

Public Document Pack

Date of meeting Monday, 18th November, 2013
Time 7.00 pm
Venue Training Room 1 - Civic Offices, Merrial Street,
Newcastle-under-Lyme, Staffordshire, ST5 2AG
Contact Julia Cleary

Audit and Risk Committee

AGENDA

PART 1 – OPEN AGENDA

- 1 Apologies**
- 2 DECLARATIONS OF INTEREST**
To receive Declarations of Interest from Members on items included in the agenda
- 3 MINUTES OF PREVIOUS MEETINGS** (Pages 1 - 4)
To consider the minutes of the previous meeting.
- 4 Health and Safety April 2013 to Oct 2013** (Pages 5 - 12)
- 5 Corporate Risk Management July to September 2013** (Pages 13 - 22)
- 6 Treasury Management Half Yearly Report 2013** (Pages 23 - 32)
- 7 Annual Audit and Inspection Letter 2012/13** (Pages 33 - 48)
- 8 Review of the Council's Arrangements for Securing Financial Resilience** (Pages 49 - 76)
- 9 Internal Audit Progress Report Quarter 2** (Pages 77 - 90)
- 10 Adoption of Internal Audit high Risk Recommendations and Summary of Assurance 01 July to 30 September 2013** (Pages 91 - 96)
- 11 URGENT BUSINESS**
To consider any business which is urgent within the meaning of Section 100B(4) of the Local Government Act 1972

Members: Councillors Waring (Chair), Loades (Vice-Chair), Mrs Peers, Mrs Cornes, Hambleton, Taylor.J and Rout

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

Meeting Quorums :- 16+= 5 Members; 10-15=4 Members; 5-9=3 Members; 5 or less = 2 Members.

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

AUDIT AND RISK COMMITTEE

Monday, 23rd September, 2013

Present:- Councillor Paul Waring – in the Chair

Councillors Loades, Mrs Cornes and Hambleton

18. APOLOGIES

Apologies were received from Cllr Mrs Peers and Cllr J Taylor.

19. DECLARATIONS OF INTEREST

There were no declarations of interest.

20. MINUTES OF PREVIOUS MEETINGS

Resolved: That the minutes of the meeting held on 15th July 2013 be agreed as a correct record.

21. CORPORATE RISK MANAGEMENT REPORT FOR THE PERIOD APRIL TO JUNE 2013

A report was submitted to provide an update to Members of the progress made by the Council in enhancing and embedding risk management for the period April to June 2013, including progress made in managing the identified corporate risks.

Resolved: (a) That the Committee scrutinise the progress that had been made in managing the risks identified within the Strategic, Operational, Project and Partnership Risk Registers where applicable.

(b) That the Committee notes the new risks that have been identified between April to June 2013.

(c) That the Committee Identify, as appropriate, risk profiles to be scrutinised in more detail as part of its responsibility at the next meeting.

22. INTERNAL AUDIT PROGRESS REPORT – QUARTER 1 2013/14

A report was submitted to report on the work undertaken by the Internal Audit section during the period 1st April to 30th June 2013. This report identified the key issues raised. The full individual reports issued to Officers contained the key issues plus a variety of minor issues and recommendations.

Resolved: There were no issues identified that Members wished to raise with Cabinet and, or Executive Directors.

23. QUARTERLY REPORT: ADOPTION OF INTERNAL AUDIT HIGH RISK RECOMMENDATIONS AND SUMMARY OF ASSURANCE 1 APRIL TO JUNE 2013

A report was submitted to report on any outstanding high risk recommendations and where necessary to request Members' approval to the Executive Directors requested actions in respect of the recommendations and proposed target dates

The report also sought to provide Members with an assurance opinion on internal controls over Council Services.

Members noted the high level of recommendations for the resources and Support Services Directorate. It was stated that this was not an indication of overall poor performance and officers agreed to add an explanation regarding this in subsequent reports.

Resolved: That the actions of officers and levels of assurance be noted

24. **STATEMENT OF ACCOUNTS 2012/13 AND EXTERNAL AUDITOR'S GOVERNANCE REPORT**

To approve the statement of accounts, receive the Grant Thornton's Governance Report for 2012/13 and to agree the Letter of Representation to the Auditor.

It was a statutory requirement, contained in the Accounts and Audit Regulations 2011, that the Council produced a Statement of Accounts detailing its financial transactions for the year and its position at the year end and that this was approved by a Committee no later than 30 September in the year following that to which the Statement relates.

The External Auditor was required, according to the International Standard on Auditing 260 (ISA 260), to report to the Committee on matters affecting governance via a governance report.

The Letter of Representation was a formal letter from the Council to the External Auditor stating various matters which the auditor needed to have confirmed in order to gain sufficient assurance to be able to certify the Council's accounts.

The Chair thanked the Audit and Finance Teams for their hard work in the preparation of the accounts.

The Executive Director for resources and Support Services stated that it was the last Audit and Risk Committee Meeting for the external auditor David Jenkins who had been working with the Council since 2005. David had been a great asset to the Council and had a very professional relationship with officers. The Committee and Officers wished David all the best. The Chair echoed these sentiments and thanked David for his hard work, especially his ability to present complicated reports in a way that all members could understand.

Resolved: a) That the Statement of Accounts 2012/13 be approved and signed by the Chair.

b) That the Annual Governance Report for 2012/13 be received.

c) That the Letter of Representation be approved for signature by the Council's Section 151 Officer.

25. **URGENT BUSINESS**

COUNCILLOR PAUL WARING
Chair

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AUDIT AND RISK COMMITTEE

HEALTH AND SAFETY ANNUAL REPORT

Submitted by: Nesta Henshaw – Head of Environmental Health Services

Portfolio: Finance & Resources

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 is the ninth health and safety report submitted to the council. It covers the period April 2013 to October 2013.

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 & 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**

6.1 There are some trends highlighted in relation to accident statistics reported in section 5 of the annual report. Employee days lost at work has increased over the previous year, this is due to long term periods of absence resulting from a low number of accidents. In addition the number of accidents throughout the year show an increasing trend, with a peak in October, it is believed that this is attributable to the increased level of reporting and use of the Target 100 system.

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Newcastle-under-Lyme Borough Council

HEALTH AND SAFETY 6 MONTH REPORT APRIL 2013 – OCTOBER 2013

1. INTRODUCTION

- 1.1 This report outlines the current state of health and safety matters during the year from April 2013 to October 2013
- 1.2 There is considerable progress to report, including the completion of a large amount of training that has been carried out across the organisation, successful completion of Fire Evacuation Drills across the organisation and the development of Target 100, the Councils health and safety management system
- 1.3 Claire Dodd has also joined the organisation as the Corporate Health & Safety Officer reporting to the Head of Environmental Services.

2. POLICIES AND GUIDANCE

- 2.1 The General Health and Safety Policy is due to be revised and updated by December 2013, which will then be republished on the intranet and Target 100.

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 includes the reporting and investigation of workplace accidents, incidents and near misses and has recently been developed to allow the recording of complaints, vehicle accidents and occupational health risk assessments.

4. HEALTH AND SAFETY TRAINING

- 4.1 The following Health and Safety Training has been completed –
- ◆ First Aid at Work – January / September 2013
 - ◆ Streetscene/Waste services Refresher – August / October 2013
 - ◆ Fire Marshal Training Guildhall – August / September 2013

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- ◆ Evac Chair Train the Trainer – September 2013
- ◆ Fire Evacuation – Controlling Officers
- ◆ Apprentice Inductions - 2013
- ◆ Corporate Health & Safety Induction – October 2013

5. ACCIDENT REPORTS

5.1 Please see below for a summary of average days lost per employee to date

Year	Number of Accidents	Number of Reportable	Total days lost	Average days lost per employee
2010/11	31	4	150	0.23
2011/12	35	3	60	0.10
2012/13	36	3	132	0.26
2013/14	28	2	199	0.34

Employee days lost at work has increased over the previous year; this is due to long term periods of absence resulting from a low number of accidents. In addition the number of accidents throughout the year shows an increasing trend, with a peak in October, it is believed that this is attributable to the increased level of reporting and use of the Target 100 system.

5.2 All accidents (staff & members of public)

Month	RIDDOR * Reportable	Non-Reportable	Near Miss	Dangerous Occurrence
April 2013	2	9	0	0
May 2013	0	6	0	0
June 2013	0	13	1	0
July 2013	1	22	2	0
August 2013	0	21	1	0
September 2013	0	18	0	0
October 2013	1	30	1	0
TOTAL	4	119	5	0

* RIDDOR - Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 (Accidents which result in over a 7 day absence from work of an employee; a member of the public taken from the premises by ambulance and major injuries (broken bones etc) would all be reportable to the Health & Safety Executive by the Local Authority.)

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5.3 RIDDOR Summary

Month	Injured Person	Location	Incident Type	Remedial Action
APRIL	Employee	Off Site Visit	Slip, Trip or Fall	Review of the risk assessment and advice provided to the business.
APRIL	Member of the Public	Civic	Hit by Falling Object	Wall mounted tannoys have been reattached to the walls with new brackets.
JULY	Member of the Public	Kidsgrove Sports Centre	Hit by Falling Object	Door has been removed pending investigation.
OCTOBER	Member of the Public	Kidsgrove Sports Centre	Slip, Trip or Fall	No action required

All RIDDOR Accidents have been reported to the HSE and full investigations have been completed by management.

6. HEALTH AND SAFETY AUDITS & INSPECTIONS

6.1 The Corporate Health and Safety service, as part of the 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 during the year –

- Bradwell Crematorium
- Knutton Depot
- Museum and Art Gallery
- Kidsgrove Recreation Centre

6.2 The Corporate Health and Safety Committee members also undertake inspections of Council premises to identify any Health and Safety matters, in order to remedy or alter the matters identified. Members of the committee carried out the following inspection –

- Kidsgrove Recreation Centre
- Customer Access – Guildhall
- Bradwell Crematorium

6.3 Following 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

- 14th June
- 12th September

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7.2 Matters arising from the meetings included:-

- Traffic Management
- Site Safety Instructions
- Statutory Inspections
- Depot Inspection
- Training
- Accidents and Incidents
- Target 100
- Visit from HSE Inspectors (Waste and Recycling Services) – health and safety in waste services is a priority area for the HSE. Following their previous inspection of the service a further and final follow up visit was undertaken. They did not identify any further works required and were satisfied with the management of health and safety within the service.

8 LEISURE (SHE) Safety, Health and Environment Meetings

The meetings have been established to oversee and monitor the implementation of British Standards for the management of Quality (ISO 9001), Environment (ISO 14001) and ISO 18001 (Health & Safety). Prior to each meeting the Corporate Health & Safety Officer meets with a service area manager to review the Health & Safety Documentation on Target 100.

