programme for Streetscene employees.

5. ACCIDENT REPORTS

5.1 Between April and September, 10 work-related accidents were reported, one of which was reportable to the HSE as an over 7 day workplace injury.

5.2 Additionally, two near misses were reported and investigated in order to prevent future accidents.

5.3 No dangerous occurrences were reported within this period.

6. HEALTH AND SAFETY AUDITS & INSPECTIONS

6.1 The Corporate Health and Safety Officer, as part of their annual work plan, undertakes routine inspections of Council premises to identify and advise on any Health and Safety matters within the workplace. The following workplace inspections have been carried out between April and September –

- Depot
- Bradwell Crematorium
- Civil Enforcement Services

6.2 Following all of the above inspections, reports were sent to the premises manager or other responsible officer outlining the findings and advising on any necessary corrective action.

7. KNUTTON DEPOT

7.1 The Knutton Lane Health and Safety Committee held meetings on 7 June and 13 September 2012.

7.2 Matters arising from the meetings included:-

- Round-specific risk assessments for Collection Services.
- Leptospirosis guidance cards printed and distributed to staff.
- Lighting in offices, corridors and stairwells and the need to ensure adequate safe lighting.
- Provision of hepatitis B vaccinations.
- Vehicle and traffic management system including speed of vehicles.
- Provision of female showers for operatives.
- Repair and maintenance of tarmac at site.

8. CORPORATE HEALTH AND SAFETY COMMITTEE

8.1 The Corporate Health and Safety Committee held two meetings during the period, on 20 June and 18 September 2012.

8.2 Matters arising from the meetings included:-

- Continuing to drive forward the use of Target 100, as outlined in section 3 above and the future reporting of Target 100 use at Departmental management meetings.
- Review and endorsement of the Council's general health and safety policy.
- The proposed introduction of a Use of Violent Warning Markers policy and database maintenance programme.
- A review of the lone working arrangement at the Council and the proposed future use of the identicom lone worker device following a trial use of the devices.
- Assessment of noise and vibration at work throughout the Council and the introduction of a programme of monitoring and health surveillance where necessary.
- Hepatitis B vaccination programme has been tendered and quotations received, a preferred contractor to undertake the work has been identified, final staff numbers are being collated. Once final numbers are established the costs and budget options will be reported.
- A review of statutory inspections at the Council's premises.
- Review and endorsement of asbestos policy and procedure for the Civic Offices.
- A review of the findings of the independent health and safety audit undertaken (as detailed in sec 10 below).

10. INDEPENDENT HEALTH AND SAFETY AUDIT

10.1 An independent audit was undertaken of both the Council Health and Safety Management and operations at the Depot in 2009, this resulted in a number of recommendations all of which has been implemented.

10.2 A further independent audit has been undertaken in April 2012 and the findings and an action plan of recommended works was reported to corporate Health and Safety committee in June 2012.

10.3 There were significant improvements in Health and Safety arrangement at the Council since the last Audits, these included:

- The profile of Health and Safety throughout the organisation has been raised.
- Health and Safety has been integrated into all areas of the Council.
- The Health and Safety policy has significantly improved, is communicated and regularly reviewed.
- Target 100 provides the tools for managers to effectively review and manage Health and Safety.
- There are good examples of management of health and safety across the organisation including the outcome of the HSE inspection of waste services and the prompt development of health and safety systems at Jubilee 2.

10.4 There were also some Areas for improvement identified, these were reported to the Corporate Health and Safety Committee and an action plan developed. Notably the improvements recommended included:

- Consistency in the use of Target 100 across the organisation.
- Use of Target 100 for the reporting of accidents and near misses.
- The review of the general health and safety policy to include specific responsibilities for Heads of Service for depot and leisure services.
- Completion of comprehensive audits/inspections across the council.
- Increased detail in the reporting of statutory inspections across the organisation.

10.5 Progress against the audit recommendations will be reported to the Corporate Health and Safety Committee in December and in the annual report 2012-13.

11. FORTHCOMING LEGISLATION/HSE GUIDANCE

11.1 Health and Safety Executive are currently consulting on their proposals for amendment to the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations, they are proposing to reduce the extent of the regulations such as excluding reporting for self employed persons and occupational diseases and also reducing the list of reportable major injuries.

11.2 Health and Safety Executive are currently consulting on their proposals for revising approved codes of practice that give guidance and interpretation of

legal requirements. The number and length of approved codes of practice are to be reduced.

12. Corporate Health & Safety Services

- 12.1 The Corporate Health and Safety Officer recently retired from the Authority. A review of the future delivery of the service is currently being undertaken and discussions with other public and private sector organisations is ongoing to determine potential partners for the future delivery of this service.

Nesta Henshaw
Head of Environmental Health Services
October 2012

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CORPORATE RISK MANAGEMENT REPORT FOR THE PERIOD July to September 2012

Submitted by: Head of Business Improvement and Partnerships

Portfolio: Customer Services and Transformation

Ward(s) affected: All

Purpose of the Report

To provide an update to Members of the progress made by the Council in enhancing and embedding risk management for the period July to September 2012, including progress made in managing the identified corporate risks.

Recommendations

The Committee is asked to:-

- (a) Scrutinise the progress that has been made in managing the risks identified within the Strategic, Operational, Project and Partnership Risk Registers where applicable.**
- (b) Note the new risks that have been identified between July to September 2012.**
- (c) Identify, as appropriate, risk profiles to be scrutinised in more detail as part of your responsibility at the next meeting.**
- (d) Note the horizon scanning risks listed to bear in mind when making decisions on reports submitted to committees and the effect it may have on the future of the council.**

Reasons

The risk management process previously adopted by the council has been reviewed to incorporate changes in the way the council works and to provide continuity and streamlined reporting of risks to the necessary stages so that it becomes further embedded at each level of the authority. This will further develop the identification of key risks that potentially threaten the delivery of the corporate priorities. The new strategy will provide a formal and proportionate framework to manage these identified risks and thus reduce the council's exposure.

To assist the council in its corporate ambition of being an excellent council by helping deliver effective corporate governance, this proactive approach also helps demonstrate good risk management in terms of evidencing that effective risk management is further embedded with the corporate business processes.

1. Background

- 1.1 The Council monitors and manages all its risks through the various risk profiles contained within GRACE (Governance Risk and Control Environment) – the Council's software for recording and managing risk.

The Council currently reviews its High Red 9 risks at least monthly and its Medium Amber risks at least quarterly.

The last review of these risks was reported to your Committee in September 2012.

Risk owners are challenged by the Risk Champions in respect of controls, further actions, ratings and emerging risks and challenge reasons for inclusion or non-inclusion and amendment of these.

Projects are managed to a high level in relation to risk and are reviewed in accordance with the risk management strategy – monthly.

2. **Issues**

2.1 **Strategic, Operational, Project and Partnership Risk Registers (Appendices)**

The Council regularly reviews and refreshes its risk registers in accordance with the risk management strategy. This is co-ordinated by the Strategic Risk Champion who works closely with the Directors, Operational Risk Champions and the Risk Owners.

The risk map below shows the descriptions of the ratings, for ease of use.

| | | | | |
|--|----------|------------|------------|---------------|
| L I K E L I H O O D | High 3 | 7 Amber | 8 Amber | 9 High Red |
| | Medium 2 | 4 Green | 5 Amber | 6 Amber |
| | Low 1 | 1 Green | 2 Green | 3 Amber |
| | | Low 1 | Medium 2 | High 3 |
| IMPACT | | | | |

After the review of the risks had taken place, the following risks have been reduced – through good risk management by your officers, and by the re-rating process.

