

Public Document Pack

Date of meeting Monday, 17th November, 2014
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 3 - 6)
To consider the minutes of the previous meeting.
- 4 Corporate Risk Management July to September 2014** (Pages 7 - 14)
- 5 Health and Safety 6 Monthly Report** (Pages 15 - 22)
- 6 Treasury Management Half Yearly Report** (Pages 23 - 32)
- 7 Annual Audit Inspection Letter** (Pages 33 - 40)
- 8 Adoption of Internal Audit High Risk Recommendations and Summary of Assurance** (Pages 41 - 48)
- 9 Internal Audit Progress Report Quarter 2** (Pages 49 - 60)
- 10 URGENT BUSINESS**
To consider any business which is urgent within the meaning of Section 100B(4) of the Local Government Act 1972

Members: Councillors Loades, Taylor.J (Chair), Allport (Vice-Chair), Mrs Burgess, Jones, Sweeney and Mrs Hambleton

PLEASE NOTE: The Council Chamber and Committee Room 1 are fitted with a loop system. In addition, there is a volume button on the base of the microphones. A portable loop system is available for all other rooms. Should you require this service, please contact Member Services during the afternoon prior to the meeting.

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, 29th September, 2014

Present:- Councillor John Taylor – in the Chair

Councillors Loades, Allport, Mrs Burgess, Jones, Sweeney and Mrs Hambleton

1. MINUTES OF PREVIOUS MEETINGS

Resolved: That the minutes of the previous meeting held on 21st July be agreed as a correct record.

2. DECLARATIONS OF INTEREST

There were no declarations of interest.

3. CORPORATE RISK MANAGEMENT REPORT FOR THE PERIOD APRIL-JUNE 2014

The Head of Business Improvements, Central Services and Partnerships provided an overview of the report.

Since the last meeting of the Committee, officers had rolled out an updated version of the GRACE system. This update featured a web-based version of GRACE that allowed easier access for users.

Members attention was also drawn to section 4 of the report which included information in relation to items requested at the previous meeting:

- Recycling by residents in terraced houses and flats; and
- Risks relating to community centres

Detailed information relating to these was attached at appendix 2.

Additional clarification was sought in relation to the potential claims growth listed in appendix 1 to the report. The Head of Business Improvements, Central Services and Partnerships stated that he was satisfied that the current risk profiles related to this were accurate with the Council in a strong place regarding defending any claims.

Members also questioned risks relating to Community Centres such as not being able to find people to manage the centres or people no longer hiring the centres. The Head of Business Improvements, Central Services and Partnerships stated that he would feed these concerns back to the risk owner.

Concerns were also raised regarding whether the Council was legally covered in relation to the use/misuse of Community Centres.

Members queried whether an advice sheet existed relating to Members taking decisions that were contrary to Officer recommendations. It was stated that a section relating to risk did exist on Cabinet reports and that an advice sheet would be produced in the future.

Resolved: That the new risks identified between April and June 2014 be noted.

4. STATEMENT OF ACCOUNTS

A report was submitted requesting the Committee to approve the statement of accounts, receive the external auditor's Audit Findings Report for 2013/14 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 be 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 an Audit Findings report.

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

Representatives from Grant Thornton ran through the Audit Findings and invited questions from the Committee.

Resolved:

- a) That the Statement of Accounts 2013/14 be approved and signed by the Chair of the Committee.
- b) That the Audit Findings Report for 2013/14 be received.
- c) That the Letter of Representation be approved for signature by the Council's Section 151 Officer.

5. INTERNAL AUDIT PROGRESS REPORT - QUARTER 1

A report was submitted to report on the work undertaken by the Internal Audit section during the period 1st April to 30th June 2014. 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.

Some concern was expressed regarding Community Centres. The Audit Manager confirmed that this was an on-going process and would continue to be monitored.

Resolved: That Members consider any issues raised.

6. QUARTERLY REPORT. ADOPTION OF INTERNAL AUDIT HIGH RISK RECOMMENDATIONS AND SUMMARY OF ASSURANCE. 1 APRIL - 30 JUNE, 2014

A report was submitted regarding any outstanding high risk recommendations and to provide Members with an assurance opinion on internal controls over Council Services.

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

7. **URGENT BUSINESS**

There was no urgent business.