During the Meetings the following points (regarding health and safety) are discussed

- Accident Statistics
- Accident / Incident Investigations
- Risk Assessments
- COSHH

9. CORPORATE HEALTH AND SAFETY COMMITTEE

9.1 The Corporate Health and Safety Committee held two meetings during the period April to October 2013

25th June 2013

24th September 2013

9.2 Matters arising from the meetings included:-

- Kidsgrove Sports Centre – management of health and safety
- Winter Gritting
- Tenant Liaison Group
- Fire Evacuation and Training
- First Aid Provision and Training

9.3 The committee also discussed the following items, throughout the year:

- Identicom / Guardian 24
- Hepatitis B Vaccination Programme
- Target 100
- Statutory Inspections

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10. FIRE

- 10.1 A number of evacuations have taken place in the last 6 months including
- 6 month programmed Fire Drills across all sites
 - Evening evacuation for Elected Members and Officers
 - Evacuation of the Civic Centre due to an incident on Monday 14th October.

10.2 Incident on Monday 14th October.

The Porters raised concerns that a strong smell of smoke was moving up the stairwell from the porters lodge, but the source could not be identified. The alarm was raised, building evacuated and the fire brigade was contacted. Further investigations by the fire service identified a smouldering electrical fire in a light fitting. Remedial action that has been completed as a result of this incident is

- Replacement of the faulty light fitting
- All similar fittings across the organisation have been checked for any defects.

11. FIRST AID

A review of First Aid Provision was undertaken to ensure that statutory obligations were being met. The review considered the following

- The need for primary base to be a specific location
- Number of employees at the location
- The risk at that location
- Current qualification and
- The individual being prepared to volunteer as a first aider

The review resulted in a number of first aiders no longer being required in some areas, whilst some areas required first aiders training where there were none already in place.

All first aid training has now been completed.

12. FORTHCOMING LEGISLATION/HSE GUIDANCE

12.1 First Aid at Work (with effect from 01.10.13)

The regulations have been amended, to remove the requirement for the Health and Safety Executive (HSE) to approve first aid training and qualifications.

Changes are to make it easier for businesses and other users to understand how to comply with health and safety law, whilst maintaining standards.

It is still a legal requirement for an employer to ensure they make adequate provision for first aid, in accordance with their first aid needs assessment.

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Further support and guidance can be found at www.hse.gov.uk/pubns/geis3.htm

12.2 RIDDOR (with effect from 01.10.13)

The changes have simplified the mandatory reporting of workplace injuries.

The changes have included

- The classification of “major injuries” to workers is being replaced with a shorter list of “specified injuries”
- The existing schedule detailing 47 types of industrial disease is being replaced with eight categories of reportable work-related illness
- Fewer types of dangerous occurrence will require reporting

Further information can be obtained from
<http://www.hse.gov.uk/pubns/indg453.htm>

14. **EVENT SAFETY**

There have been a number of events over the past 6 months where Corporate Health & Safety Services and partners from Staffordshire Police and Staffordshire Fire and Rescue Service have provided advice and assistance to help event organisers carry out a safe event, including

- Mayors Charity Fireworks
- Rotary Club Bonfire / Fireworks – Clough Hall Park
- Betley Bonfire
- Global Groove
- Lyme Light Event
- Here and Now Event

Work will be progressing with this over the next few months, including a review of our current Event Safety Guidance Document.

13. **CORPORATE HEALTH AND SAFETY SERVICES**

- 13.1 Claire Dodd has been appointed as the Corporate Health & Safety Officer reporting to the Head of Environmental Services. Claire started in post on 1st July 2013. Claire has previously worked at Stoke on Trent City Council in the Health, Safety and Emergency Planning Team.

CORPORATE RISK MANAGEMENT REPORT FOR THE PERIOD July to September 2013

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 2013, 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 2013.**
- (c) **Identify, as appropriate, risk profiles to be scrutinised in more detail as part of your responsibility at the next meeting.**

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 Risk Management 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 ambitions 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 within 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 the Council's Audit & Risk Committee in September 2013.

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				

During this quarter there have been no additional risks added of a final rating of Medium 7, 8 or High 9.

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

2.2 **Issues from last meeting**

None were raised.

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**

5.1 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**

Risk Report

8. **Background Papers**

None

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Appendix X Risks and Action Plan Risk Identified	Risk Owner	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 30/10/2013	as at March 13	as at June 13	as at Sept 13
1 Reputational damage	Chief Executive	The Council has an ongoing responsibility to ensure that services are delivered to the highest quality and all citizens are treated with courtesy. The Council seeks to keep citizens and others informed of decisions made and the reasons for these decisions and also seeks to make the public aware of any work which has been completed, together with clear plans of upcoming decisions and priorities for investment. The Council has made a conscious effort to be transparent and open at all times.		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. There is of course an opportunity to positively publicise any successes that the council has, whether through prosecutions for benefit cheats, fraudulent insurance claims, savings made on settling insurance claims, the quick response to complaints and insurance claims, whereas in the past, these may not have been voiced.	I = 3 L = 3 High 9	I = 3 L = 3 High 9	I = 3 L = 3 High 9

Appendix X Risks and Action Plan Risk Identified	Risk Owner	Action Required to Address Risk in order to reduce the risk	Target Date for action completion	Risk Category Strategic, Operational, Project	Current position / progress as at 30/10/2013	Status as at March 13	Status as at June 13	Current Rating as at Sept 13
2 Potential Claims growth	Chief Executive	The Council has robust systems in place both to deal with claims when they happen and also to prevent, where possible, the circumstances where claims could arise. In doing so, the Council has in place policies and procedures designed to enhance safety at work and also to advise staff and others when driving or operating machinery. The Council checks, on a regular basis, that it is up to date on best practice in this area and that systems reflect changes in the local, national or international environments		Strategic	Reporting of incidents/accidents is completed on Target100 Health and Safety system and the Council's Business Improvement Officer (Risk and Insurance) collates information monthly to pass to the Council's claims handlers. This then allows for a more robust and faster way to investigate a potential claim by having investigations take place earlier whilst things are clearer in people's minds. However, with the new Jackson Reform being implemented, some areas that are changing may initially increase the number and frequency of claims. The introduction of "fixed costs" may cause claimant solicitors to pursue "clients" before the implementation date of October 2013. Claimant solicitors will have to bear a set rate for their charges, rather than allowing them to delay settlement of the claim, and obtaining a 100% success fee, which they are entitled to at present.	I = 3 L = 3 High 9	I = 3 L = 3 High 9	I = 3 L = 3 High 9

Appendix X									
Risks and Action Plan Risk Identified	Risk Owner	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 30/10/2013	as at March 13	as at June 13	as at Sept 13	
3	Overall budget realisation fails	Resource & Support Services	Whilst elements of this item are outside the Council's direct control, a range of systems are in place designed to ensure that information is received and understood quickly and efficiently and appropriate actions taken (through planning and reviewing the Council's financial position on a regular basis) and that contingencies are in place to counter any issues which occur.	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 Act	Resource & Support Services	A module has been designed to sit on the Staffordshire e-learning portal which enables the review/refresh training of all staff and members to be undertaken and monitored. In addition, the Safe Voice system has been introduced to keep staff aware of any developments and ensure safe use of data and other information. Finally, further compulsory awareness sessions will be held in November for staff to raise awareness of data protection issues.	Nov-13	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

Appendix X								
Risks and Action Plan Risk Identified	Risk Owner	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 30/10/2013	as at March 13	as at June 13	as at Sept 13
5	Operational Services	Updated report to be sent to Cabinet on the re-costings of the works, along with 5 option papers and associated risks	Dec-13	Project	An external body has challenged the original options appraisal and also undertaken site options appraisals for alternative venues, should the decision be made to withdraw from the current site	I = 3 L = 3 High 9	I = 3 L = 3 High 9	I = 3 L = 3 High 9
6	Regeneration & Development	Annual review of the Asset Management Strategy to take place, however the Facilities Manager reviews the Capital Works Programme on an ongoing basis	Jan-14	Operational	The outcome report has been received by the Capital Programme Review Group. The urgent items are covered by the 3 year Capital Works Programme and this should allow for the repairs to be undertaken. There is however an annual review of the Works Programme to assess if there is a need to change priorities.	I = 2 L = 3 Medium 8	I = 2 L = 3 Medium 8	I = 2 L = 3 Medium 8

Appendix X								
Risks and Action Plan Risk Identified	Risk Owner	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 30/10/2013	as at March 13	as at June 13	as at Sept 13
7 Increase in Fees and Charges does not result in higher income levels (Balances/Contingency Reserve)	Resources & Support Services	An in-depth review of levels of fees and charges has been carried out, using data from local authorities across the country and this has been tested against local knowledge of usage and demand to produce as realistic a set of fees and charges as possible. In addition, care has been taken to set realistic targets for income as part of the overall annual budget setting exercise.		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

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1. TREASURY MANAGEMENT HALF YEARLY REPORT 2013/14

Submitted by: Head of Finance

Portfolio: Finance and Resources

Ward(s) affected: All Indirectly

Purpose of the Report

To receive the Treasury Management Half Yearly Report for 2013/14 and to review the Treasury Management activity for this period.

Recommendations

(a) That the Treasury Management Half Yearly Report for 2013/14 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 half yearly and year end Treasury Management Reports.

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 half yearly and year end Treasury Management Reports.
- 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 approved by Council on 27 February 2013.

2. **Issues**

- 2.1 The Treasury Management Half Yearly Report for 2013/14 is attached at Appendix 1. The economic background and economic forecast included in the report has been provided by the Council's Treasury Management Advisors, Capita Asset Services (formally Sector Treasury Services Ltd).
- 2.2 **Heritable Bank**

The original investment with Heritable Bank was £2,500,000. Fourteen dividends have been received so far from administrators Ernst and Young representing a return of 94%, compared to their estimated base case return of between 86% and 90%. Details of the dividends received are set out in a footnote to Annex A of the report.

The bank's administrators Ernst and Young have confirmed in their latest progress report that they do not intend to make any further distributions to unsecured creditors until the outcome of a court appeal in respect of intercompany liabilities is known. The administrators will report further on developments in their next progress report.

Annual impairments of the original investment have been made in accordance with CIPFA's Local Authority Accounting Panel (LAAP) Bulletin 82. Impairments were made on the assumption of an estimated return of 88%. Since the actual repayment to date is now 94% this has resulted in an overall over impairment of approximately £150,000.

2.3 Investments outstanding as at 30th September 2013 are detailed in Annex A to the Report.

3. **Legal and Statutory Implications**

3.1 See Background for details.

4. **Financial and Resource Implications**

4.1 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**

6.1 Appendix 1, Treasury Management Half Yearly Report 2013/14.

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 Report (9 September 2013)'
- CIPFA LAAP Bulletin 82 "Guidance on the impairment of deposits with Icelandic Banks" Update no.7 – May 2013.

Treasury Management Half Yearly Report - 2013/14

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 security and liquidity initially before considering optimising investment return (yield).

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.

Accordingly 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 original Code was adopted by this Council on 24 February 2010.

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).
5. 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).
6. 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.