- Failure to make services savings for recycling in 2012/13 and 2013/14 – this risk has been controlled by Cabinet approval to extend the contract for 3 years at a lower rate, whilst incorporating the risk into a new risk profile relating to the Waste and Recycling Strategy.

The attached appendix now highlights the Council’s most significant risks, with the risks that fall into the top line of the ratings only, being reported.

2.2 **Horizon Scanning**

At the last meeting it was requested that a list of legislative developments be provided, either upcoming or current.

Below is a selected list of prospective legislation currently going through Parliament that could have an impact on the Council. The list is not exhaustive, but represents a selection of the major pieces of proposed legislation currently under debate prior to Royal Assent

An outline of the proposed changes in each of these Acts/Bills and the potential impact on the Borough Council was discussed previously at the Committee and updates will be provided at the meeting.

- Health and Social Care Act 2011.
- Localism Act 2011.
- Police Reform and Social Responsibility Act 2011.
- Motor Insurance Regulation Bill 2011.
- Local Government Finance Bill 2012.
- Legal Aid Sentencing and Punishment of Offenders Act 2012.
- Mesothelioma “Scheme of Last Resort” – impact of a new scheme on insurance premiums and the effect on ways that claims are made.

The full list of (local government related) Bills before Parliament in the current session (2012/13) includes the following: -

- Caravan Sites Bill 2012-13
- Disabled Person’s Parking Badges Bill 2012-13
- Electoral Registration and Administration Bill 2012-13
- Land Value Tax Bill 2012-13
- Landlord Accreditation Bill 2012-13
- Littering From Vehicles Bill 2012-13
- Local Government Finance Bill 2010-12 to 2012-13
- Local Services (Planning) Bill 2012-13
- Off-Road Vehicles (Registration) Bill 2012-13
- Plastic Glasses and Bottles (Mandatory Use) Bill 2012-13
- Prevention of Social Housing Fraud Bill 2012-13
- Property Boundaries (Resolution of Disputes) Bill 2012-13
- Public Service Pensions Bill 2012-13
- Regulation of Signage and Ticketing Technology (Public-Available Car Parks) Bill 2012-13
- Town and Country Planning (Control of Advertisements)(England) Regulations 2007 (Amendment) Bill 2012-13

Members are asked to nominate any further areas of legislation they might wish to consider at a future meeting and to consider whether they wish to receive further information on the Bills listed here.

It was requested that the Localism Act be looked at by the Member Development Committee as well as Audit & Risk Committee, given its wide focus and potential impact on the Council.

3. **Outcomes Linked to Corporate and Sustainable Community Priorities**

- 3.1 Good risk management is key to the overall delivery of Council and local improvement priorities.

4. **Legal and Statutory Implications**

- 4.1 The Accounts and Audit (England) Regulations 2011, state that:

*“The relevant body **is** responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control, which facilitates the effective exercise of that body’s functions and which includes arrangements for the management of risk”*

5. **Equality Impact Assessment**

There are no differential equality impact issues in relation to this report.

6. **Financial and Resource Implications**

6.1 None where actions are to be taken in order to mitigate the risks as these will be met from within existing budgets. Where this is not possible, further reports will be submitted to Members.

7. **List of Appendices**

Appendix – List of Council's most significant risks.

8. **Background Papers**

None

| | | High 9 risks | | | | | | | |
|--|-------------------------|---|--|---------------------------------|--|---|--------------------------|--------------------------|--------------------------|
| | | Medium 7 & 8 risks | | | | | | | |
| | | Risks to be deleted from next 1/4 profile | | | | | | | |
| | | Risk reduced from last 1/4 profile | | | | | | | |
| | | New risks | | | | | | | |
| Risks and Action Plan Risk Identified | Profile | Action Required to Address Risk | Target Date | Risk Category | Current position / progress | Status | Status | Current Rating | |
| | | in order to reduce the risk | for action completion | Strategic, Operational, Project | as at 15/10/2012 | as at Mar 12 | as at June 12 | as at Sept 12 | |
| 1 | Reputational damage | Chief Executive | NONE | Strategic | Although this is identified as a risk, reputation damage is normally a consequence of other risks that have occurred. There are numerous controls in place in this profile, however if this did occur, the impact and likelihood of it happening has resulted in the High Red 9 rating | I = 3 L = 3 High 9 | I = 3 L = 3 High 9 | I = 3 L = 3 High 9 | |
| 2 | Potential Claims growth | Chief Executive | Revise operating procedures to ensure they are more robust to defend claims whilst taking into account financial limitations | Dec-12 | Strategic | Reviews taking place with officers of the ways of working and reporting incidents/accidents and keeping records, to enable SMART ways of working to be developed if possible, and to enable identification of high risk areas where controls can be added to help with protecting the council | I = 3 L = 3 High 9 | I = 3 L = 3 High 9 | I = 3 L = 3 High 9 |

| Appendix X | | | | | | | | |
|-----------------------|--|---------------------------------|---|---------------------------------|---|--------------------------|--------------------------|----------------------------|
| Risks and Action Plan | Profile | Action Required to Address Risk | Target Date | Risk Category | Current position / progress | Status | Status | Current Rating |
| Risk Identified | | in order to reduce the risk | for action completion | Strategic, Operational, Project | as at 15/10/2012 | as at Mar 12 | as at June 12 | as at Sept 12 |
| 3 | Overall budget realisation fails | Resource & Support Services | NONE - this risk is outside of the council's control | Strategic | Numerous controls in place to deal with this internally such as monthly budget reports, MTFS continually reviewed, contingency fund available, realistic increases included in base figures | I = 3 L = 3 High 9 | I = 3 L = 3 High 9 | I = 3 L = 3 High 9 |
| 4 | Breach of Data Protection Action | Resource & Support Services | A further training of the government protected marking scheme is to be rolled out across the council following the recent mandatory information security briefings to all staff | Strategic | This risk is currently being controlled - various training sessions have taken place with all staff, guidelines are available, data protection and information security training has taken place, however the overall impact and likelihood ratings have remained high. | I = 3 L = 3 High 9 | I = 3 L = 3 High 9 | I = 3 L = 3 High 9 |
| 5 | Failure to secure external funding from other bodies | Kidsgrove Sports Centre | 1. Submit expression of interest application to Sport England 2. Submit followup application to Sport England should EIO be successful 3. Agree financial arrangements to draw-down money from partners subject to Sport England finances available | Project | Bid to Sport England submitted - awaiting outcome | | | I = 3 L = 3 High 9 |
| 6 | Inability to implement outcomes from the Stock Condition Survey due to lack of finance | Asset Management Strategy | Report outcome of Stock Condition Survey to Capital Programme Review Group | Operational | | | | I = 2 L = 3 Medium 8 |