COUNCILLOR JOHN TAYLOR
Chair

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**REPORT OF THE EXECUTIVE MANAGEMENT TEAM
TO THE AUDIT AND RISK COMMITTEE**

17 November 2014

**CORPORATE RISK MANAGEMENT REPORT FOR THE PERIOD July to
September 2014**

Submitted by: Head of Business Improvement, Central Services and Partnerships

Portfolio: Communications, Policy and Partnerships

Ward(s) affected: All

Purpose of the Report

To inform Members of the progress made by the Council in enhancing and embedding risk management for the period July to September 2014, including progress made in managing 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 2014**
- (c) Identify, as appropriate, individual risk profiles to be scrutinised in more detail at the next meeting of the Committee**

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 allow the process to become further embedded at each level of the authority. This will also aid the identification of key risks that potentially threaten the delivery of the Council's corporate priorities. The Risk Management Strategy provides a formal and proportionate framework to manage these identified risks and thus reduce the Council's exposure.

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 used to record and manage risks.
- 1.2** The Council currently reviews its high (red 9) risks at least monthly and its medium (amber) risks at least quarterly.

- 1.3 The last review of these risks was reported to the Council’s Audit & Risk Committee in September 2014.
- 1.4 Risk owners are challenged by the Council’s Risk Champions in respect of the controls, further actions, ratings and emerging risks related to their risks, and are also challenged on the reasons for inclusion or non-inclusion and amendment of these.
- 1.5 Projects are managed to a high level in relation to risk and are reviewed in accordance with the Risk Management Strategy (i.e. monthly).

2. **Issues**

- 2.1 None.

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

- 3.1 The Council regularly reviews and refreshes its risk registers in accordance with the Risk Management Strategy.
- 3.2 These reviews are co-ordinated by the Strategic Risk Champion who works closely with Directors, Operational Risk Champions and Risk Owners.
- 3.3 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				

- 3.4 During this quarter there have been no additional risks added of a final rating of medium (risk scores of 7 or 8) or high (risk score of 9).
- 3.5 There has however, been a reduction of one medium 8 risk in relation to fees and charges.
- 3.6 After discussion with the Executive Director – Resource and Support Services, the risk relating to fees and charges not increasing income to the council has been reduced due to an in-depth review of levels of fees and charges, 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.

- 3.7 Appendix A now highlights the risks that fall into the top line of the above risk map.

4. **Issues from last meeting**

None

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

- 5.1 Good risk management is a key part of the overall delivery of the Council's four corporate priorities of:

- Borough of Opportunity
- A Clean, Safe and Sustainable Borough
- A Healthy and Active Community
- Becoming a Co-operative Council, which delivers high quality, community-driven services

6. **Legal and Statutory Implications**

- 6.1 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”*

7. **Equality Impact Assessment**

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

8.1 **Financial and Resource Implications**

- 8.1 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.

9. **List of Appendices**

Appendix A

10. **Background Papers**

None

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High 9 risks
 Medium 7 & 8 risks
 Risks to be deleted from next 1/4 profile
 Risk reduced from last 1/4 profile
 New risks

Appendix A									
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 27/10/2014	as at Mar 14	as at June 14	as at Sept 14	
1	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	Risks reviewed and noted that this area is of growing significance with the number and value of claims increasing. Further actions reviewed. Consideration was given to potential control measures, but these are addressed by the existing further actions.	I = 3 L = 3 High 9	I = 3 L = 3 High 9	I = 3 L = 3 High 9

Appendix A								
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 27/10/2014	as at Mar 14	as at June 14	as at Sept 14
2	Members not adhering to Officers advice	Resources & Support Services	Meeting to take place between Executive Directors of Resource and Support Services, Regeneration and Development and Chief Executive to highlight the consequences to Members of going against trained officers advice	Dec-14	Strategic	Meetings taking place between relevant officers to devise an advice sheet highlighting the major risks associated with going against officers recommendations. More specifically in relation to the Town Planning function, a comprehensive Action Plan is being developed in response to a recent Peer Review of the service; it is anticipated that the consistency and quality of decision-making will improve as a consequence.	I = 3 L = 3 High 9	I = 3 L = 3 High 9
3	Inability to implement outcomes from the Stock Condition Survey due to lack of finance (Asset Management Strategy)	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-15	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

Appendix A								
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 27/10/2014	as at Mar 14	as at June 14	as at Sept 14
4	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	Estimated income levels noted in budgers reflect the likely income levels	I = 2 L = 3 Medium 8	I = 2 L = 3 Medium 8	I = 2 L = 2 Medium 5

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AUDIT AND RISK COMMITTEE – 17th November 2014

HEALTH AND SAFETY 6 MONTH REPORT

Submitted by: Claire Dodd – Corporate Health & Safety Officer

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 at Appendix A is the health and safety report submitted to the council. It covers the period 1st April 2014 to 30th September 2014.