This 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 this financial year. It has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the 2013/14 financial year to 30 September 2013
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy
- A review of the Council's investment portfolio for 2013/14

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

3.1 Economic performance to date

During 2013/14 economic indicators suggested that the economy is recovering, albeit from a low level. After avoiding recession in the first quarter of 2013, with a 0.3% quarterly expansion the economy then grew by 0.7% in Q2. There have been signs of renewed vigour in household spending in the summer, with a further pick-up in retail sales, mortgages, house prices and new car registrations.

The strengthening in economic growth appears to have supported the labour market, with employment rising at a modest pace and strong enough to reduce the level of unemployment further. Pay growth also rebounded strongly in April, though this was mostly driven by high earners delaying bonuses until after April's cut in the top rate of income tax. Excluding bonuses, earnings rose by just 1.0% year on year, well below the rate of inflation at 2.7% in August, causing continuing pressure on households' disposable income.

The Bank of England extended its Funding for Lending Scheme (FLS) into 2015 and sharpened the incentives for banks to extend more business funding, particularly to small and medium size enterprises. To date, the mortgage market still appears to have been the biggest beneficiary from the scheme, with mortgage interest rates falling further to new lows. Together with the Government's Help to Buy scheme, which provides equity loans to credit-constrained borrowers, this is helping to boost demand in the housing market. Mortgage approvals by high street banks have risen as have house prices, although they are still well down from the boom years pre 2008.

Turning to the fiscal situation, the public borrowing figures continued to be distorted by a number of one-off factors. On an underlying basis, borrowing in Q2 started to come down, but only slowly, as Government expenditure cuts took effect and economic growth started to show through in a small increase in tax receipts. The 2013 Spending Review, covering only 2015/16, made no changes to the headline Government spending plan, and monetary policy was unchanged in advance of the new Bank of England Governor, Mark Carney, arriving. Bank Rate remained at 0.5% and quantitative easing also stayed at £375bn. In August, the MPC provided forward guidance that Bank Rate is unlikely to change until unemployment first falls to 7%, which was not expected until mid 2016. However, 7% is only a point at which the MPC will review Bank Rate, not necessarily take action to change it. The three month to July average rate was 7.7%.

CPI inflation (MPC target of 2.0%), fell marginally from a peak of 2.9% in June to 2.7% in August. The Bank of England expects inflation to fall back to 2.0% in 2015.

Tensions in the Eurozone eased over the second quarter, but there remained a number of triggers for a renewed flare-up. Economic survey data improved consistently over the first half of the year, pointing to a return to growth in Q2, so ending six quarters of Eurozone recession.

3.2 Outlook for the next six months of 2013/14

Economic forecasting remains difficult with so many external influences weighing on the UK. Volatility in bond yields is likely during 2013/14 as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, and safer bonds. Downside risks to UK gilt yields and PWLB rates include:

- A return to weak economic growth in the US, UK and China causing major disappointment to investor and market expectations
- The potential for a significant increase in negative reactions of populaces in Eurozone countries against austerity programmes, especially in countries with very high unemployment rates e.g. Greece and Spain, which face huge challenges in engineering economic growth to correct their budget deficits on a sustainable basis.
- The Italian political situation is frail and unstable: the coalition government fell on 29 September.
- Problems in other Eurozone heavily indebted countries (e.g. Cyprus and Portugal) which could also generate safe haven flows into UK gilts.
- Monetary policy action failing to stimulate sustainable growth in western economies, especially the Eurozone and Japan.
- Weak growth or recession in the UK's main trading partners - the EU and US, depressing economic recovery in the UK.
- Geopolitical risks e.g. Syria, Iran, North Korea, could trigger safe haven flows back into bonds

Upside risks to UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- UK inflation being significantly higher than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.
- Increased investor confidence that sustainable robust world economic growth is firmly expected, together with a reduction or end of QE operations in the US, causing a further flow of funds out of bonds into equities.
- A reversal of Sterling's safe-haven status on a sustainable improvement in financial stresses in the Eurozone.
- In the longer term - a reversal of QE in the UK; this could initially be implemented by allowing gilts held by the Bank to mature without reinvesting in new purchases, followed later by outright sale of gilts currently held.
- Further downgrading by credit rating agencies of the creditworthiness and credit rating of UK Government debt, consequent upon repeated failure to achieve fiscal correction targets and sustained recovery of economic growth, causing the ratio of total Government debt to GDP to rise to levels that provoke major concern.

The overall balance of risks to economic recovery in the UK is now weighted to the upside after five months of robust good news on the economy. However, only time will tell just how long this period of strong economic growth will last, and it remains exposed to vulnerabilities in a number of key areas. The longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Near-term, there is some residual risk of further QE if there is a dip in strong growth or if the MPC were to decide to take action to combat the market's expectations of an early first increase in Bank Rate. If the MPC does take action to do more QE in order to reverse the rapid increase in market rates, especially in gilt yields and interest rates up to 10 years, such action could cause gilt yields and PWLB rates over the next year or two to significantly undershoot

the forecasts in the table below. The tension in the US over passing a Federal budget for the new financial year starting on 1 October and raising the debt ceiling in mid October could also see bond yields temporarily dip until agreement is reached between the opposing Republican and Democrat sides. Conversely, the eventual start of tapering by the US Federal Reserve will cause bond yields to rise.

3.3 Capita Asset Services' Interest Rate Forecast (as at 23/09/13)

Bank Rate														
Sep 2013	Dec 2013	Mar 2014	Jun 2014	Sep 2014	Dec 2014	Mar 2015	Jun 2015	Sep 2015	Dec 2015	Mar 2016	Jun 2016	Sep 2016	Dec 2016	Mar 2017
0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%

Expectations for the first change in Bank Rate in the UK are now dependent on how to forecast when unemployment is likely to fall to 7%. Financial markets have taken a very contrary view to the MPC and have aggressively raised short term interest rates and gilt yields due to their view that the strength of economic recovery is now so rapid that unemployment will fall much faster than the Bank of England forecasts. Financial markets therefore expect the first increase in Bank Rate to be in quarter 4 of 2014. There is much latitude to disagree with this view as the economic downturn since 2008 was remarkable for the way in which unemployment did not rise to anywhere near the extent likely, unlike in previous recessions. This meant that labour was retained, productivity fell and now, as the MPC expects, there is major potential for unemployment to fall only slowly as existing labour levels are worked more intensively and productivity rises back up again. The size of the work force is also expected to increase relatively rapidly and there are many currently self employed or part time employed workers who are seeking full time employment. Capita Asset Services take the view that the unemployment rate is not likely to come down as quickly as the financial markets are currently expecting and that the MPC view is more realistic. The prospects for any increase in Bank Rate before 2016 are therefore seen as being limited. However, some forecasters are forecasting that even the Bank of England forecast is too optimistic as to when the 7% level will be reached and so do not expect the first increase in Bank Rate until spring 2017.

4. Treasury Management Strategy Statement and Annual Investment Strategy Update

The Treasury Management Strategy Statement (TMSS) for 2013/14 was approved by Full Council on 27 February 2013. 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 Capita Asset Services suggested creditworthiness matrices, including Credit Default Swap (CDS) overlay information where this is available. Currently investments are only being made with U.K. financial institutions.

Investments during the first six months of the 2013/14 financial year have been in line with the strategy, and there have been no deviations from the strategy.

Classification: NULBC **PROTECT** Organisational

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 27 February 2013 is still fit for purpose in the current economic climate.

5. Investment Portfolio 2013/14

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. Indeed, the introduction of the Government's Funding for Lending scheme has reduced market investment rates even further. The potential for a prolonging of the Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment, investment returns are likely to remain low.

The Council held £8.85m of investments as at 30 September 2013 (£4.9m at 31 March 2013). Funds available for investment purposes can vary between £4m and £14m due to the large fluctuations in cash inflows and outflows during each month. Large cash inflows include council tax & business rate direct debits and the Housing Benefit subsidy from the Department for Work and Pensions. Large cash outflows include payment of the precepts to Staffordshire County Council, the Fire Authority and the Police, payment of salaries and payment of business rates to Central Government and the Staffordshire Business Rate pool.

The investment portfolio yield for the first six months of the year is 0.73% against a target of 0.90%. The Council's budgeted investment return for 2013/14 is £100,000. As at the end of the first 2 quarters of 2013/14 £47,190 of interest has been earned. Interest earned is below budget to date due to Banks and Building Societies being able to obtain cheap funding from the Government's Funding for Lending scheme (FLS). This has resulted in a significant drop in the rates being offered for investing in the market and led to a reduction in the interest rates being paid on all our instant access and 30 day notice accounts.

A full list of investments held as at 30 September 2013 is shown in Annex A.

6. Borrowing Position 2013/14

It is not currently intended to borrow to finance capital investment in 2013/14. The only borrowing envisaged by the 2013/14 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 2013/14

Treasury management activity during the first half year has been carried out within the parameters set by the prudential indicators contained in the approved 2013/14 Treasury Management Strategy. Consequently, there is no intention to revise any of the indicators for the remainder of the year.

Classification: NULBC **PROTECT** Organisational

Classification: NULBC PROTECT Organisational

Annex A

<u>INVESTMENTS OUTSTANDING As at 30/09/13</u>						
<u>ACK NO.</u>	<u>BROKER</u>	<u>INT. RATE</u>	<u>DATE INVESTED</u>	<u>NAME OF BORROWER</u>	<u>PRINCIPAL</u>	<u>DATE MATURING</u>
5211	N/A	0.70%	07/08/2013	HALIFAX BANK OF SCOTLAND	500,000	07/11/2013
5214	N/A	0.70%	11/09/2013	HALIFAX BANK OF SCOTLAND	1,500,000	11/12/2013
					£ 2,000,000	
				ROYAL BANK OF SCOTLAND 30 DAY NOTICE ACCOUNT (Rate of Interest 0.80%)	£ 6,500,000	
				ROYAL BANK OF SCOTLAND DEPOSIT ACCOUNT (Rate of Interest 0.70%)	£ 350,000	
				TOTAL INVESTMENTS	£ 8,850,000	
				<u>HERITABLE BANK INVESTMENT</u>		
5092	TRAD	6.10%	15/09/2008	HERITABLE BANK (<i>Landsbanki</i>)	£ 142,309	14/09/2009
<i>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, £68,207, £419,963 were received from the Heritable Bank administrators on 30th July 2009, 18th December 2009, 30th March 2010, 16th July 2010, 18th October 2010, 14th January 2011, 19th April 2011, 15th July 2011, 20th October 2011, 23rd January 2012, 20th April 2012, 20th July 2012, 17th January 2013 & 23rd August 2013 respectively.</i>						

Classification: NULBC PROTECT Organisational

Treasury Management – Glossary of Terms

- **CDS** – ‘Credit Default Swap’ is an additional assessment of credit worthiness by providing a risk analysis of changes in credit quality as perceived by the market.
- **CIPFA** – the Chartered Institute of Public Finance and Accountancy, is the professional body for accountants working in Local Government and other public sector organisations.
- **CPI Inflation** – a measure that examines the weighted average of prices of a basket of consumer goods and services. The CPI is calculated by taking price changes for each item in the predetermined basket of goods/services and averaging them; the goods are weighted according to their importance. Changes in CPI are used to assess price changes associated with the cost of living.
- **Credit Rating** – is an opinion on the credit-worthiness of an institution, based on judgements about the future status of that institution. The main rating agencies are Fitch, Standard and Poor’s and Moody’s.
- **GILTS** – the name given to bonds issued by the UK Government. Gilts are issued bearing interest at a specified rate, however, they are traded on the markets like shares and their value rises or falls accordingly. The ‘yield’ on a gilt is the interest paid divided by the market value of that gilt.
- **Gross Domestic Product (GDP)** – is the market value of all officially recognised final goods and services produced within a country in a given period of time.
- **Liquidity** – relates to the amount of readily available or short term investment money which can be used for either day to day or unforeseen expenses. For example Call Accounts allow instant daily access to invested funds.
- **Monetary Policy Committee (MPC)** – The MPC is a committee of the Bank of England who meet each month to set the official bank base rate.
- **PWLB** – the Public Works Loan Board is a statutory board that is run within the UK Debt Management Office (DMO), it’s function is to lend money to Local Authorities and other prescribed bodies.
- **Quantitative Easing** – a government monetary policy occasionally used to increase the money supply by buying government securities or other securities from the market. Quantitative easing increases the money supply by flooding financial institutions with capital, in an effort to promote increased lending and liquidity.