| Appendix X | | | | | | | | | |
|-----------------------|---|--|--|---------------------------------|--|---|----------------------------|----------------------------|----------------------------|
| Risks and Action Plan | Profile | Action Required to Address Risk | Target Date | Risk Category | Current position / progress | Status | Status | Current Rating | |
| Risk Identified | | in order to reduce the risk | for action completion | Strategic, Operational, Project | as at 15/10/2012 | as at Mar 12 | as at June 12 | as at Sept 12 | |
| 7 | Increase in Fees and Charges does not result in higher income levels | Balances / Contingency Reserve 2012/13 | NONE | Project | The control measures in place currently secure this risk as it is, however if any issues arise it is monitored as part of the financial system | I = 2 L = 3 Medium 8 | I = 2 L = 3 Medium 8 | I = 2 L = 3 Medium 8 | |
| 8 | Fall in interest rates reduces income to the Council | Balances / Contingency Reserve 2012/13 | NONE | Project | This risk is somewhat out of the control of the council | I = 2 L = 3 Medium 8 | I = 2 L = 3 Medium 8 | I = 2 L = 3 Medium 8 | |
| 9 | Failure of Keele Golf Course to continue trading under current contractor | Regeneration & Development | To assess the implications of a planning appeal relating to the importation of inert waste and re-sculpturing of the 9-hole facility and to further review contingency plans at six-monthly intervals whilst the business remains in rent arrears. | Mar-13 | Strategic | The implications of the planning appeal may be realised by December 12, when a decision will be taken as to what will happen in the long term to the facility. | I = 2 L = 3 Medium 8 | I = 2 L = 3 Medium 8 | I = 2 L = 3 Medium 8 |
| 10 | Abuse of email facility | Fraud Awareness | The updated online fraud and corruption data package now contains an elearning training module on misuse of time and resources on email and internet facilities. Roll out then needs to be done to all staff | Mar-13 | Operational | The control measures in place currently secure this risk as it is. The rating is low impact, high likelihood but the mailmeter reports sent to Heads of Service allow the corrective measures when required, to be implemented in line with the disciplinary procedures of the council. | I = 1 L = 3 Medium 7 | I = 1 L = 3 Medium 7 | I = 1 L = 3 Medium 7 |

| Appendix X | | | | | | | | |
|-----------------------|--|---------------------------------|-----------------------|---------------------------------|--|----------------------------|----------------------------|----------------------------|
| Risks and Action Plan | Profile | Action Required to Address Risk | Target Date | Risk Category | Current position / progress | Status | Status | Current Rating |
| Risk Identified | | in order to reduce the risk | for action completion | Strategic, Operational, Project | as at 15/10/2012 | as at Mar 12 | as at June 12 | as at Sept 12 |
| 11 | Failure to achieve service cost savings in 2012/13 and 2013/14 | Recycling Strategy | NONE | Project | | I = 2 L = 3 Medium 8 | I = 2 L = 3 Medium 8 | I = 2 L = 3 Medium 8 |
| 12 | Possible receipt of malicious package at the Civic Offices | Customer Services | NONE | Operational | The post opening procedures are kept up to date, however the risk is a low impact, high likelihood | I = 1 L = 3 Medium 7 | I = 1 L = 3 Medium 7 | I = 1 L = 3 Medium 7 |

Agenda Item 6

TREASURY MANAGEMENT HALF YEARLY REPORT 2012/13

Submitted by: Head of Finance

Portfolio: Finance and Budget Management

Ward(s) affected: All Indirectly

Purpose of the Report

To receive the Treasury Management Half Yearly Report for 2012/13 and to review the Treasury Management activity for this period.

Recommendation

That the Treasury Management Half Yearly Report for 2012/13 be received.

Reasons

The CIPFA Code of Practice on Treasury Management (revised in November 2011) recommends that Members should be informed on Treasury Management activities at least twice a year. It was resolved that the Audit and Risk Committee would monitor and oversee the delivery of the Treasury Management Strategy through the receipt of a half yearly Treasury Management Report.

1. Background

- 1.1 The CIPFA Code of Practice on Treasury Management (revised in November 2011) recommends that Members should be informed on Treasury Management activities at least twice a year. It was resolved that the Audit and Risk Committee would monitor and oversee the delivery of the Treasury Management Strategy through the receipt of a half yearly Treasury Management Report.
- 1.2 This report therefore ensures that this Council is embracing Best Practice in accordance with CIPFA's recommendations in the CIPFA Code of Practice.
- 1.3 Treasury Management operations are carried out in accordance with policies laid down in the currently approved Treasury Management Policy Statement, backed up by approved Treasury Management Practices and Schedules thereto, and the Annual Treasury Management Strategy Report.

2. Issues

- 2.1 The Treasury Management Half Yearly Report for 2012/13 is attached as an appendix. The economic background and economic forecast included in the report has been provided by the Council's Treasury Management Advisors, Sector Treasury Services.

2.2 Heritable Bank

The original investment with Heritable Bank was £2,500,000. Twelve dividends have been received so far from administrators Ernst and Young. Details of these are set out in a footnote to Annex A of the report.

The bank's administrators Ernst and Young continue to predict an estimated base case return of between 86% and 90% in their latest report to creditors, dated 27 July 2012.

2.3 Investments outstanding as at 30 September 2012 are detailed in Annex A to the Report.

3. **Legal and Statutory Implications**

See Background for details.

4. **Financial and Resource Implications**

There are no specific financial implications arising from the report.

5. **Major Risks**

5.1 Treasury management is a major area of risk for the Council in that large amounts of money are dealt with on a daily basis and there are a number of limits and indicators, which must be complied with.

5.2 The overriding consideration in determining where to place the Council's surplus funds is to safeguard the Council's capital. Within this constraint the aim is to maximise the return on capital.

5.3 Operational procedures, coupled with monitoring arrangements, are in place to minimise the risk of departures from the approved strategy.

6. **List of Appendices**

Appendix - Treasury Management Half Yearly Report 2012/13.

7. **Background Papers**

CIPFA Treasury Management Code of Practice (revised November 2011),
Council's Treasury Management Policy Statement,
Council's Treasury Management Strategy,
Local Government Act 2003,
Local Authorities (Capital Finance and Accounting) (England) Regulations 2003,
Guidance on Local Authority Investments issued by the Department for Communities and
Local Government (revised March 2010),
Ernst & Young Progress Reports (28 January 2010 and 28 July 2011).

TREASURY MANAGEMENT HALF YEARLY REPORT - 2012/2013**1. Background**

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering maximising investment return.

The second main function of a treasury management service is the funding of an authority's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasions any debt previously drawn may be restructured to meet Council risk or cost objectives. Currently, however, the Council has not chosen to finance its capital investment by way of borrowing, so these activities are not presently engaged in.

As a consequence Treasury Management is defined as:

“The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

2. Introduction

The treasury management function is carried out in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) current Code of Practice on Treasury Management (revised November 2011).

The primary requirements of the Code are as follows:

- (1) Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
- (2) Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
- (3) Receipt by the Full Council of an annual Treasury Management Strategy Statement – including the Annual Investment Strategy and Minimum Revenue Provision Policy – for the year ahead, and an Annual Report (stewardship report) covering activities during the previous year. In addition, the production of a Mid-Year Review Report for scrutiny by Members. For this Council the delegated body to review treasury management and receive the Mid-Year Review Report is the Audit and Risk Committee.
- (4) Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices. For this Council the delegated body is the Cabinet (for implementing) and the Audit and Risk Committee (for monitoring). Delegation by the Council for the execution and administration of treasury management decisions. For this Council this is delegated to the Executive Director (Resources and Support Services).
- (5) Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is The Transformation and Resources Overview and Scrutiny Committee.

APPENDIX

The Mid-year Review Report to Members is intended to provide a mid-year update of the treasury management strategy and performance for the period April –September of the financial year. It has been prepared in compliance with CIPFA's Code of Practice, and covers the following:

- An economic update for the first six months of 2012/13
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy
- A review of the Council's investment portfolio for 2012/13

3. Economic Update – as provided by the Council's Treasury Management Advisors (Sector Treasury Services Ltd)

3.1 Economic performance to date

Economic sentiment, in respect of the prospects for the UK economy to recover swiftly from recession, suffered a major blow in August when the Bank of England substantially lowered its expectations for the speed of recovery and rate of growth over the coming months and materially amended its forecasts for 2012 and 2013. It was noted that the UK economy is heavily influenced by worldwide economic developments, particularly in the Eurozone, and that continuing negative sentiment in that area would inevitably permeate into the UK's economic performance.