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 i.e. First Aid. 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 has been a reduction (in comparison with this time last year) in numbers of days lost due to accidents at work. This has been down long term absences who have returned to work.

6.2 The report also summarises the issues that occurred at Birchenwood over the summer months where high levels of Legionella were detected during the routine sampling commissioned by Facilities Management and the work that is being undertaken to prevent a reoccurrence.

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Newcastle-under-Lyme Borough Council

HEALTH AND SAFETY 6 MONTH REPORT APRIL 2014 – September 2014

1. INTRODUCTION

1.1 This report outlines the current state of health and safety matters during the year from 1st April 2014 to 30th September 2014.

1.2 There is considerable progress to report, including the completion of some of the long standing project work that have been undertaken, delivery of training, the successful completion of Fire Evacuation Drills and the development of Target 100, the Councils health and safety management system.

2. POLICIES AND GUIDANCE

2.1 The General Health and Safety Policy is scheduled to be reviewed at the next Staffing Committee (1st December 2014).

2.2 The Employee Protection Policy is scheduled to be reviewed at the next Staffing Committee (1 December 2014)

2.3 The Driving at Work Policy has been reviewed and is starting the consultation process.

2.4 The above polices, once agreed will be communicated to staff and made available on the intranet.

3. TARGET 100

3.1 Work continues with the use of Target 100, in particular the focus has been on individual service areas Action Plans, where action plans do not reach 100% internal audit have actioned Heads of Service to review the Action Plans.

3.2 The next stage will be to ensure that all risk assessments on the system are up to date i.e. they have been reviewed on an annual basis and are monitored frequently to ensure that the control measures that are in place are still applicable.

4. HEALTH AND SAFETY TRAINING

4.1 The following Health and Safety Training has been completed –

- First Aid at Work Refresher – April 2014
- Fire Marshal Training Guildhall – August 2014
- Fire Marshall Training St Georges Chamber – September 2014
- Evac Chair (J2, Guildhall, Porters, Museum)
- Apprentice Inductions

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	43	4	355*	0.77
2014/15 (6 months)	24	4	41	0.09

* The increase in numbers of days lost and subsequently average days lost per employee is mainly due to four long term lost time accidents where incidents have led to absence periods of 21 days, 26 days, 82 days and one absence of 184 days

5.2 All accidents (staff & members of public)

Month	RIDDOR * Reportable	Non-Reportable	Near Miss	Dangerous Occurrence
April	0	18	1	0
May	1	22	1	0
June	1	12	1	0
July	1	20	0	0
August	0	17	2	0
September	1	19	1	0
TOTAL	4	108	7	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.)

5.3 RIDDOR Summary

Month	Injured Person	Location	Incident Type	Remedial Action
May	Member of the public	Jubilee 2	Slip, Trip or fall	Area was checked for defects, no defects were found.
June	Member of Staff	Waste Services	Injured while handling	A full investigation was undertaken to determine the cause of the incident. No defects were found.
July	Member of Staff	Streetscene	Injured while handling	No remedial action was required
September	Member of Staff	Environmental Health	Contact with Hazardous Substance	Member of staff was investigating a leak of hydraulic oil.