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1. **ANNUAL AUDIT LETTER 2012/13**

Submitted by: Executive Director – Resources and Support Services

Portfolio: Finance and Resources

Ward(s) affected: All

Purpose of the Report

To receive the Annual Audit Letter from the council's external auditors, Grant Thornton, dealing with the Audit of Accounts 2012/13 (Appendix A).

Recommendation

That Grant Thornton'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.

The Annual Audit Letter from Grant Thornton dealing with the Audit of Accounts 2012/13 is addressed to the Council, but is also available as a public document for interested parties, including the community served by the Council.

1. **Background**

1.1 Grant Thornton's Annual Audit Letter summarises the conclusions arising from the audit and inspection of the Council for the financial year 2012/13.

1.2 The letter summarises the findings from the 2012/13 audit. It includes messages arising from the audit of the financial statements together with the results of the work that Grant Thornton 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**

Grant Thornton have issued an unqualified opinion on the Authority's 2012/13 financial statements and concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

3. **Options Considered**

3.1 To do nothing is not an option for the Council.

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**

To receive Grant Thornton's Annual Audit Letter.

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

The 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.

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**

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

9. **Major Risks**

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 A: Annual Audit Letter – October 2013



The Annual Audit Letter for Newcastle-under-Lyme Borough Council

Year ended 31 March 2013

October 2013

John Gregory

Director

T 0121 232 5333

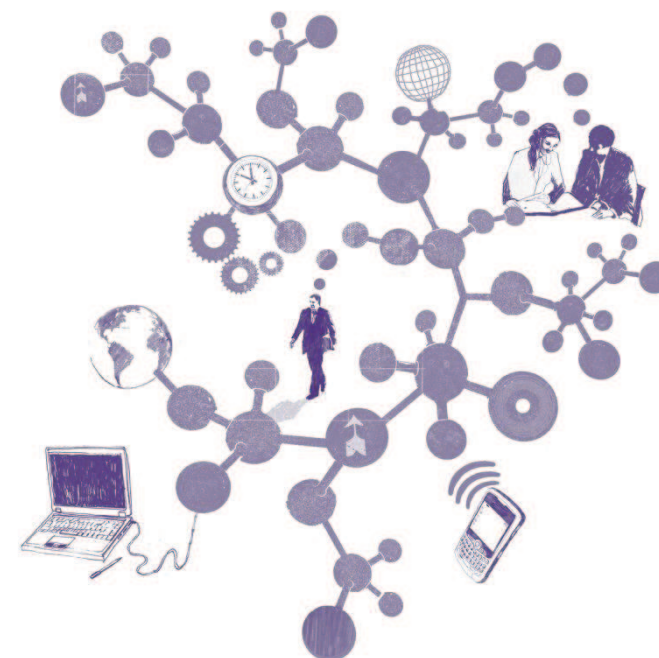
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Section 1: Executive summary

01. Executive summary

02. Audit of the accounts

03. Value for Money

04. Certification of grant claims and returns

Executive summary

Purpose of this Letter

Our Annual Audit Letter ('Letter') summarises the key findings arising from the following work that we have carried out at Newcastle-under-Lyme Borough Council ('the Council') for the year ended 31 March 2013:

- auditing the 2012/13 accounts and Whole of Government Accounts submission (Section two)
- assessing the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (Section three)
- certification of grant claims and returns (Section four).

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. We reported the detailed findings from our audit work to those charged with governance in the Audit Findings Report on 23 September 2013.

Responsibilities of the external auditors and the Council

This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

The Council is responsible for preparing and publishing its accounts, accompanied by an Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (Value for Money).

Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued on 28 June 2013 and was conducted in accordance with the Audit Commission's Code of Audit Practice ('the Code'), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

Audit conclusions

The audit conclusions which we have provided in relation to 2012/13 are as follows:

- an unqualified opinion on the accounts which give a true and fair view of the Council's financial position as at 31 March 2013 and its income and expenditure for the year
- an unqualified conclusion in respect of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources
- an unqualified opinion on the Council's Whole of Government Accounts submission
- we have certified one grant claim, your National Non Domestic Rates return, which was certified without amendment. We are still undertaking our audit of the Housing and Council Tax Benefit claim. This is due for completion at the end of November 2013. From the work we have already done, we have established, as at many councils, the claim will be subject to a qualification letter.

Executive summary

Key areas for Council attention

We summarise here the key messages arising from our audit for the Council to consider as well as highlighting key issues facing the Council in the future.

The Council has performed well in many of the areas covered by our audit work.

The accounts were well presented and required only minor amendments and we were able to issue an unqualified opinion on them. We also concluded that the Council has appropriate arrangements for securing efficiency, economy and effectiveness. In particular, we noted that the Council has adequate arrangements in place for securing financial resilience with strong financial performance management and budgeting systems in place. It achieved planned savings targets for 2012/13 outlined in the Medium Term Financial Strategy.

The Council has also prioritised its resources to take into account reductions in Government funding and has continued to make funds available to stimulate growth to support the economic prosperity of the area. This aim has become doubly important since the implementation of business rate retention.

The Council has dealt well with the localisation of Council Tax Benefit, setting up its own local scheme which has enabled it to cope with the £835,000 reduction in funding without making extreme changes to eligibility criteria.

Meeting the community's expectations will continue to be important as the Council moves through rapid change and reorganisation in response to financial pressures. Communication will also be vital to preserve a committed and motivated workforce in the face of these changes.

Acknowledgements

This Letter has been agreed with the Executive Director (Resources and Support Services) and will be presented to the Audit and Risk Committee on 18 November 2013.

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

Grant Thornton UK LLP
October 2013

Section 2: Audit of the accounts

01. Executive summary

02. Audit of the accounts

03. Value for Money

04. Certification of grant claims and returns

Audit of the accounts

Audit of the accounts

The key findings of our audit of the accounts are summarised below:

Preparation of the accounts

The Council presented us with draft accounts on 28 June 2013, in accordance with the national deadline. Appropriate working papers were made available from the start of the audit fieldwork, which commenced on 1 July 2013.

The accounts and working papers were of a good quality and co-operation in dealing with audit issues was strong.

Issues arising from the audit of the accounts

We recommended a small number of adjustments to disclosures notes in the draft accounts. Officers agreed to make these adjustments, none of which impacted on the Council's General Fund balance. Our audit also considered internal controls relevant to the preparation of the financial statements. We identified a number of minor control deficiencies during the course of the audit, which were reported to management. No significant or material weaknesses were identified.

The Council submitted its draft Whole of Government Accounts pack for audit by the deadline of 7 August and we submitted the audited pack on 26 September 2013 having carried out the required work without identifying any errors.

We did not receive any questions or objections from local government electors on the accounts, allowing us to certify the audit as complete on 26 September 2013.

Annual governance statement

We concluded that the Annual Governance Statement and Explanatory Foreword were consistent with our knowledge of the Council. Our review confirmed that the statement fairly reflects the Council's risk assurance and governance framework.

Conclusion

Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to 'those charged with governance' (defined as the Audit and Risk Committee at the Council). We presented our report to the Audit and Risk Committee on 23 September 2013 and summarise only the key messages in this Letter.

We issued an unqualified opinion on the Council's 2012/13 accounts on 26 September 2013, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the accounts give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.

Section 3: Value for Money

01. Executive summary

02. Audit of the accounts

03. Value for Money

04. Certification of grant claims and returns

Value for Money

Scope of work

The Code describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give a VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code:

The Council has proper arrangements in place for securing financial resilience. The Council has robust systems and processes to effectively manage financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness. The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- financial governance
- financial planning
- financial control.

Our work highlighted that whilst the Council faced challenges during 2012/13, which are continuing in 2013/14 and beyond, its current arrangements for achieving financial resilience are adequate. Further details are provided in our Financial Resilience report issued in September 2013.

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within and whether it has achieved cost reductions and improved productivity and efficiencies.

Our work highlighted the fact that the Council's medium term financial strategy is focussed on identifying recurrent savings and securing a sustainable financial future. Financial risks have been managed in the short to medium term, with consideration of longer term implications.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

Section 4: Certification of grant claims and returns

01. Executive summary

02. Audit of the accounts

03. Value for Money

04. Certification of grant claims and returns

Certification of grant claims and returns

Introduction

We are required to certify certain of the claims and returns submitted by the Council. This certification typically takes place some six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

Our work on certification of grant claims is on-going. Our work to date has identified an issue with the Housing and Council Tax Benefit Grant Claim, where a number of initial errors identified have led to further extended testing which has been carried out by staff within the relevant department. As a result a qualification letter will be issued which may have financial implications for the Council, as in previous years. The detailed findings of our work will be reported in our Grant Certification report upon completion of our work.

We have certified your National Non-Domestic Rate Return for the financial year 2012/13 relating to expenditure of £31 million without amendment or qualification.

Approach and context to certification

Arrangements for certification are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency, and issues auditors with a Certification Instruction (CI) for each specific claim or return.

Key messages

The key messages to date from our certification work are summarised in the table below. Further details will be provided in our certification report.

Summary of the Council's arrangements

Aspect of certification arrangements	Key Messages	RAG rating
Submission & certification	Both claims received by the required deadline	● Green
Accuracy of claim forms submitted to the auditor (including amendments & qualifications)	Housing Benefit and Council Tax Benefit Claim will be qualified No issues were identified with the National Non-Domestic Rates Return.	● Amber
Supporting working papers	Council provide excellent working papers to support the claim, and all staff fully participate in the audit process	● Green

Appendices

Appendix A: Reports issued and fees

We confirm below the fee charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Per Audit plan £	Actual fees £
Audit Fee	72,436	72,436
Grant certification fee	13,500	tbc
Total fees	85,936	tbc

Fees for other services

Service	Fees £
None	Nil

Reports issued

Report	Date issued
Audit Plan	June 2013
Audit Findings Report	September 2013
VfM – Financial Resilience Report	September 2013
Annual Audit Letter	October 2013
Certification report (to be issued)	January 2014



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1. **REVIEW OF THE COUNCIL'S ARRANGEMENTS FOR SECURING FINANCIAL RESILIENCE**

Submitted by: Executive Director – Resources and Support Services

Portfolio: Finance and Resources

Ward(s) affected: All

Purpose of the Report

To receive a report from the council's external auditors, Grant Thornton, reviewing the council's arrangements for securing financial resilience.