With regard to the Eurozone, investor confidence remains weak because successive "rescue packages" have first raised, and then disappointed, market expectations. However, the uncertainty created by the continuing Eurozone debt crisis is having a major effect in undermining business and consumer confidence not only in Europe and the UK, but also in America and the Far East/China.

In the UK, consumer confidence remains very depressed with unemployment concerns, indebtedness and a squeeze on real incomes from high inflation and low pay rises, all taking a toll. Whilst inflation has fallen considerably (CPI at 2.2% in September), UK GDP fell by 0.5% in the quarter to 30 June, the third quarterly fall in succession.

This weak recovery has caused social security payments to remain high and tax receipts to be depressed. Consequently, the Chancellor's plan to eliminate the annual public sector borrowing deficit has been pushed back further into the future. The Monetary Policy Committee has kept Bank Rate at 0.5% throughout the period while quantitative easing was increased by £50bn to £375bn in July. In addition, in June, the Bank of England and the Government announced schemes to free up banking funds for business and consumers.

On a positive note, despite all the bad news on the economic front, the UK's sovereign debt remains one of the first ports of call for surplus cash to be invested in and gilt yields, prior to the European Central Bank (ECB) bond buying announcement in early September, were close to zero for periods out to five years and not that much higher out to ten years.

3.2 Outlook for the next six months of 2012/13

The risks in economic forecasts continue. Concern has been escalating that the Chinese economy is heading for a hard landing, rather than a gentle slowdown, while America is hamstrung by political deadlock which prevents a positive approach to countering weak growth. Whether the presidential election in November will remedy this deadlock is debatable but urgent action will be required early in 2013 to address the US debt position. However, on 13 September the Federal Reserve announced an aggressive stimulus programme for the economy with a third round of quantitative easing focused on

APPENDIX

boosting the stubbornly weak growth in job creation, and this time with no time limit. They also announced that it was unlikely that there would be any increase in interest rates until at least mid 2015.

Eurozone growth will remain weak as austerity programmes in various countries curtail economic recovery. A crunch situation is rapidly developing in Greece as it has failed yet again to achieve deficit reduction targets and so may require yet another (third) bail out. A financial crisis was also rapidly escalating over the situation in Spain. However, in early September the ECB announced that it would purchase unlimited amounts of shorter term bonds of Eurozone countries which have formally agreed the terms for a bailout. Importantly, this support would be subject to conditions and include supervision from the International Monetary Fund. This resulted in a surge in confidence that the Eurozone has at last put in place the framework for adequate defences to protect the Euro. However, it remains to be seen whether Spain and Italy will accept such loss of sovereignty. The Eurozone crisis is therefore far from being resolved as yet. The immediate aftermath of this announcement was a rise in bond yields in safe haven countries, including the UK. Nevertheless, this could prove to be as short lived as previous “solutions” to the Eurozone crisis.

The Bank of England Quarterly Inflation Report in August pushed back the timing of the return to trend growth and also lowered its inflation expectations. Nevertheless, concern remains that the Bank’s forecasts of a weaker and delayed robust recovery may still prove to be over optimistic given the world headwinds the UK economy faces. Weak export markets will remain a drag on the economy and consumer expenditure will continue to be depressed due to a focus on paying down debt, negative economic sentiment and job fears. The Government, meanwhile, is likely to be hampered in promoting growth by the requirement of maintaining austerity measures to tackle the budget deficit.

The overall balance of risks is, therefore, weighted to the downside:

- We expect low growth in the UK to continue, with Bank Rate unlikely to rise in the next 24 months, coupled with a possible further extension of quantitative easing. This will keep investment returns depressed.
- The expected longer run trend for PWLB borrowing rates is for them to eventually rise, primarily due to the need for a high volume of gilt issuance in the UK and the high volume of debt issuance in other major western countries. However, the current safe haven status of the UK may continue for some time, tempering any increases in yield.
- This interest rate forecast is based on an assumption that growth starts to recover in the next three years to a near trend rate (2.5%). However, if the Eurozone debt crisis worsens as a result of one or more countries having to leave the Euro, or low growth in the UK continues longer, then Bank Rate is likely to be depressed for even longer than in this forecast.

3.3 Sector’s Interest Rate Forecast (as at 17/09/12)

| | 17.9.12 actual | Dec 2012 | Mar 2013 | June 2013 | Sep 2013 | Dec 2013 | Mar 2014 | June 2014 | Sep 2014 | Dec 2014 | Mar 2015 |
|------------------|-------------------|-------------|-------------|--------------|-------------|-------------|-------------|--------------|-------------|-------------|-------------|
| BANK RATE | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.75 | 1.00 |
| 5yr PWLB | 1.89 | 1.50 | 1.50 | 1.50 | 1.60 | 1.70 | 1.80 | 1.90 | 2.00 | 2.10 | 2.30 |
| 10yr PWLB | 2.91 | 2.50 | 2.50 | 2.50 | 2.60 | 2.70 | 2.80 | 2.90 | 3.00 | 3.20 | 3.30 |
| 25yr PWLB | 4.15 | 3.70 | 3.70 | 3.70 | 3.80 | 3.80 | 3.90 | 4.00 | 4.10 | 4.20 | 4.30 |
| 50yr PWLB | 4.32 | 3.90 | 3.90 | 3.90 | 4.00 | 4.00 | 4.10 | 4.20 | 4.30 | 4.40 | 4.50 |

The above Sector forecasts for Public Works Loans Board (PWLB) rates incorporate the introduction of the PWLB certainty rate in November 2012 which will reduce PWLB borrowing rates by 0.20% for most local authorities. The actual PWLB rates on 17.9.12 ought therefore to be reduced by 0.20 to provide a true comparison to the forecasts.

4 Treasury Management Strategy Statement

The Treasury Management Strategy Statement (TMSS) for 2012/13 was approved by Full Council on 22 February 2012. The Council's Annual Investment Strategy, which is incorporated in the TMSS, outlines the Council's investment priorities as follows:

- Security of Capital
- Liquidity

The Council will also aim to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term, and only invest with highly credit rated financial institutions using the Sector suggested creditworthiness matrices, including Credit Default Swap (CDS) overlay information provided by Sector Treasury Services Ltd. Currently investments are only being made with U.K. financial institutions.

Investments during the first six months of the 2012/13 financial year have been in line with the strategy, and there have been no deviations from the strategy.

As outlined in Section 3 above, there is still considerable uncertainty and volatility in the financial and banking market, both globally and in the UK. In this context, it is considered that the strategy approved on 22 February 2012 is still fit for purpose in the current economic climate.

5 Investment Portfolio 2012/13

In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As set out in Section 3, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the 0.5% Bank Rate. The continuing Euro zone sovereign debt crisis, and its potential impact on banks, prompts a low risk and short term strategy. Given this risk adverse environment, investment returns are likely to remain low.

The Council held £8.25m of investments as at 30 September 2012 and had an average level of funds available for investment purposes in the first 2 quarters of 2012/13 of £11.7m. The investment portfolio yield for the first six months of the year is 1.00% against a target of 1.00%. The Council's budgeted investment return for 2012/13 is £154,680. As at the end of the first 2 quarters of 2012/13 £57,975 of interest has been earned.

A full list of investments held as at 30 September 2012 is shown in Annex A.

6 Borrowing Position 2012/13

It is not currently intended to borrow to finance capital investment in 2012/13. The only borrowing envisaged by the 2012/13 Treasury Management Strategy is temporary borrowing to cover short-term cash flow deficits. In fact no borrowing has taken place for the first half of the financial year.