6. HEALTH AND SAFETY AUDITS & INSPECTIONS

6.1 The Corporate Health and Safety Committee members have undertaken 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 –

- Knutton Depot
- Kidsgrove Town Hall
- Birchenwood Pavilion
- Roe Lane Pavilion
- Alexandra Street Changing Room

6.2 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 were held meetings on

- 5th June
- 5th September

- 7.2 Matters discussed at the meetings included:-
- Accidents, Incidents and Near Misses
 - Target 100
 - Training
 - Site Rules
 - Buildings, Utilities and Infrastructure
 - External Yard, Waste Transfer Station, Salt Yard
 - Site re-organisation

8 CORPORATE HEALTH AND SAFETY COMMITTEE

- 8.1 The Corporate Health and Safety Committee were held on
- 25th June 2014
 - 1st October 2014

- 8.2 Matters discussed at the meetings included:-
- Noise and Vibration
 - Occupational Diseases
 - Employee Protection
 - Lone Working
 - Fire Evacuation
 - Credit Controller Procedure
 - Water Quality at Sports Pavilions
 - Accidents, Incidents and Near Misses
 - Target 100
 - Fire – Risk Assessments, Evacuation, Training

9. 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).

- 9.1 The leisure SHE Meetings were held on
- 2nd September 2014

- 9.2 Matters discussed were during the Meetings included:-
- Evac Chairs
 - COSHH
 - Accidents, incidents and near misses
 - Safe Systems of Work
 - Target 100

10. STAFFORDSHIRE NEWCASTLE ACCOMMODATION PARTNERSHIP (SNAP)

- 10.1 SNAP meetings are held every quarter chaired by Facilities Management, this is an opportunity for tenants in Newcastle-Under-Lyme Borough Council Customer facing buildings to meet to discuss building related issues.

10.2 Matters discussed at the meetings include

- Fire – Risk Assessments, Evacuation Procedures, Evac Chair Users
- Smoking Policy
- Credit Controller

11. FIRE

A number of evacuations have taken place in the last 6 months including

- 6 month programmed Fire Drills across the majority of sites.
- Evening evacuation for Elected Members and Officers took place on Wednesday 17th September 2014.

12. 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

- DJ Summer School
- The Homecoming
- Global Groove
- Lymelight
- Food, Folk and Real Ale

13. Near Miss Reporting

An awareness raising article was posted on the Core Brief to encourage employees to report near misses onto Target 100.

14. Water Quality at Sports Pavilions

During the summer after routine water quality sampling at Birchenwood Sports Pavilion, it was noted that legionella readings were raised. This led to the Sports Pavilion remaining closed to the public for a few weeks, whilst remedial action was taken to reduce the legionella levels.

Moving forward to prevent a reoccurrence Facilities Management and Operational Services are working together to undertake a review of water quality management in all sports pavilions across the borough.

15. Occupational Diseases

All employees who have been identified as being at risk of potentially coming into contact with substances that could expose them to biological hazards, have been provided with information on what controls should be in place to reduce the risk of exposure.

Employees have also been provided with information cards, on what to do in the event of discovering a needlestick or sharp.

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NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

**EXECUTIVE MANAGEMENT TEAM'S REPORT TO THE
AUDIT AND RISK COMMITTEE**

17 November 2014

1. TREASURY MANAGEMENT HALF YEARLY REPORT 2014/15

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 2014/15 and to review the Treasury Management activity for this period.

Recommendations

(a) That the Treasury Management Half Yearly Report for 2014/15 be received.

Reasons

The Chartered Institute of Public Finance and Accountancy (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 26 February 2014.

2. Issues

2.1 The Treasury Management Half Yearly Report for 2014/15 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, Sector.

2.2 **Heritable Bank**

The original investment with Heritable Bank was £2.5m. 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 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.

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, this has been reflected in the Council's 2013/14 Statement of Accounts.

2.3 **Staffordshire Pension Fund**

Following the triennial review of contributions to the Staffordshire Pension Fund undertaken by the actuary offers were made to all Staffordshire local authorities regarding pension payments and the payment of these in advance at a discounted rate on 6th March 2014.

The Council was initially required to pay lump sums of:

- £1.001m in 2014/15
- £1.166m in 2015/16
- £1.343m in 2016/17
- A total over the 3 year period of £3.51m

The discounted amounts offered, if prepaid, in relation to these three years are:

- £0.979m regarding 2014/15
- £1.09m regarding 2015/16
- £1.2m regarding 2016/17
- A total over the 3 year period of £3.269m

The saving, which is significant to the Council, over 2014/15, 2015/16 and 2016/17 amounts to £241k, when the interest that would have been earned under existing circumstances is taken into account this amount is reduced by approximately £45k.