Recommendation

That the report be received.

Reasons

The council's external auditors, Grant Thornton, has undertaken a review to determine if the Council has proper arrangements in place for securing financial resilience.

1. **Background**

Grant Thornton, as part of the statutory external audit, has undertaken a review to determine if the Council has proper arrangements in place for securing financial resilience. They have considered whether the Council has robust financial systems and processes in place to manage its financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

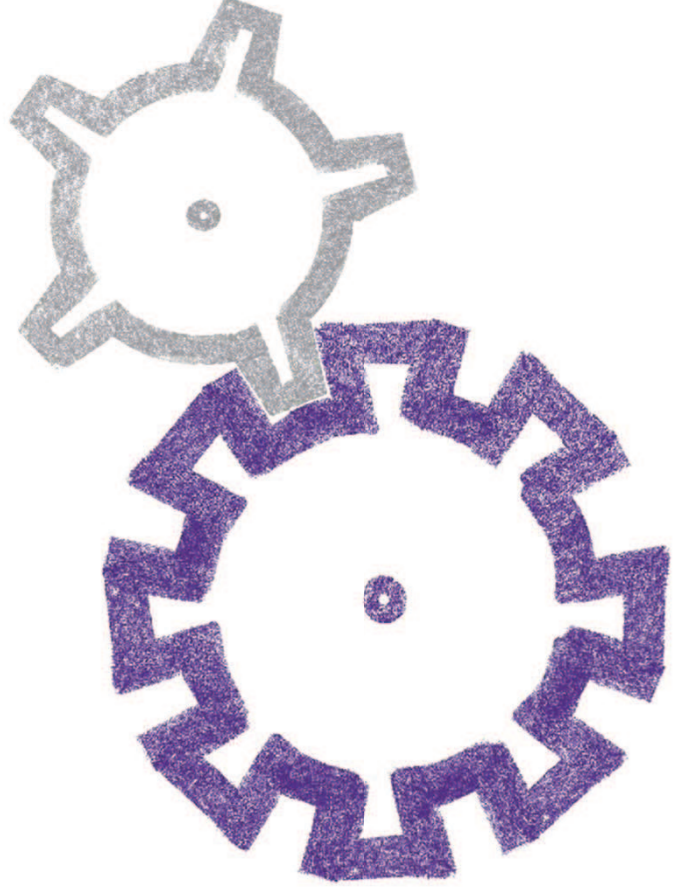
Attached as an Appendix is their report.

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Newcastle-under-Lyme Borough Council

Review of the Council's Arrangements for Securing Financial Resilience

September 2013



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Executive Summary

Our approach

Value for Money Conclusion

Our work supporting our Value for Money (VfM) conclusion, as part of the statutory external audit, includes a review to determine if the Council has proper arrangements in place for securing financial resilience.

In so doing we have considered whether the Council has robust financial systems and processes in place to manage its financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. We have carried out our work in discussion and agreement with officers and completed it in such a way as to minimise disruption to them.

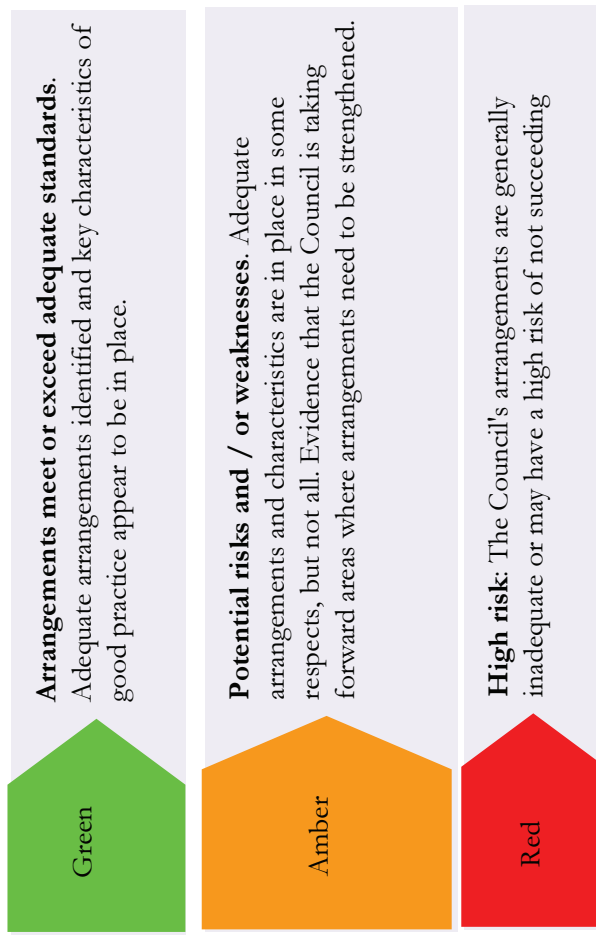
The definition of foreseeable future for the purposes of this financial resilience review is 12 months from the date of this report.

We have reviewed the financial resilience of the Council by looking at:

- Key indicators of financial performance;
- Its approach to strategic financial planning;
- Its approach to financial governance; and
- Its approach to financial control.

Further detail on each of these areas is provided in the sections of the report that follow. Our overall conclusion is that, whilst the Council faces challenges during 2012/13 and beyond, its current arrangements for achieving financial resilience are adequate.

We have used a red / amber / green (RAG) rating with the following definitions.



Executive Summary

National and Local Context

National Context

The Chancellor of the Exchequer announced the current Spending Review (SR10) to Parliament on 20 October 2010. SR10 represented the largest reductions in public spending since the 1920s. Revenue funding to local government was to reduce by 19% by 2014-15 (excluding schools, fire and police). After allowing for inflation, this equates to a 28% reduction in real terms with local government facing some of the largest cuts in the public sector. In addition, local government funding reductions were frontloaded, with 8% cash reductions in 2011-12. This followed a period of sustained growth in local government spending, which increased by 45% during the period 1997 to 2007.

The Chancellor of the Exchequer, in his Autumn Statement in November 2011, announced further public spending reductions of 0.9% in real terms in both 2015-16 and 2016-17. In his Autumn Statement on 5 December 2012, the Chancellor reinforced austerity measures announcing a further £6.6bn of savings during 2013-14 and 2014-15. Whilst health and schools will be continue to be protected in line with the Government's policy set out in SR10, local government will continue to face significant funding reductions. The Department for Communities and Local Government will contribute £470m of these additional savings, £445m of which will come from local authority funding during 2014-15, with local authorities being exempt from additional savings in 2013-14. In his March 2013 Budget the Chancellor announced further departmental 1% savings during each of 2013-14 and 2014-15. The NHS and schools remain protected, but police and local government will need to find an additional 0.5% over both years.

The next spending round period, 2015-16, was announced by the Chancellor on 26 June 2013. Local government will face at least a further 10% funding reduction for this period.

These funding reductions come at a time when demographic and recession based factors are increasing demand for some services, and there is a decreasing demand for some services, such as car parking, where customers pay a fee or charge.

Financial austerity is expected to continue until at least 2017.

Local Context

Newcastle-under-Lyme sits in the North West of Staffordshire County in the West Midlands. The Borough comprises Newcastle-under-Lyme, where the council is based, but includes the town of Kidsgrove, the villages of Silverdale and Keele, and the rural area surrounding Audley.

The Borough is essentially rural in character. It has a population of some 124,000 people, which is predicted to experience an average population increase. The area's population is ageing. Between 2001 and 2011 the number of residents above the age of 60 increased by 14 per-cent and the number of residents above the age of 85 increased by 26 per-cent. Newcastle-under-Lyme is averagely diverse with a BME population of 6.7 per-cent in 2011, compared to 6.4 per-cent county-wide.

The Council has, along with other councils in England, been affected by the spending cuts at a time of increased demand for public services. During the four year period from 2008/09, it has found over £6m of savings.

Executive Summary

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
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Key Indicators of Performance

The Council reported a surplus in 2012/13 of £3,000. The Council had £3.7m of revenue balances at 31 March 2013. Of this balance £2m is earmarked to particular schemes leaving unallocated general fund balances and contingency funds of £1.7m.

The Council has allocated £1.2m as working capital, identified by a risk-based review, and has a contingency fund of £0.5m to meet any budget shortfalls in the coming years. We consider that the £1.7m of working capital and contingency is a sufficient level of reserves. The Council has managed to achieve a balanced outturn and is ensuring its savings plans for the year are in place and signed off before the update of the Medium Term Financial Strategy (MTFS) and the start of the year. In previous years, the budget support fund has been used to smooth savings required and cope with lower than anticipated levels of income. However, additional reviews of income assumptions have been made leading to reductions in budgeted assumptions.

The percentage of Council Tax and NNDR due that was collected by the Council in respect of the year 2013/13 was respectively 97.3 per-cent and 97.6 per-cent, which are the lowest of the Staffordshire Districts and in the lowest 25 per-cent for English District Councils.

Strengthened policies and procedures, including the introduction of a revised Attendance Management Policy and Capability Procedures, have helped in reducing overall sickness absence levels to 8 days per FTS currently from 12.16 days in 2006/07.



Strategic Financial Planning

The Council's MTFS responds to changes and ensures that other corporate documents are aligned to it, to enable the Council to respond swiftly to external factors.

The Plan is focussed on finding recurrent savings and creating long-term changes in service delivery to continue to achieve a sustainable balanced budget.

Executive Summary

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
<p>Financial Governance</p> <p>The Council has a good track record in delivering efficiencies. Savings are planned in detail following service reviews and delivery of these savings is underpinned by effective monitoring by budget holders and the finance team.</p> <p>The management team is small, consisting of the Chief Executive and three directors of service. The team understand the key financial issues and the Council has been pro-active in taking action to mitigate financial challenges it is facing. Increasingly, required savings are made in the year prior to the year they are required and alternatives considered several years in advance of need.</p> <p>Summary monthly financial reports are circulated to the Executive Management Team. These reports are summarised at Directorate level. All members receive appropriate reports, quarterly at the start of the year, moving to monthly by the year end. The finance portfolio holder reviews performance on a monthly basis on an exception basis. This moves to full monthly reporting at the year end.</p>	<p>The Council has strong financial performance management and budgeting systems with an inclusive approach to stakeholders. This underpins its financial control.</p> <p>Internal audit arrangements are strong with clear workplans which are aligned to the risk profile of the Council.</p>	<p> Green</p>
<p>Financial Control</p>	<p>The Council has strong financial performance management and budgeting systems with an inclusive approach to stakeholders. This underpins its financial control.</p> <p>Internal audit arrangements are strong with clear workplans which are aligned to the risk profile of the Council.</p>	<p> Green</p>

Executive Summary

Next Steps

Area of review	Key points for consideration	Responsibility	Timescale	Management response
Key Indicators of Performance	<ul style="list-style-type: none">The Council should review procedures for the collection of Council Tax and NNDR to see if improvements can be made to the percentage recovered.	Chief Financial Officer	Ongoing	

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Key Indicators

Introduction



This section of the report includes analysis of key indicators of financial performance, benchmarked where this data is available. These indicators include:

- Working capital ratio
- Useable Reserves: Gross Revenue Expenditure
- Long term borrowing to tax revenue
- Long term borrowing to long term assets
- Sickness absence levels
- Out-turn against budget




We have used the Audit Commission's listing of all English District Councils and statistical nearest neighbours for benchmarking group purposes.

Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Performance Against Budget	<ul style="list-style-type: none"> The Council reported a surplus in 2012/13 of £3,000. The Capital programme for 2012/13 was originally £4.45m but became £5.35m after slippage carried forward from 2011/12. The out-turn for the year was £2.53m, leaving £2.81m, most of which is carried forward to 2013/14. Capital receipts at 31/03/13 were £2.70m and not all of the carried forward expenditure will be financed from receipts, some will be from grants and contributions. The programme for 2013/14 only includes £0.615m new projects, which are to be financed from capital receipts, plus housing projects financed from new homes bonus and notified grant. The Council has a detailed Asset Management and Capital Strategy that links to the Council Plan. 	 Green
Reserve Balances	<ul style="list-style-type: none"> The Council had £3.7m of revenue balances at 31 March 2013. Of this balance, £2m is earmarked to particular schemes leaving unallocated general fund balances and contingency funds of £1.7m. The Council has allocated £1.2m as working capital and has a contingency fund of £0.5m to meet any budget shortfalls in 2014/15 and beyond. We consider that the £1.7m of working capital and contingency is a sufficient level of reserves. The Council has achieved a balanced outturn and ensuring its savings plans for the year are in place before the start of the year, avoiding the use of reserves. 	 Green

Key Indicators

Area of focus	Summary observations	Assessment
Liquidity	<ul style="list-style-type: none"> Working capital ratio is 2.54, against an average of 3.28. As your current assets exceed your current liabilities, this indicates that the Council has sufficient assets to meet its short term liabilities. The percentage of Council Tax due that is collected by the Council averaged 97.3%, which is the lowest in Staffordshire and in the lowest 25 per-cent in England for all District Councils and Statistical Nearest Neighbours group. Compared to all District Councils in England, the Council is below average for its percentage of NNDR due collected, at 97.6%, however for the Statistical Nearest Neighbours group the collection rate was average. In terms of income streams as a percentage of total spend, Newcastle-under-Lyme is average for income from sales and fees and charges. At the year end £0.228m was held in cash and cash equivalent balances with a further £5.1m in short term investments. The Council manages liquidity by adhering to the CIPFA code of practice. 	 <p>Green</p>
Borrowing and other long term liabilities	<ul style="list-style-type: none"> The Council is long-term debt free, but will have to consider the option of taking borrowing in the medium term as its current capital receipts reserves are insufficient to fund its capital programme. The Council has evaluated its land holdings and has begun the process of consulting on significant disposals over the medium to long term. The Council's pension liability has risen from £55m to £63.5m. It is expected that the outcome of the triennial revaluation will lead to increased contribution rates, placing significant further pressure on the Council's general fund. However the expected level of increases have been built into financial modelling. 	 <p>Green</p>
Workforce	<ul style="list-style-type: none"> Strengthened policies and procedures, including the introduction of a revised Attendance Management Policy and Capability Procedures, have helped in reducing overall sickness absence levels since 2006/07 when sickness rates were 12.16 days per FTE, to the current 8 days per FTE. The Council has a Workforce Development Strategy. 	 <p>Green</p>

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Strategic Financial Planning

Key indicators of good strategic financial planning

In conducting our review of strategic financial planning we have assessed the Council's performance against the following indicators:

- Focus on achievement of corporate priorities is evident through the financial planning process. The MTFS focuses resources on priorities and currently runs for five years.
- The MTFS links to Council Plan strategic priorities and numerous strategies. Feedback from residents was used to help determine priorities following the budget setting public consultation exercise and series of public meetings, enabling residents to feedback to the authority what they saw as budget priorities. Targets have been set for future periods in respect of reserve balances, prudential indicators etc.
- As part of the MTFS, the Council has a five year prediction with realistic assumptions around future funding levels and from this is driving service reviews and other initiatives to find the required longer term savings.
- There is an annual review of the MTFS and the assumptions made within it. The Council responds to changing circumstances during the year and manages its financial risks.
- The Council has performed stress testing on its model using a range of economic assumptions including Comprehensive Spending Review grant cuts.
- The MTFS is linked to and is consistent with other key strategies, including workforce.
- The Authority has a range of Key Performance Indicators for each service which are monitored on a quarterly basis.

64 Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	High level risk assessment
---------------	----------------------	----------------------------

Review processes

- The Budget process involves appropriate scrutiny and challenge from senior officers and members.
- The Council officers and members are made aware of key financial matters, receive quarterly budget updates, and are aware of the main risks facing them.
- Feedback from residents was used to help determine priorities following the budget setting public consultation exercise and series of public meetings, enabling residents to feedback to the authority what they saw as budget priorities.
- All members receive regular budget briefing each autumn in advance of the annual process and the scale of the challenges is clearly articulated within the MTFS.
- The Council continues to ensure that it keeps the MTFS updated to reflect current conditions. It is updated annually ahead of the budgeting process.



Green

Responsiveness of the Plan

- The Council continues to ensure it keeps the MTFS updated to reflect current conditions.
- The MTFS is focussed on the Council achieving savings necessary to meet the financial challenges of the Comprehensive Spending Review, and the Council has so far been able to make the required savings, using the budget support fund to smooth the process of finding savings. The Council has been making savings in advance of the period for which they were required and since 2008/9 has made £8.3m of savings. The MTFS has identified that further significant savings need to be made, but these are being worked on as separate projects and significant additional savings are being found. Looking further ahead a process of more fundamental service review is about to take place with managers considering options in case they need to fundamentally re-engineer services.
- Financial risks are therefore managed in the short, medium and long term, with a strong emphasis on finding recurrent, long term savings.



Green

Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	High level risk assessment
---------------	----------------------	----------------------------

Focus of the MTFS

The Council has considered the uncertainty surrounding its financial resources and future government funding. Given the forecast reductions in central government funding the Council has sought to re-engineer current services by efficiency improvements, contract savings and re-structuring efficiencies without reducing priority services at the point of delivery. There is a recognition that service funding is reaching a point where reductions in services delivered may be required and such eventualities are being explored.

During the year, an extensive public consultation exercise was carried out, beginning with a special budget edition of the council paper, the “Reporter”, which invited readers to complete a brief questionnaire setting out their views concerning options for the 2013/14 budget. There were also pages within the Council’s website devoted to the budget consultation, including an online version of the questionnaire. Following on from this, a number of meetings were held at various locations across the Borough, giving opportunities for residents to contribute their views. In addition, Cabinet members and officers were available on a number of days, situated in gazebos in the town centres, to answer questions concerning the 2013/14 budget and to receive the views of the public. The Council’s e-Panel of residents was also consulted.



Scope of the MTFS and links to annual planning

The proposals within the MTFS and the budget set for 2013/14 are adequately reflected in strategies to ensure delivery. There are clear links within the MTFS to the Councils main strategic vehicle which is the Council Plan as well as detailed supporting strategies.



Adequacy of planning assumptions


Assumptions made within the MTFS include nationally expected ones. Reference is made to policies for income-generating activities, inflation, managing assets effectively to help deliver strategic priorities and service need.

For 2014/15 there was a projected shortfall of £2.2m. However, the Council has been working on delivering on-going savings to address this, with substantial savings or income of over £1.9m already identified.



Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	High level risk assessment
Review processes and responsiveness of plan	<p>The MTFS is kept up to date and reviewed annually in the light of changing events and this is reflected in the reporting which has been taking place in 12/13. The Council is able to react quickly to movements in the savings plan allowing members to react to positive and adverse movements in progress during the year. The Leader and Cabinet model enables the Council to take rapid and decisive action if needed.</p>	 Green

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Financial Governance

Key indicators of effective financial governance

In conducting our review of financial governance we have assessed the Council's performance against the following indicators:

Understanding

- There is a clear understanding of the financial environment the Council is operating within:
 - Regular reporting to Members.
 - Actions have been taken to address key risk areas.
 - Officers and managers understand the financial implications of current and alternative policies, programmes and activities.

Engagement

- There is significant engagement with members and officers, including budget consultations. There has also been significant engagement with the local residents discussed earlier.

Monitoring and review

- There are comprehensive policies and procedures in place for members, officers and budget holders which clearly outline responsibilities.
- Scrutiny Committees and Cabinet regularly review performance which is reported via performance indicators and it is subject to appropriate levels of scrutiny.

Financial Governance

Understanding and engagement

Area of focus	Summary observations	High level risk assessment
---------------	----------------------	----------------------------

Understanding the Financial Environment

The Cabinet is made aware of key financial matters. The information made available is timely, complete and reliable.

There are clear financial instructions and standing orders to govern financial management responsibilities.

There is a clear understanding of the risks that face the Council both legal and regulatory and the Council acts promptly to make sure all such matters are addressed.



Green

Executive and Member Engagement

The senior management structure is a tight group of four officers. The structure has successfully implemented savings plans and significant changes to structures.

For the year under review, the Budget Review Group has continued to drive forward reductions in expenditure. Presentations to members have kept them informed of the financial challenges and they are given updates quarterly. Reports on Risk Management go to the Executive Management Team and are discussed in the Audit and Risk Committee. The MTFS and other strategic documents make the severity of the financial and other pressures the council will be under in the coming years clear.



Green

Overview for controls over key cost categories



Effective monitoring of unit costs is enabled through the budget monitoring process by budget holders. Budgets are formally assigned to managers with responsibility for them. The Council has demonstrated over the last few years that it is able to successfully make the savings that have been identified, and over the five years from 2008/09 to 2012/13 some £8.344m of net savings and efficiencies has been made.