7 Prudential Indicators 2012/13

Treasury management activity during the first half year has been carried out within the parameters set by the prudential indicators contained in the approved 2012/13 Treasury Management Strategy. Consequently, there is no intention to revise any of the indicators for the remainder of the year.

Annex A

INVESTMENTS OUTSTANDING AT
30/09/2012

| <u>DATE</u> <u>INVESTED</u> | <u>NAME OF BORROWER</u> | <u>PRINCIPAL</u> <u>£</u> |
|--------------------------------|--|------------------------------|
| | FIXED TERM INVESTMENTS | - |
| | <u>DEPOSIT, ETC ACCOUNTS</u> | |
| | HALIFAX BANK OF SCOTLAND DEPOSIT ACCOUNT (Rate of Interest 0.75%) | 1,250,000 |
| | ROYAL BANK OF SCOTLAND 30 DAY NOTICE ACCOUNT (Rate of Interest 1.1%) | 1,450,000 |
| | ROYAL BANK OF SCOTLAND DEPOSIT ACCOUNT (Rate of Interest 0.90%) | 5,550,000 |
| | TOTAL INVESTMENTS | <u>8,250,000</u> |
| | <u>HERITABLE BANK INVESTMENT</u> | |
| 15/09/2008 | HERITABLE BANK (<i>Landsbanki</i>) | 630,479 |

(Please note that payments of £403,250, £317,649, £155,396, £157,437, £103,815, £118,358, £156,863, £101,810, £104,919, £83,407, £95,089, £71,528 were received from the Heritable Bank administrators on 30 July 2009, 18 December 2009, 30 March 2010, 16 July 2010, 18 October 2010, 14 January 2011, 19 April 2011, 15 July 2011, 20 October 2011, 23 January 2012, 20 April 2012 and 20 July 2012 respectively)

ANNUAL AUDIT LETTER 2011/12

Submitted by: Executive Director – Resources and Support Services

Portfolio: Finance and Budget Management

Ward(s) affected: All

Purpose of the Report

To receive the Annual Audit Letter from the Audit Commission dealing with the Audit of Accounts 2011/12 (attached as an appendix).

Recommendation

That the Audit Commission's Annual Audit Letter be received and a copy sent to all elected Members.

Reasons

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and corporate governance of public services. This report provides an overall summary of the Audit Commission's assessment of the Council.

The Annual Audit Letter from the Audit Commission dealing with the Audit of Accounts 2011/12 is addressed to the Council, but is also available as a public document for stakeholders, including the community served by the Council.

1. Background

- 1.1 The Audit Commission's Annual Audit Letter summarises the conclusions arising from the audit and inspection of the Council for the financial year 2011/12.
- 1.2 The letter summarises the findings from the 2011/12 audit. It includes messages arising from the audit of the financial statements together with the results of the work that the Audit Commission have undertaken to assess the way the Council is managing performance together with the Council's arrangements for securing value for money in its use of resources.

2. Issues

- 2.1 The Audit Commission has issued an unqualified opinion on the Authority's 2011/12 financial statements and concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
- 2.2 It has also concluded that there are no matters arising from the value for money work undertaken by the Audit Commission that need to be reported on.

3. Options Considered

- 3.1 To do nothing is not an option for the Council which is striving for excellence.
- 3.2 The Annual Audit Letter is based on information and evidence supplied by officers and

members and has been through a process of quality control. To challenge the reports and review findings is therefore not a feasible option.

3.3 The Annual Audit Letter should be received.

4. **Proposal**

4.1 To receive the Audit Commission's Annual Audit Letter.

5. **Outcomes Linked to Sustainable Community Strategy and Corporate Priorities**

5.1 The Audit Commission, external audit function gives assurance on the stewardship of public resources and effectiveness of its services in terms of value for money as well as contributing to the prevention, detection and investigation of potential fraud and corruption incidents. Audit Commission reports and reviews provide external challenge to the Council through which can be demonstrated improvement in relation to the Corporate Priority of 'Transforming our Council to Achieve Excellence.'

6. **Legal and Statutory Implications**

This report raises no new statutory or legal implications.

7. **Equality Impact Assessment**

There are no differential equality impact issues identified from this proposal.

8. **Financial and Resource Implications**

8.1 This report raises no additional financial or resource implications in itself.

9. **Major Risks**

9.1 The risk of the Council not learning from the issues raised in the Annual Audit Letter may result in the provision of poorer services and increased inspection.

10. **List of Appendices**

Appendix - Annual Audit Letter – September 2012

28 September 2012

Members
Newcastle-Under-Lyme Borough Council
Civic Offices
Merrial Street
Newcastle-under-Lyme
Staffordshire
ST5 2AG
Dear Member

Direct line 0844 798 4902
Email t-corcoran@audit-
commission.gov.uk

Newcastle-under-Lyme Borough Council Annual Audit Letter 2011/12

I am pleased to submit my Annual Audit Letter which summarises my 2011/12 audit of Newcastle-under-Lyme Borough Council.

Financial statements

On 27 September 2012 I presented my Annual Governance Report (AGR) to the Audit and Risk Committee outlining the findings of my audit of the Authority's 2011/12 financial statements. I will not replicate those findings in this letter.

Following the Audit Committee on 27 September 2012 I:

- issued an unqualified opinion on the Authority's 2011/12 financial statements included in the Authority's Statement of Accounts;
- concluded that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources;
- concluded that there are no matters arising from my value for money work that I need to report; and
- certified completion of the audit.

Closing remarks

I have discussed and agreed this letter with the Chief Executive and Executive Director (Resources and Support Services). While this has been another challenging year for the Council, I wish to thank the finance staff for their positive and constructive approach they have taken to my audit. I also wish to thank senior management and the Audit and Risk Committee for their support and co-operation during the audit.

Yours sincerely

Tony Corcoran

District Auditor

INTERNAL AUDIT PROGRESS REPORT – QUARTER 2 2012/13

Submitted by: **Audit Manager**

Portfolio **Finance and Budget Management**

Ward(s) affected **All**

Purpose of the Report

To report on the work undertaken by the Internal Audit section during the period 1 July to 30 September 2012. This report identifies the key issues raised. The full individual reports issued to Officers contain the key issues plus a variety of minor issues and recommendations.

Recommendation

That Members consider any issues that they may wish to raise with Cabinet and, or Executive Directors.

Reasons

The role of Internal Audit is key to ensure that the Council has assurance that controls are in place and operating effectively across all Council Services and Departments.

1. Background

1.1 The Internal Audit Plan for 2012/13 allows for 534 days of audit work.

1.2 This is the second progress report of the current financial year presented to the Committee and the areas that it will cover are as follows:

- Actual against planned performance for the first quarter, demonstrating progress against the plan.
- Details of audit reviews completed and final reports issued.
- Consultancy and non audit work, including corporate work.

1.3 The delivery of an audit plan does not normally show 50% of the audits completed on a quarterly basis. Past experience has shown this is more likely to be around 25% in the second quarter. Achievement of the 25% is dependent on a full complement of staff from 1 April, fully qualified and trained to complete work with minimum supervision. A full 50% of the plan is not normally achieved due to slippage of the previous quarter, and other factors such as special investigations. The audit plan is a guide to what may be achieved given optimum resources and no external influences; as such it is normal to revise the plan throughout the year to reflect unforeseen issues. Emphasis during such a revision, if required, will be on achieving the high risk audit reviews first, followed by medium and low. Variations to the plan will affect the assurance that Internal Audit can give as to the effectiveness of the internal controls and systems; it is the role of the Audit Manager with responsibility for the Section to highlight to Members if this is approaching a level that would jeopardise that assurance statement.