Following discussions with the Council's auditors, Grant Thornton and with Cabinet Members the decision to prepay these lump sums and to treat these as prepayments in the Council's Statement of Accounts for 2014/15 and 2015/16 was made.

The saving, which is in excess of the interest that could have been earned over this period through investing the monies paid, enables the Council to secure continuous improvement in the way in which its functions are exercised, having a regard to a combination of economy, efficiency and effectiveness (i.e. if this saving had not been incurred other services within the Council would have been adversely affected).

2.4 Investments outstanding as at 30th September 2014 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 2014/15.

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 (25 March 2014),
- CIPFA LAAP Bulletin 82 "Guidance on the impairment of deposits with Icelandic Banks" Update 8 – September 2013,
- Hymans Robertson letter dated 19th May 2014 confirming prepayment amounts in line with Local Government Pension Scheme Administration Regulation 36(7).

8. **Management Sign-Off**

Each of the designated boxes need to be signed off and dated before going to Executive Director/Corporate Service Manager for sign off.

	Signed	Dated
Financial Implications Discussed and Agreed		
Risk Implications Discussed and Agreed		
Legal Implications Discussed and Agreed		
H.R. Implications Discussed and Agreed		
ICT Implications Discussed and Agreed		
Report Agreed by: Executive Director/ Head of Service		

Treasury Management Half Yearly Report - 2014/15

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.
4. 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.
5. 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).
6. 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).
7. 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 Finance, Resources and Partnership Committee.

This Mid-Year Review Report to members is intended to provide an 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 2014/15 financial year to 30 September 2014
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy
- A review of the Council's investment portfolio for 2014/15

3. Economic Update – as provided by the Council's Treasury Management Advisors, Sector

United Kingdom economic performance to date and outlook

After strong UK GDP quarterly growth of 0.7%, 0.8% and 0.7% in quarters 2, 3 and 4 respectively in 2013, (2013 annual rate 2.7%), and 0.7% in Q1 and 0.9% in Q2 2014 (annual rate 3.2% in Q2), it appears very likely that strong growth will continue through 2014 and into 2015 as forward surveys for the services and construction sectors, are very encouraging and business investment is also strongly recovering.

The manufacturing sector has also been encouraging though the latest figures indicate a weakening in the future trend rate of growth. However, for this recovery to become more balanced and sustainable in the longer term, the recovery needs to move away from dependence on consumer expenditure and the housing market to exporting, and particularly of manufactured goods, both of which need to substantially improve on their recent lacklustre performance.

This overall strong growth has resulted in unemployment falling much faster through the initial threshold of 7%, set by the Monetary Policy Committee (MPC) last August, before it said it would consider any increases in Bank Rate. The MPC has, therefore, subsequently broadened its forward guidance by adopting five qualitative principles and looking at a much wider range of about eighteen indicators in order to form a view on how much slack there is in the economy and how quickly slack is being used up.

The MPC is particularly concerned that the current squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back above the level of inflation in order to ensure that the recovery will be sustainable. There also needs to be a major improvement in labour productivity, which has languished at dismal levels since 2008, to support increases in pay rates.

Most economic forecasters are expecting growth to peak in 2014 and then to ease off a little, though still remaining strong, in 2015 and 2016. Unemployment is therefore expected to keep on its downward trend and this is likely to eventually feed through into a return to significant increases in pay rates at some point during the next three years. However, just how much those future increases in pay rates will counteract the depressive effect of increases in Bank Rate on consumer confidence, the rate of growth in consumer expenditure and the buoyancy of the housing market, are areas that will need to be kept under regular review.

Also encouraging has been the sharp fall in inflation (CPI), reaching 1.5% in May and July, the lowest rate since 2009. Forward indications are that inflation is likely to fall further in 2014 to possibly near to 1%. Overall, markets are expecting that the MPC will be cautious in raising Bank Rate as it will want to protect heavily indebted consumers from too early an increase in Bank Rate at a time when inflationary pressures are also weak. A first increase in Bank Rate is therefore expected in Q1 or Q2 2015 and they expect increases after that to be at a slow pace to lower levels than prevailed before 2008 as increases in Bank Rate will have a much bigger effect on heavily indebted consumers than they did before 2008.