Green

TO Financial Governance

Understanding and engagement

Area of focus	Summary observations	High level risk assessment
<p>Budget reporting: revenue and capital</p>	<p>The Council's leadership team are well briefed and have an understanding of the current financial position and future implications. In year forecasting is good, with no significant or unexpected overpends. Information is provided that is at the right level of detail to enable Cabinet to make decisions. Decision making is open and transparent and based on information supplied by management . Cabinet proposals made are based on relevant financial information.</p>	<p> Green</p>
<p>Adequacy of other Committee/Cabinet Reporting</p>	<p>The Council is aware of the financial implications of delivering statutory responsibilities and the MTFS allows for this delivery. There is a clear investment strategy and cash is being managed appropriately. Decision-making is based on appropriate and adequate information</p> <p>There are currently adequate arrangements to monitor the achievement of efficiencies and the impact on service quality and provision. The Council has a number of performance monitoring Scrutiny Committees which monitor performance and challenge areas where targets are not met. Performance reports are produced in summary and in detail. The information enables managers and members to manage their services appropriately.</p> <p>Summary quarterly performance reports are produced for Cabinet where overall performance is monitored. Detailed monitoring of key indicators enables members to review Council performance against indicators which are linked to strategic priorities.</p>	<p> Green</p>

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Financial Control

Key indicators of effective financial control

In conducting our review of financial control we have assessed the Council's performance against the following indicators:

Budget setting and budget monitoring

- Budgets are robust and prepared in a timely fashion.
- Budgets are monitored at an officer, member and Cabinet level and officers are held accountable for budgetary performance.
- Financial forecasting is well-developed and forecasts are subject to regular review.

Finance Department

- The capacity and capability of the Finance Department is fit for purpose.

Financial Systems

- Key financial systems have received satisfactory reports from internal and external audit.
- Financial systems are adequate for future needs.

Internal Control

- Strength of internal control arrangements - there is an effective internal audit which has the proper profile within the organisation. Agreed Internal Audit recommendations are routinely implemented in a timely manner.
- There is an assurance framework in place which is used effectively by the Council and is how business risks are managed and controlled.
- The Annual Governance Statement gives a true reflection of the organisation.

Financial Control

Internal arrangements

Area of focus	Summary observations	High level risk assessment
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Budget setting and monitoring – revenue and capital

In year forecasting is good, with no significant or unexpected overspends. Information is provided that is at the right level of detail to enable Cabinet to make decisions.

Plans to secure savings for future years are started well in advance of the prior year and implemented before the sign-off of the budget. A scheme of savings has been drawn up and agreed by Cabinet for 2014/15. However for years further in advance of this, savings plans are being developed.



Performance against Savings Plans

The Council has a good track record in achieving overall savings, and has been achieving them in advance of need. The Council is good at ensuring it has sufficient schemes in place to meet the savings required and is working on savings required years in advance. This "headroom" in the plan (i.e. extra projects already identified and worked-up so that the total programme value exceeds the total target value) means that the Council has been on budget in recent years. The one pressure on this has been a failure to meet income targets. This pressure has been relieved by a further review of income budgets for 2012/13 which saw some reduced to achievable levels. There are robust processes in place to monitor and report on in-year progress against plan and this does adequately cover progress to date and expected outcomes by year-end, including a discussion of the relevant factors and risks.






Key financial accounting systems

Internal Audit undertake comprehensive reviews of financial systems each year, along with our reviews of procedures and controls. Neither Internal Audit or we had concerns over the operation of the key financial accounting systems. Accounting systems are appropriate to the business and its current requirements, and evidence obtained to date demonstrates the accuracy and reliability of accounting systems.




7.4 Financial Control

Internal and external assurances

Area of focus	Summary observations	High level risk assessment
Finance Department resourcing	For the 2012/13 financial year, there has been sufficient skill and capability within the finance department and no changes are planned for 2013/14. There have been no changes to the Section 151 officer or Head of Finance for several years and the Finance Department has a number of strong recently qualified staff. The Authority has sufficient technical expertise to deal with the increased financial risks caused by the current economic climate.	 Green
Internal audit arrangements including compliance with CIPFA Code of Practice for Internal Audit	The Council's Corporate Risk Register is reviewed regularly and mapped to services. Risks are allocated to specific individuals who are senior officers. Each risk has associated action required and a target date for action to be completed. The current risk position and progress is reported as is the historic as well as current risk rating. Internal Audit are compliant with the CIPFA Code of Practice for Internal Audit. Overall, we have concluded that the Internal Audit service continues to provide an independent and satisfactory service to the Council and that we can take assurance from their work in contributing to an effective internal control environment at the Council. The Internal Audit section are fully IA prepared for the new Public Sector Internal Audit Standards	 Green
External audit arrangements and programme of activities	The Annual Governance Report last year highlighted the current and future funding uncertainties along with actions taken. The report had one recommendation, to ensure the establishment list reviewed by Heads of Service and collated by the payroll manager in a timely fashion. This recommendation was implemented during the year. We confirmed the effectiveness of your accountancy team in producing a sound set of accounts, free from significant error.	 Green

Financial Control

Internal and external assurances

Area of focus	Summary observations	Assessment
Assurance framework/risk management	<p>You have a comprehensive risk register with all Corporate risks now contained within a single assurance document. The Document is reviewed by the Executive Management Team with regular reports to the Audit and Risk Committee. The format allows the Cabinet / Executive and also the Audit and Risk Committee to assure itself that risks are being adequately monitored and managed. All risks are allocated to a named lead at a senior level and have a clear RAG rating. The Framework's size and number of risks reported is pitched appropriately to allow officers and members to keep the main risks under adequate review.</p>	<p style="text-align: right;"> Green</p>
	<p>Your Annual Governance statement gives a true reflection of the organisation.</p>	



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Classification: NULBC UNCLASSIFIED

HEADING **INTERNAL AUDIT PROGRESS REPORT – Quarter 2 2013/14**

Submitted by: Audit Manager

Portfolio Finance and Resources

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 2013. 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.

Recommendations

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.

1.0 Background

1.1 The Internal Audit Plan for 2013/14 allows for 530 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 25% of the audits are completed in each quarter. Past experience has shown this is more likely to be around 25% by the end of the second quarter. Achievement of this 25% is dependent on a full complement of staff from 1st 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/projects. 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.

Classification: NULBC UNCLASSIFIED

- **Issues**

2.1 Performance Indicators

The indicators reported below relate to the end of the second quarter (September 2013).

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 2013, 273 recommendations had been made of which 248 have been implemented, 91%, the target for the implementation of all recommendations is 96% by the end of the financial year. With 91% 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 2013/14 is 85%.

Out of ten surveys issued during quarter two, just two satisfaction surveys were returned; the average for this was 93%. The issue with regards to the return of satisfaction surveys has been under review and various options are being reviewed and considered to help improve this process.

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 84%.

- **Percentage of audits completed compared to the total number of audits planned for completion (percentage):** the annual target for this is 90%. 30% 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%. 33 % of the operational audit plan had also been completed against an expectation of 25%.

2.4 **Audit reviews completed and final reports issued between 1 July and 30 September 2013**

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 the 1 July 2013. Appendix A provides fuller details of these audit reviews under each service area.

AUDIT REVIEW	AUDIT OPINION	Risk Category
Chief Executives		
Print Room	Adequately Controlled	B
Resources and Support Services		
Human Resources – Attendance Management	Less than Adequately Controlled	A
National Fraud Initiative	Adequately Controlled	A
Operational Services		
Jubilee 2	Adequately Controlled	B
Kidsgrove Sports Centre	Adequately Controlled	B
Allotments	Well Controlled	B
Waste Management Services	Adequately Controlled	B
Park Attendants	Adequately Controlled	A
Corporate Reviews		
Performance Management	Well Controlled	A
Mileage Travel & Subsistence	Adequately Controlled	B

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 Manager and members of the audit team have spent 17 days undertaking reviews and special projects at the request of other Directorates.

- **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.

- **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.

- **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.

- **Outcomes Linked to 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.

- **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'.

- **Equality Impact Assessment**

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

- **Financial and Resource Implications**

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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.

- **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.

- **Key Decision Information**

11.1 Not applicable

- **Earlier Cabinet/Committee Resolutions**

12.1 Agreement of the Internal Audit Plan for 2013/14 (Audit and Risk Committee 18 February 2013).

- **Recommendations**

13.1 That Members consider any issues that they may wish to raise with Cabinet and, or Chief Officers.

- **List of Appendices**

14.1 Internal Audit Plan 2013/14: Progress to the end of Quarter 2 – 2013/14.

- **Background Papers**

15.1 Internal Audit Plan & PI's Folder

15.2 APACE files 2013/14

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Internal Audit Plan 2013/14

Progress to the end of Quarter 2 – 2013/14

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	
Print Room	B	Adequately controlled	0	3	0	0

The main issues arising from the above review can be summarised as follows;

Print Room – the main objectives from this review were to ensure that;

- the ordering of stock is done so in accordance with the Council’s Financial Regulations and that best value is achieved;
- stock levels are reasonable and that all stock can be accounted for;
- adequate security arrangements are in place for the Print Room;
- all printing work is appropriately requisitioned and documented;
- all external work is appropriately authorised and is carried out in accordance with the Council’s regulations;
- work is logically and efficiently scheduled;
- all work is appropriately charged and that the relevant sections are recharged accordingly;
- adequate maintenance agreement arrangements are in place;
- all relevant risks have been identified and recorded accordingly.

Overall controls were found to be operating well, however a number of recommendations were made with a view to improving current processes, these can included;

- undertaking a stock take on a quarterly basis
- Making an electronic form available on the Intranet, which would act as a cost checker for clients
- ensuring that all outstanding health and safety risk assessments are completed and then reviewed on an annual basis

Resources and Support Services Directorate

Areas completed in Quarter 2 of the 2013/14 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	
Human Resources – Attendance Management	A	Less than adequately controlled	1	1	1	3
National Fraud Initiative	A	Adequately Controlled	0	3	0	3

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

Human Resources – Attendance Management, the main objectives for this review are to ensure that;

- the Council has an approved, up-to-date Attendance Management Policy;
- the correct absence process has been consistently followed for all employees;
- all documentation has been correctly completed and has been promptly forwarded to Human Resources.
- management receive timely attendance management information and this is acted upon where required.

As a result of the findings from this review a number of recommendations were made, these can be summarised as follows;

- All relevant personnel should receive refresher training to remind them of their responsibilities with regards to Absence Management.
- All relevant personnel should be asked to forward all Absence Management Documentation to Payroll electronically, rather than manually, or through the post

National Fraud Initiative – the main objectives of this review are to ensure that all identified cases had been completed, or were in progress.

In summary it was found that;

- 23 reports (56.10%) had been fully completed, i.e. there were no unopened cases.
- 18 reports (43.90%) still had cases unopened, of which:
 - 15 reports (36.59%) had 100% of cases unopened.
 - 2 reports (4.88%) had between 50% and 100% of cases unopened.
 - 1 report (2.44%) had less than 50% of cases unopened.

As a result of these findings, recommendations were made to the relevant departments for work to be undertaken on the outstanding cases to ensure that the data matching exercise was completed within the prescribed timescales.

Operational Services

Areas completed in Quarter 2 of the 2013/14 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	
Jubilee 2	B	Adequately Controlled	0	3	6	9
Kidsgrove Sports Centre	B	Adequately Controlled	0	3	4	7
Allotments	B	Well Controlled	0	0	5	5
Waste Management Services	B	Adequately Controlled	0	2	3	5

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

Jubilee 2 and Kidsgrove Sports Centre- the main objectives for both these reviews were to ensure that;

- procedural guidance is issued to staff with regards to the operations at the centres,
- all banking procedures and financial records could be validated.
- gym memberships are managed in line with procedure
- processes in respect of swimming lessons are operating correctly
- corporate procedures are followed for both course booking and group hiring of leisure facilities. That any current promotions are actively advertised.
- controls are in place and operating adequately in respect of saleable stock
- corporate responsibilities including Health and Safety and Information Security are addressed.