2. **Issues**

2.1 **Performance Indicators**

The indicators reported below relate to the end of the second quarter (September 2012).

2.2 **Number of Recommendations Implemented**

At the conclusion of every audit, an audit report is issued to management detailing findings of the audit review together with any recommendations required to be implemented to address any weakness identified.

Up to the end of September 2012, 368 recommendations had been made of which 338 have been implemented, 85%, the target for the implementation of all recommendations is 96% by the end of the financial year. With 85% of all recommendations implemented to date this provides a good indication that managers are responding to and implementing the recommendations made. We would not anticipate this to be any higher at this stage in the year due to varying factors one being the fact some of the recommendations will not yet have reached their implementation date.

2.3 **Percentage of Clients Who Are Satisfied or Very Satisfied With the Service Provided**

Management's views are sought on the conclusion of each key audit by the issue of a Customer Satisfaction Survey. This requires management to give a satisfaction rating of between 0 and 5. A medium satisfaction score would be between 54 to 74%, high satisfaction 75 to 100%, the target for 2012/13 is 85%.

3 satisfaction surveys (out of 6 sent out) were returned during the second quarter, the average for these was 95%.

Progress made against the plan

This is measured using three indicators:

- **Audit staff utilisation rate:** This indicator demonstrates whether staffing resources are being used to complete non audit duties. Audit duties are chargeable to clients and can include audit reviews, special investigations, consultancy and contributing to corporate initiatives in terms of providing controls advice. Non audit and therefore non productive time covers aspects such as administration, training and leave. The target for productive time is 74%

Productivity at the end of quarter 2 is 74%.

- **Percentage of audits completed compared to the total number of audits planned for completion (percentage):** the annual target for this is 90%. 24% of the planned audits had been completed by the end of quarter 2
- **Percentage of the audit plan completed within the year:** the annual target for this is 90%. 24% of the operational audit plan had also been completed against an expectation of 25%. This figure is lower than anticipated at this stage due to resource issues, in the first quarter of the year, however there are a number of reviews that had commenced at the end of the second quarter and this coupled with the fact that only 7% of the plan had been completed at the end of quarter 1 indicates that the plan is still on track to be completed by the end of the financial year.

2.4 **Audit Reviews Completed and Final Reports Issued Between 1 July and 30 September 2012**

On completion of the audit reviews an opinion can be given as to the efficiency and effectiveness of the controls in place, opinions are graded as follows:

| | |
|--|---|
| Well Controlled | Controls are in place and operating satisfactorily. Reasonable assurance can be given that the system, process or activity should achieve its objectives safely whilst achieving value for money (vfm). |
| Adequately controlled | There are some control weaknesses but most key controls are in place and operating effectively. Some assurance can be given that the system, process or activity should achieve its objectives safely whilst achieving value for money. |
| Less than adequately controlled | Controls are in place but operating poorly or controls are inadequate. Only limited assurance can be given that the system, process or activity should achieve its objectives safely whilst achieving value for money. |
| Poorly controlled | Controls are failing or not present. No assurance can be given that the system, process or activity should achieve its objectives safely whilst achieving value for money. |

2.5 The table below shows the overall audit opinion and the number and types of recommendations agreed to improve existing controls, or introduce new controls on the audit reviews completed since 1 April 2012. The attached appendix provides fuller details of these audit reviews under each service area.

| AUDIT REVIEW | AUDIT OPINION | Risk Category |
|---------------------------------------|-----------------------|----------------------|
| Chief Executives | | |
| Communications | Adequately controlled | B |
| Multi Functional Devices | Adequately controlled | B |
| Resources and Support Services | | |
| Payroll | Well controlled | A |
| Barracks Trust | Well controlled | B |
| Operational Services | | |
| Cremator Replacement | Well Controlled | A |
| Supply of Gym Equipment to Jubilee 2 | Well Controlled | A |
| Park Attendants | Adequately controlled | A |
| Streetscene | Adequately controlled | B |
| Corporate Reviews | | |
| Performance Management | Adequately controlled | A |

Risk categories relate to the risk to the Council achieving its objectives if the area under review is not performing and identify the frequency of the audit. An 'A' risk area requires a review of its key controls on an annual basis or as the need for an audit arises for example,

in the case of contracts coming to an end final account audits are required and completed. A 'B' risk area is reviewed twice during a three year programme and a 'C' risk every three years.

'Risk' can be defined as the chance, or probability, of one or more of the Council's objectives not being met. It refers both to unwanted outcomes that may arise, and to the potential failure to reach desired outcomes. Management compliance with agreed action plans will ensure that risks are addressed.

2.6 **Consultancy and non audit projects**

During quarter 2 the audit team has been involved in various projects which have included the following;

- In addition a total of 3 audit days have been spent undertaking special projects at the request of other Directorates.
- A total of 10 days were spent during the second quarter on consultancy across all of the Directorates. This includes the provision of advice and guidance for ad hoc enquiries that the audit team has to deal with.

3. **Options Considered**

3.1 Audit recommendations are discussed and agreed following the issue of the draft audit report. These draft discussions give management the opportunity to discuss and agree the recommendations that have been proposed.

3.2 The audit plan is a living document and as such circumstances may arise that affect it; these are considered in the light of risk and decisions taken to enable intelligent variations to be made to the plan.

4. **Proposal**

4.1 In agreeing to audit reports, management acknowledge the issues raised and risks identified from the review and therefore accept the recommendations that have been made.

5. **Reasons for Preferred Solution**

5.1 By implementing the recommendations, the exposure to risk is minimised and achievement of the Council's objectives maximised. The completion of the audit reviews provide evidence on which assurance of the Council's systems and internal controls can be provided.

6. **Outcomes Linked to Sustainable Community Strategy and Corporate Priorities**

6.1 The Internal Audit function contributes to the prevention, detection and investigation of potential fraud and corruption incidents as well as giving assurance on the effectiveness of services in terms of value for money.

6.2 By managers ensuring that they have strong controls in all their systems, processes and activities the potential for crime can be reduced whilst providing best value facilities.

7. **Legal and Statutory Implications**

7.1 The Accounts and Audit Regulations 2011 require the Council to 'maintain an adequate and effective system of internal control in accordance with the proper internal audit practices'.

8. **Equality Impact Assessment**

There are no differential equality impact issues identified from this proposal.

9. **Financial and Resource Implications**

9.1 The implementation of recommendations will ensure that the areas reviewed will provide value for money in relation to their objectives and that operations are provided safely and risks managed. This in turn will reduce the risk of financial losses.

9.2 The service is currently on target to be provided within budget.

10. **Major Risks**

10.1 If key controls are not in place, managers are exposing their systems, processes and activities to the potential abuse from fraud and corruption.

10.2 If key controls are not in place, assurance cannot be given that the Services being delivered provide Value for Money for the Council.

10.3 If the risks identified are not addressed through the implementation of agreed recommendations, achievement of the Council's objectives will be affected.

11. **Key Decision Information**

Not applicable

12. **Earlier Cabinet/Committee Resolutions**

12.1 Agreement of the Internal Audit Plan for 2012/13 (Audit and Risk Committee 30 January 2012).

13. **List of Appendices**

Appendix - Internal Audit Plan 2012/13: Progress to the end of Quarter 2 – 2012/13.