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The return to strong growth has also helped lower forecasts for the increase in Government debt by £73bn over the next five years, as announced in the 2013 Autumn Statement, and by an additional £24bn, as announced in the March 2014 Budget - which also forecast a return to a significant budget surplus, (of £5bn), in 2018-19. However, monthly public sector deficit figures have disappointed so far in 2014/15.

Sector Interest Rate Forecast (as at 1st October 2014)

Sep 2014	Dec 2014	Mar 2015	Jun 2015	Sep 2015	Dec 2015	Mar 2016	Jun 2016	Sep 2016	Dec 2016	Mar 2017	June 2017
0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.75%	2.00%	2.00%

Sector undertook a review of its interest rate forecasts in mid-August, after the Bank of England's Inflation Report. By the beginning of September, a further rise in geopolitical concerns, principally over Ukraine but also over the Middle East, had caused a further flight into safe havens like gilts and depressed PWLB rates further. However, there is much volatility in rates as news ebbs and flows in negative or positive ways. This latest forecast includes a first increase in Bank Rate in quarter 1 of 2015.

4. Treasury Management Strategy Statement and Annual Investment Strategy Update

The Treasury Management Strategy Statement (TMSS) for 2014/15 was approved by Full Council on 26 February 2014. The Council's Annual Investment Strategy, which is incorporated in the TMSS, outlines the Council's investment priorities as follows:

- Security of Capital
- Liquidity

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

Investments during the first six months of the 2014/15 financial year have been in line with the strategy, and there have been no deviations from the strategy.

As outlined in Section 3 above, there is 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 26 February 2014 is still fit for purpose in the current economic climate.

5. Investment Portfolio 2014/15

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.

Classification: NULBC **PROTECT** Management Organisational

The Council held £3.39m of investments as at 30 September 2014 (£3.55m at 31 March 2014). Funds available for investment purposes can vary between £3m and £16m 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 0.41% against a target of 0.70%. The Council's budgeted investment return for 2014/15 is £54,000. As at the end of the first 2 quarters of 2014/15 £16,650 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 instant access and 30 day notice accounts. Additionally, a prepayment of pension lump sums payable in 2015/16 and 2016/17 amounting to £2.29m has been made – the total of which would otherwise have been available for investment.

A full list of investments held as at 30 September 2014 is shown in Annex A.

6. Borrowing Position 2014/15

It is not currently intended to borrow to finance capital investment in 2014/15. The only borrowing envisaged by the 2014/15 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 2014/15

Treasury management activity during the first half year has been carried out within the parameters set by the prudential indicators contained in the approved 2014/15 Treasury Management Strategy. Consequently, there is no intention to revise any of the indicators for the remainder of the year.

Annex A

<u>INVESTMENTS OUTSTANDING As at 30/09/14</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>
5221A	RPM	0.49%	9/7/2014	NATIONWIDE BUILDING SOCIETY	1,500,000	9/10/2014
5223	Direct	0.57%	30/7/2014	HALIFAX BANK OF SCOTLAND	750,000	30/10/2014
5224	LCB	0.44%	3/9/2014	COVENTRY BUILDING SOCIETY	600,000	3/12/2014
					£ 2,850,000	
				BANK OF SCOTLAND INSTANT ACCESS ACCOUNT (Rate of Interest 0.40%)	£ 540,000	
				TOTAL INVESTMENTS	£ 3,390,000	
				<u>HERITABLE BANK INVESTMENT</u>		
5092	TRAD	6.10%	15/09/2008	HERITABLE BANK (<i>Landsbanki</i>)	£ 142,309	14/09/2009
<p><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></p>						

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.

1. **ANNUAL AUDIT LETTER 2013/14**

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 2013/14 (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 2013/14 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 2013/14.

1.2 The letter summarises the findings from the 2013/14 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 2013/14 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 2014