As a result of reviewing the objectives above a number of issues were identified that resulted in recommendations being made in respect of both centres, these recommendations are designed to help improve the service and can be summarised as follows;

- system procedures should be completed in full at the earliest opportunity and stored centrally along with current forms, in order that all staff have access to up to date information and documentation
- an escalation process for the recovery of outstanding debt in respect of defaulting DD members (following first notification) should be devised and implemented to ensure that contracted members fees are collected in full, following premature membership cancellation
- A reconciliation process for saleable stock items should be implemented at the earliest opportunity whereby till sales are reconciled to reductions in stock
- All membership documentation should be checked to ensure that;
- Membership type is stipulated
- PARQ forms are completed and signed by both member and NULBC official in all cases
- Induction sheets are completed and signed in all cases
- Induction fees should be charged in all cases where applicable and recorded on the Gladstone system
- All operational risks recorded on the GRACE risk management system which are overdue for review should be reviewed at the earliest opportunity and in line with risk management policy in future
- Health and Safety Risk assessments on the Target 100 system should be reviewed with the Health & Safety Officer as in some cases it is unclear whether the review date refers to the last review or the next due review. Any outstanding RAs should be reviewed immediately

Allotments - the main objectives for this review are to ensure that;

- appropriate procedural guidance is available;
- only those who have completed the relevant application forms have been allocated a plot;
- all money due to the Council is correctly calculated, recorded and received;
- measures are taken to fill vacant allotment plots;
- the plots are maintained to the standards expected of the 'owners'; and
- performance is monitored, discussed and rectified where necessary.

It was acknowledged as part of the audit that there was currently an ongoing review in relation to the provision of Allotments throughout the Borough. As a result of the audit the following recommendations were made;

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- Upon completion of the Allotments Review, detailed documented procedures should be created that cover all aspects of the processes in place
- Where a concession has been entered into with a tenant, thus giving a reduced rent, evidence should be held alongside the tenancy agreement and tenant checklist. This should be requested and updated on an annual basis for the concessions for unemployed tenants
- The tenant checklist that supports the agreement should be updated to allow a field to be completed identifying whether the tenant is to claim a concession
- It should be considered that keys are only sent to a new tenant upon receipt of first payment. As such once a signed agreement has been received the Council's debtors department should be informed. Monitoring can be undertaken on the Civica debtors system by Allotment staff to identify whether payment has been made
- It should be reviewed as to the reasons why allotment tenants have not been invoiced by the debtors department despite notifications being sent

Waste Management Services - the main objectives for this review are to ensure that;

- contracts have been awarded in accordance with Standing Orders and Financial Regulations
- a time recording system is in place for the recycling and waste collection operatives, which is completed, authorised and monitored, in order to ensure that the service is operating efficiently.
- the Council has an up-to-date Waste Management Strategy, which is reviewed on a regular basis
- procedures are in place to ensure that work is performed to a set standard and to correct any shortfalls in performance.
- equipment used within the function is securely maintained.
- vehicle usage is monitored appropriately and in accordance with the Council's guidelines.
- there are adequate management procedures in place to operate the service.
- procedures exist to monitor the expenditure against the budget and that regular management reports are produced.
- there were adequate controls in place to protect the ICT equipment used within the function from misuse/damage.
- performance indicator data is collated and reported accurately.
- risk assessments are up-to-date and have been received by the Corporate Health and Safety Officer and that adequate insurance cover exists.
- stocks and stores are securely held, with a suitable stock control system in place.
- the recycling and waste collection service has been adequately promoted, that educational activities are carried out and that customer feedback is sought and provided.
- the assisted collection scheme is properly monitored, with only bona fide customers using this facility.
- adequate procedures and processes are in force with regards to the Waste Transfer Station.
- customers have been billed in accordance with the Council's Scale of Fees and Charges.

The findings and recommendations from this review can be summarised below;

- Mitrefinch should be used to record start and finishing times for all Council employees within Waste and Recycling services. Where entries are missing, these should be reviewed and approved on the system by the appropriate line manager at least fortnightly. The Streetscene Manager, Operations and Performance should be given access / advice to monitor Mitrefinch clockings.

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- Stock reconciliations for recycling hardware and bin containers held at the depot should be undertaken at least quarterly. The stock take should include stock brought forward, stock received; stock issued and be subsequently verified physically to stock on hand (it is acknowledged that stock issues can only be accurately monitored when CRM information is fully available).
- Upon completion of the exercise to update the new CRM system with details of assisted bin collections, a full review of clients who have not been assessed in the past 12 months should be undertaken.
- The 'bulky collections' page of the Council's website should be reviewed to ensure that advertised charges are in line with those approved in the Council's scale of fees and charges
- Outstanding Health and Safety and CPC training should be provided to relevant staff at the earliest opportunity

Park Attendants – the main objectives of this review were to ensure that;

- A Park Attendant was on duty at the park.
- Receipt books were in use at the Park and had been issued to all paying customers.
- All charges were made in accordance with the Council's Scale of Fees and Charges.
- Daily takings were securely stored in a locked receptacle and are collected on a regular basis by the Senior Rangers.
- an inventory was held, in relation to the Westlands Sports Ground.

All controls were found to be operating well and there was just one recommendation arising from this review which related to the completion of an inventory.

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.

Areas completed in Quarter 2 of the 2013/14 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	
Performance Management	A	Well controlled	0	4	0	4
Mileage Travel & Subsistence	B	Adequately Controlled	0	2	1	3

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

Performance Management - the main objectives of this review was to ensure that;

- all performance indicators have been received within the specified time limit
- variances in the analytical review are in line with expectations given our knowledge of the Authority and this performance indicator
- the performance indicator is calculated and recorded correctly
- the correct definition has been used in the calculation of the performance indicator
- the performance indicator is derived from a system and formal records of the Authority

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- the performance indicator is easily identifiable/is numbered, and a definition is in place
- there is evidence that the indicator submitted has been checked for accuracy/reasonableness by the Policy and Performance team
- To ensure all working papers are attached to the Performance Indicator return. Where they are missing, they have been chased by the Policy and Performance team
- the Performance Indicator return has been signed and dated where indicated
- the systems and processes have been adequately described on the Performance Indicator return, and this has been checked by the Policy and Performance Team
- all guidance boxes have been completed by the relevant service area, and this has been checked by the Policy and Performance Team
- any amendments to Performance Indicators are accepted only within a prescribed deadline, and are documented in full
- where problems/queries exist relating to current indicators, there is assurance that a plan is in place to resolve the queries for the following year

On the whole it was found that controls were operating well and no major issues identified. Only a small number of recommendations were made which related to reminding officers of the need to submit data within the prescribed timescales and ensuring that all indicators are calculated accurately and in accordance with their definitions.

Mileage Travel and Subsistence - the main objectives of this review was to ensure that;

- All claims for travel and subsistence are made in accordance with the Councils Financial Regulations in that;
- All claims are arithmetically correct and correctly authorised
- All journeys undertaken are logical and appropriate
- All claims are submitted within the appropriate timescale
- All claims are submitted with the appropriate receipts
- In the case of Post Entry Training expenses that the appropriate agreement has been signed in respect of fees being repayable upon leaving employment of the council
- drivers have adequate insurance cover for business use.
- policies and procedures are in place covering the rules governing travel and subsistence.

The issues and recommendations that arose from this report can be summarised as follows;

- to ensure that all current insurance documentation, MOT Certificates and Driving Licenses are held by the Council for any employee who makes a travel and subsistence claim when using a private vehicle
- The travel and subsistence claim procedure should be refined so as to allow for scanned copies of receipts to be attached to the electronic claim form that is forwarded to the employee's line manager and subsequently the payroll department
- when claim forms are completed the destinations should be clearly stated so that routes can be verified. If multiple routes have been taken ensure that supporting evidence is attached

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;

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Low (L):

action that is considered desirable and which should result in enhanced control or better value for money.

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HEADING

QUARTERLY REPORT: ADOPTION OF INTERNAL AUDIT HIGH RISK RECOMMENDATIONS AND SUMMARY OF ASSURANCE 1 JULY TO 30 SEPTEMBER 2013

Submitted by: Audit Manager

Portfolio Finance and Resources

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.

Recommendations

A 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 At the end of quarter two there were no outstanding high risk recommendations.
- 2.2 A summary of the assurance levels for each of the 4 directorates during quarter 2 can be found at Appendix A.
- 2.3 Given these results at the end of the second quarter there are no issues or concerns in relation to any outstanding recommendations within any of the Directorates.

3. **Reasons for Preferred Solution**

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

4. **Outcomes Linked to 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**

- 6.1 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**

- 9.1 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.

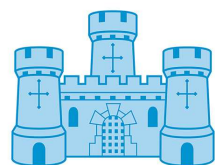
11. **List of Appendices**

Audit Recommendations Summary of Assurance for September 2013

12. **Background Papers**

Internal Audit PI and Assurances file

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Summary of Outstanding Audit Recommendations and Levels of Assurance – Quarter 2 2013-14)

	Chief Executives			Resources & Support Services			Regeneration & Development Services			Operational Services		
	July	Aug	Sept	July	Aug	Sept	July	Aug	Sept	July	Aug	Sept
Total number of Recommendations	16	19	14	126	131	98	42	41	32	52	54	25
Number of Recommendations Outstanding	0	0	0	28	32	15	0	3	2	12	11	11
% Implemented	100	100	100	71	68	85	100	91	94	61	62	56
% Overdue for implementation	0	0	0	29	32	15	0	9	6	39	38	44
No of recommendations with target date changed > 2	0	0	0	0	0	0	0	0	0	2	2	0
High Risk recommendations with target date changed > 2	0	0	0	0	0	0	0	0	0	0	0	0
Medium Risk recommendations with target date changed > 2	0	0	0	0	0	0	0	0	0	2	2	0
Low Risk recommendations with target date changed > 2	0	0	0	0	0	0	0	0	0	0	0	0

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	Chief Executives			Resources & Support Services			Regeneration & Development Services			Operational Services		
	July	Aug	Sept	July	Aug	Sept	July	Aug	Sept	July	Aug	Sept
Overall Assurance Level	Full	Full	Full	Sub	Ltd	Sub	Full	Sub	Full	Ltd	Ltd	Ltd
Annual Audit Days for Directorate*	50			189			80			112		
Total number of audit reviews for the Directorate*	5			22			11			9		

* In addition to the audit days per directorate there are 99 days identified for Corporate Reviews – these being reviews that span across all services. There are 13 reviews that are undertaken corporately.

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 94% of all recommendations implemented as the agreed performance measure for 2012-13.

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)) 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.

Classification: NULBC UNCLASSIFIED