14. **Background Papers**

Internal Audit Plan & PI's Folder
APACE files 2012/13

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INTERNAL AUDIT PLAN 2012/13**PROGRESS TO THE END OF QUARTER 2 – 2012/13****Chief Executives Directorate**

The following areas have been completed in Quarter 2:

| Audit Area | Risk Category | Level of Assurance | Number of Recommendations and Classification | | | Total |
|--------------------------|---------------|-----------------------|--|--------|-----|-------|
| | | | High | Medium | Low | |
| Multi Functional Devices | B | Adequately controlled | 1 | 2 | 0 | 3 |
| Communications | B | Adequately controlled | 0 | 1 | 8 | 9 |

The main issues arising from the above audits can be summarised as follows:

Multi Functional Devices (MFDs)

This was the first review undertaken since the MFDs were installed throughout the Council in 2010/11. MFDs were introduced as a way of delivering savings to the Council by reducing the cost of printing throughout the organisation. The audit review confirmed that these savings had more than been achieved. However, during the audit a copy of the contract with the current supplier could not be located, hence a high risk recommendation that this be located as soon as possible. In addition further recommendations were made with regards to a number of legacy devices that still remain throughout the council and the fact that if further savings are to be realised these need to be removed.

Communications

The audit was undertaken with the following objective:

- To identify whether the design and print service provides value for money through efficient, effective and economical systems of control.

Overall the audit found this area to be functioning well however a number of recommendations were made with a view to help improve the service currently provided, these included:

- Producing corporate guidance to staff on the services provided including what options are available and timescales for completion of any works submitted;
- Reviewing and updating the corporate style guide with a view to developing a 'Council Brand';
- Production of a corporate report template to ensure consistency,
- Creation of design briefs, and
- Looking at ways that the service could possible generate income by undertaking work for outside bodies.

Resources and Support Services Directorate

The following areas have been completed in Quarter 2:

| Audit Area | Risk Category | Level of Assurance | Number of Recommendations and Classification | | | Total |
|----------------|---------------|--------------------|--|--------|-----|-------|
| | | | High | Medium | Low | |
| Payroll | A | Well controlled | 0 | 1 | 3 | 4 |
| Barracks Trust | B | Well controlled | 0 | 0 | 0 | 0 |

The main issues arising from the above audits can be summarised as follows:

Payroll

This is one of the key areas that is audited as part of the managed audit and that which External Audit place reliance on. The audit examines the key controls within the Payroll function ensuring that all payroll information is properly and accurately recorded, held securely and that all payments are made in accordance with the required PAYE regulations. In addition a review of the pension information provided to Staffordshire County Council was also completed. From a review of these controls no major issues were identified. The 4 recommendations made were in relation to a specific risk profile for payroll being created within the risk management system and the updating of various records within the system in relation to casual employees, sickness records, and travel and subsistence claims.

Barracks Trust

The objectives of this review were to:

- review the processes and procedures involved in the operation of the Barracks Trust;
- ensure that there is a clearly defined control framework for the operation of the Barracks Trust; and
- ensure that all financial information is accurately recorded and maintained in accordance with Financial Regulations and Standing Orders.

Overall the Barracks Trust was found to be well controlled with no recommendations being made.

Operational Services Directorate

Areas completed in Quarter 2 of the 2012/13 Audit Plan

The following areas have been completed in quarter 2

| Audit Area | Risk Category | Level of Assurance | Number of Recommendations and Classification | | | Total |
|-----------------|---------------|-----------------------|--|--------|-----|-------|
| | | | High | Medium | Low | |
| Streetscene | B | Adequately controlled | 0 | 1 | 4 | 5 |
| Park Attendants | A | Adequately controlled | 0 | 1 | 0 | 1 |

The main issues arising from the above audits can be summarised as follows:

Streetscene

This review looks at the Streetscene function and ensures that it is operating in accordance with the Councils Standing Orders and Financial Regulations. Overall the function was found to be adequately controlled with just a small number of recommendations being made. These were in relation to:

- Ensuring that all reports obtained from the Fueltek system are examined and verified for accuracy,
- ensuring that all the insurance details for current suppliers are up to date,
- reviewing the fleet list to ensure that it is up to date in terms of ownership and to allow accessibility to the fleet list to the necessary managers to enable monitoring of plant and equipment, and
- ensuring that all log books are fully completed and maintained accurately.

Park Attendants

This review is completed on an annual basis and involves a number of spot checks being undertaken on various parks throughout the Borough to ensure that the correct fees and charges are being applied and collected.

A number of visits were made to the various parks over the summer and on all occasions it was found that whilst tennis courts and bowling greens were being occupied, no payments had been collected. A recommendation was therefore made to ensure that a review of the current processes for the collection of income from these venues be undertaken to ensure that the collection of income is maximised and balanced against the cost of resources in doing so.

In accordance with Financial Regulations all final payments made against a contract need to be verified by Internal Audit before payment can be made. During Quarter 2 the following final payments have been audited

| Contract Name | Contractor | Value of Work | Audit Findings |
|--------------------------------------|---------------------------|----------------------|--|
| Cremator Replacement | Facultatieve Technologies | £709,144.42p | No problems identified, contract delivered within budget |
| Supply of Gym Equipment to Jubilee 2 | Technogym Ltd | £250,122.19p | No problems identified, contract delivered within budget |

Corporate Reviews

These are audit reviews that cut across all Service Areas, as such Audit Briefs go out to all Executive Directors, Corporate and Service Managers and reporting is done on an individual service level in order to retain confidentiality of the issues identified.

| Audit Area | Risk Category | Level of Assurance | Number of Recommendations and Classification | | | Total |
|------------------------|----------------------|---------------------------|---|---------------|------------|--------------|
| | | | High | Medium | Low | |
| Performance Management | A | Adequately Controlled | 1 | 1 | 2 | 4 |

The main issues arising from the above audit can be summarised as follows:

Performance Indicators

The audit of performance management in this respect covers the auditing of the Performance Indicators to ensure that all indicators produced are accurate and reflect the performance of the services areas to which they relate, main issues that arose from this audit are summarised below:

- Ensuring that indicators are calculated correctly and in accordance with the correct definitions and format;
- Explanations should be provided for any variances greater than 10%, and
- Copies of working papers should be provided as evidence to support the indicators that have been calculated.

Note on recommendations

Recommendations fall into one of three categories;

High (H): *action that is considered imperative to ensure that the authority is not exposed to high risks;*

Medium (M): *action that is considered necessary to avoid exposure to significant risks;*

Low (L): *action that is considered desirable and which should result in enhanced control or better value for money.*

ADOPTION OF INTERNAL AUDIT HIGH RISK RECOMMENDATIONS AND SUMMARY OF ASSURANCE 1 JULY TO 30 SEPTEMBER 2012

Submitted by: **Audit Manager**

Portfolio: **Finance and Budget Management**

Ward(s) affected: **All**

Purpose of the Report

To report on any outstanding high risk recommendations to the Audit and Risk Committee on a quarterly basis and where necessary to request Members' approval to the Executive Directors requested actions in respect of the recommendations and proposed target dates.

To provide Members with an assurance opinion on internal controls over Council Services.

Recommendation

That the action of your officers and levels of assurance be noted.

Reasons

High risk recommendations are those agreed with management that are key controls in providing assurance as to the efficiency and effectiveness of the system, service or process under review. By agreeing to prolong target dates Members are accepting the risk of not implementing the control. Delayed implementation of such controls should be challenged to identify reasons behind this and solutions to the delay. Delays may be a result of external or internal influences, lack of resources or inertia. Such delays in the implementation of recommendations will affect the assurance opinion provided on each Service.