The Annual Audit Letter for Newcastle under Lyme Borough Council

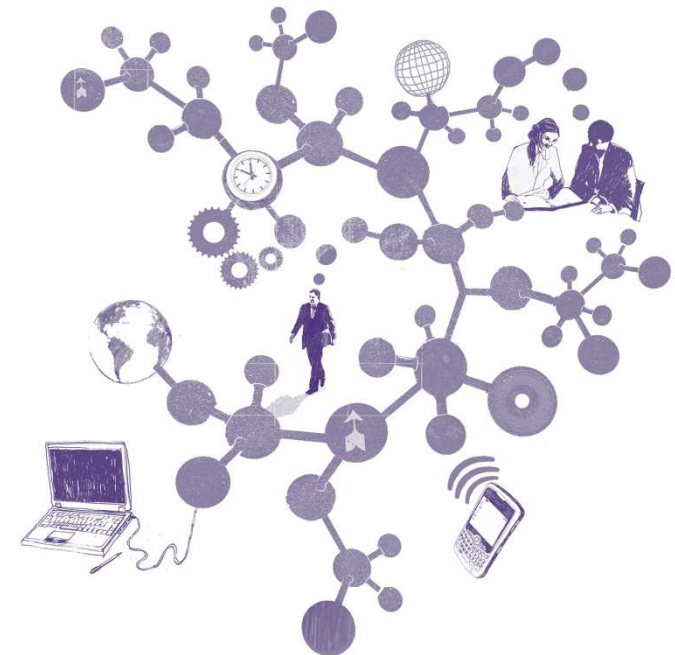
Year ended 31 March 2014

October 2014

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Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at Newcastle under Lyme Borough Council ('the Council') for the year ended 31 March 2014.

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we presented to the Audit Committee on 29 April 2014 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

Financial statements audit (including audit opinion)	<p>We reported our findings arising from the audit of the financial statements in our Audit Findings Report on 29 September 2014 to the Audit and Risk Committee. The key messages reported were:</p> <ul style="list-style-type: none">• The standard of the draft accounts and supporting working papers provided by the Council was good.• We are satisfied that the overall approach taken by the Council to assessing provisions in respect of National Domestic Rates (NDR) is reasonable. <p>We issued an unqualified opinion on the Council's 2013/14 financial statements on 29 September 2014, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the financial statements give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.</p>
Whole of Government Accounts	<p>We were not required to fully review the consolidation pack which the Council prepared to support the production of Whole of Government Accounts because the Council's turnover and assets/liabilities are below the £350m threshold. We did not find any anomalies in the limited testing that we were required to do.</p>
Certification of grant claims and returns	<p>We are currently certifying the Housing Benefit grant claim and will issue our report on this after we have completed the work, in accordance with the deadline for submission to the DWP at the end of November.</p>
Audit fee	<p>Our fee for 2013/14 was £73,336, excluding VAT but including an additional £900 in relation to extra work required on business rate appeals which was not included in the audit plan. Further detail is included within Appendix A.</p>

Key messages

Value for Money (VfM) conclusion

Overall our work highlighted that:

- Service expenditure in 2013/14 was £6k lower than the budget which is consistent with the forecast outturn. Members and senior officers have a clear understanding of the Council's financial environment and the Council has comprehensive financial and performance monitoring arrangements in place, with reporting through the Cabinet and full Council.
- Like many local authorities the Council continues to face challenges around its medium term financial resilience but has responded effectively through the development and agreement of its updated Medium Term Financial Strategy in October 2013. The plan extends to 2018/19. The Council has identified savings plans for 2014/15 and is finalising the plans for 2015/16. It has also established Project 2020 which has a range of work streams to provide a perspective on the future role and funding of the council in the medium to longer term.
- Members and senior officers have shown clear leadership and identification of priorities through the process of preparing and approving the updated Medium Term Financial Strategy in October 2013 and the development of the 2014/15 budget.
- The Council has consulted widely both internally and externally and has established a range of partnerships to support its strategic role.
- The Council has achieved its savings plans over the last few years. Our work on the Council's savings plans has found that it has a good record of achieving planned efficiencies and there is no indication that the effectiveness of key services is being significantly impacted by the level of savings so far. The outturn performance report to Cabinet shows that in the main services are performing well.

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are therefore 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 2014. On this basis we issued an unqualified VfM conclusion for 2013/14 on 29 September 2014.

Appendix A: Reports issued and fees

We confirm below the fee charged for the audit.

Fees

	Per Audit plan £	Actual fees £
Audit Fee	72,436	73,336
Grant certification ²	10,736	TBC
Total fees		TBC

Fees for other services

Service	Fees £
None	Nil

In respect of the fee:

1 - There is an additional fee of £900 in respect of work on material business rates balances. This additional work was necessary as auditors are no longer required to carry out work to certify NDR3 claims, from which we were able to gain certain assurances in prior years. The Audit Commission has therefore given approval in principle for a fee variation for the additional work required. The additional fee will be applied nationally and is 50% of the average fee previously charged for NDR3 certifications for district councils. We will bill this once formal agreement from the Audit Commission has been received.