1. Background

- 1.1 High risk recommendations are those where action is considered imperative to ensure that the authority is not exposed to high risks and to do this it needs to be implemented within 1 month of the recommendation being agreed with managers.
- 1.2 Recommendations are reported to committee on an exception basis, i.e. reports where high risk recommendations have been followed up with Managers on more than two occasions are brought to the attention of Members. In addition the Chair and Vice Chair receive exception reports quarterly where high risk recommendations have been followed up with Managers after the initial implementation date has expired.
- 1.3 With the production of the Annual Governance Statement in conjunction with the Statement of Accounts the follow up and implementation of recommendations is increasingly important, since they provide both officers and Members with assurance as to the effectiveness of key internal control.
- 1.4 Assurance is provided on an annual basis as part of the Annual Report on the Internal Audit Service. It is now also provided to each Executive Director on a monthly basis, based on the number of recommendations that have been implemented, and where the target date has been changed more than twice on either medium or high risk recommendations.

2. **Issues**

2.1 In the second quarter there was just one high risk recommendation due for review, this has now received five target date changes and has been presented to the committee in Appendix B.

2.2 A copy of the Assurance Summary for September 2012 can be found at Appendix A.

2.3 Three Directorates are showing Substantial Assurance at the end of the second quarter, whilst Operational Services have an Assurance Opinion of Little. This assurance level is due to a high percentage of recommendations that were still outstanding at the end of the quarter. It is pleasing to report that out of the 25 recommendations that were outstanding at the end of September 2012, 20 of these have now been actioned. The 5 remaining recommendations are all categorised as low risk.

3. **Reasons for Preferred Solution**

3.1 Reasons for each Director proposal are specific to the actions required.

4. **Outcomes Linked to Sustainable Community Strategy and Corporate Priorities**

4.1 The systems, services and processes reviewed by Internal Audit link to and support the four priority themes of the Council, by reviewing these Audit is making the best use of the Council's resources and improving efficiency and this is further reinforced by managers as they implement the recommendations made.

5. **Legal and Statutory Implications**

5.1 The Accounts and Audit Regulations 2011 require the Council to 'maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices'.

6. **Equality Impact Assessment**

There are no differential equality impact issues identified from this proposal.

7. **Financial and Resource Implications**

7.1 The majority of recommendations are met within existing resources; where additional resources are required these will form part of a separate report.

8. **Major Risks**

8.1 The role of Internal Audit is to provide management with an objective assessment of whether systems and controls are working properly. High Risk Recommendations identify areas where action is required in order to avoid exposure to risk. If managers fail to act upon fundamental audit recommendations assurance cannot be given on the adequacy of the systems of internal control.

9. **Key Decision Information**

Not applicable

10. **Earlier Cabinet/Committee Resolutions**

10.1 Where fundamental recommendations show a target date change; this identifies the number of times the recommendation has been referred back to Executive Management Team and to members for consideration of the risks prior to agreeing an extended implementation date or other action.

11. **List of Appendices**

Appendix A - Audit Recommendations Summary of Assurance for September 2012
Appendix B – Outstanding High Risk Recommendations

12. **Background Papers**

Internal Audit PI and Assurances file

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Audit Recommendations
Summary of Assurance

September 2012

| | Full | Substantial | Limited | Little |
|---|------|-------------|---------|--------|
| Chief Executives Directorate | | √ | | |
| Resources and Support Services Directorate | | √ | | |
| Operational Services Directorate | | | | √ |
| Regeneration and Development Directorate | | √ | | |

Opinions are classified as:

| | | |
|-------------|--|---|
| Full | The Internal Audit did not reveal any control weaknesses based on the samples at the time of the audit. | 94% - 100% |
| Substantial | The Internal Audit identified areas that required necessary action to avoid exposure to significant risk. | 70% - 93% or target changed > 2 on medium risk recommendations |
| Limited | The Internal Audit identified areas where it was imperative to act to avoid exposure to risk. | 50% - 69% or target changed > 2 on high risk recommendations |
| Little | The Internal Audit identified very little evidence of key controls being in place or a repetition of evidence that known action has not taken place to avoid exposure to high risk i.e.: as identified in previous audits. This exposes the Council to high risks that should have been managed. | Below 50% |

Full assurance can be given where the Council achieves 95% of all recommendations implemented as the agreed performance measure for 2010/11.

Where target dates for the implementation of recommendations are changed or renegotiated we cannot give our full assurance. If the ongoing risk was considered as:

High Risk: (action that is considered imperative to ensure that the authority is not exposed to high risks; (Implemented within 1 month))

Medium Risk: (action that is considered necessary to avoid exposure to significant risks: (Implemented within 3 months))

APPENDIX A

By changing the date the risk is not being managed and therefore you may wish to seek additional assurance as to the security of the controls in place.

Quarter 2 12/13Outstanding High Risk Recommendations where Target Date Changed Twice or More

| REGENERATION AND DEVELOPMENT | | | | | |
|---|---|------------------|------------------------------------|---|---|
| Audit Area | Recommendation agreed with Managers | Last Target Date | No of Times the Target has Changed | Responses received to outstanding recommendation and proposal from Executive Director | Recommendations |
| Depot – Establishment Security Contract | An agreement should be put in place with Security Services Ltd in respect of services provided at the Depot including prices, service levels, start/end dates, default terms etc. A tender exercise should be undertaken to secure a contract which incorporates the security arrangements across all Council sections. | 30/09/12 | 5 | <p>A tender exercise will be undertaken in respect of securing a security contract across all sections of the Council.</p> <p>06/01/11 - No response to memo of 07/12/10, therefore target date changed to 31/01/11</p> <p>26/01/11 - Head of Assets, Engineering Manager, Acting Facility Manager and Head of Operations are to meet in early February to discuss review/renewal of security/fire and CCTV contracts. To enable a full procurement exercise to be undertaken it is requested that the target date be extended until 30/09/11.</p> <p>29/11/11 - New Facilities Manager in post. Anticipated that this recommendation will be completed by March 2012. Target date extended to 31/03/12.</p> <p>05/03/12 - Having reviewed the requirement for a contract to be put in place with Security Services, I consider that this should be held in abeyance until a tender exercise for all services has taken place since we could be duplicating work. Once a full tender has taken place, a formal contract can then be entered in to with the chosen provider. The majority of the service supplied by Security Services is the security work administered by the Engineering Manager. I will need to work closely with him to pull a specification together and this could take some time. Would it be possible to push the completion date back to 30th June on this basis? Revised target date to 30/06/12.</p> | That following the explanation provided by the Facilities Manager that the target date be extended to 28 February 2012 to allow for the contract to be tendered and then awarded to a suitable contractor |

APPENDIX B

| | | | | | |
|--|--|--|--|---|--|
| | | | | <p>03/07/12 - Facilities Manager is currently on leave I have requested an update on his return in the meantime please extend this by a further three months.</p> <p><u>Executive Director Proposal:</u></p> <p>17/10/12 – The Facilities Manager and Engineering Manager have both been working towards a joint specification with regards to this contract. The response below has been provided by the Facilities Manager;</p> <p>“This is a complex specification to pull together since it involves the servicing, Installation, reactive maintenance and monitoring of Security alarms, CCTV, barriers and door entry systems.</p> <p>These services are currently provided by two companies - Security Services and MEIS and they are split between the two because some of the systems require different specialisms.</p> <p>The Facilities Manager has already removed what work Security Services did undertake for Facilities since this work was contained in a specification which we tendered earlier this year.</p> <p>The Facilities Manager and Engineering Manager have discussed at great length earlier and scoped what is required to be included in a tender together with what information is required. The Engineering Manager will now pull together an asset list of all the equipment we have with a view to pulling a specification together by the end of the year which can be tendered.”</p> | |
|--|--|--|--|---|--|