2 - The grant certification fee is indicative and may vary dependent upon the final levels of audit required. We are still completing our grant certification work and will report upon the fee once it is completed.

Reports issued

Report	Date issued
Audit Plan	7 April 2014
Audit Findings Report	29 September 2014
Annual Audit Letter	27 October 2014



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HEADING

QUARTERLY REPORT : ADOPTION OF INTERNAL AUDIT HIGH RISK RECOMMENDATIONS AND SUMMARY OF ASSURANCE 1 July TO 30 September 2014

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

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 controls.

1.4 Assurance is provided on an annual basis as part of the Annual Report on the Internal Audit Service. It is 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.

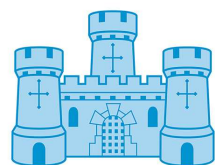
11. List of Appendices

Audit Recommendations Summary of Assurance for Quarter 2 2014/15

12. Background Papers

Internal Audit PI and Assurances file

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Summary of Outstanding Audit Recommendations and Levels of Assurance – Quarter 2 (2014-15)

	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	33	33	14	121	121	121	58	62	64	73	66	66
Number of Recommendations Outstanding as at the end of the month	8	8	0	18	19	22	5	8	8	12	2	2
% Implemented as at the end of the month	69	69	100	82	73	78	76	69	73	82	96	96
% Overdue for implementation as at the end of the month	31	31	0	18	27	22	24	31	27	10	4	4
No of recommendations with target date changed > 2	1	1	0	3	3	4	0	0	0	0	1	1
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	2	2	3	0	0	0	0	1	1

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	Chief Executives			Resources & Support Services			Regeneration & Development Services			Operational Services		
Low Risk recommendations with target date changed > 2	1	1	0	1	1	1	0	0	0	0	0	0
	July	Aug	Sept	July	Aug	Sept	July	Aug	Sept	July	Aug	Sept
Overall Assurance Level	Ltd	Ltd	Full	Sub	Sub	Sub	Sub	Ltd	Sub	Sub	Sub	Sub
Annual Audit Days for Directorate*	62			206			65			102		
Total number of audit reviews for the Directorate*	7			18			8			9		

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.

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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.

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NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

**REPORT OF THE EXECUTIVE MANAGEMENT TEAM TO
AUDIT & RISK COMMITTEE**

Date 17 November 2014

HEADING **INTERNAL AUDIT PROGRESS REPORT – Quarter 2 2014/15**

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 1st July to 30th September 2014. 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 to ensure that the Council has assurance that controls are in place and operating effectively across all Council Services and Departments.

1 Background

1.1 The Internal Audit Plan for 2014/15 allows for 520 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 completed on a quarterly basis. Past experience has shown this is more likely to be around 25% by the second quarter. Achievement of the 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. 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

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issues. Emphasis during such a revision, if required, will be on achieving the high risk audit reviews first, followed by medium and low. Variations to the plan will affect the assurance that Internal Audit can give as to the effectiveness of the internal controls and systems; it is the role of the Audit Manager with responsibility for the Section to highlight to members if this is approaching a level that would jeopardise that assurance statement.

2 Issues

2.1 Performance Indicators

The indicators reported below relate to the end of the second quarter (September 2014).

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 2014, 258 recommendations had been made of which 227 have been implemented, 92%, the target for the implementation of all recommendations is 96% by the end of the financial year. With 92% 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 2014/15 is 85%.

Out of 6 surveys issued during quarter two, 4 satisfaction surveys were returned; the average for these was 95%.

Progress made against the plan

This is measured using three indicators;

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

Productivity at the end of quarter 2 is 85%.

- **Percentage of audits completed compared to the total number of audits planned for completion (percentage):** the annual target for this is 90%. 34% 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%. 27% 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 2014

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 1st April 2014. Appendix A provides fuller details of these audit reviews under each service area.

AUDIT REVIEW	AUDIT OPINION	Risk Category
Chief Executives		
Land Charges	Well controlled	B
Resources and Support Services		
Housing Benefit Quarterly Testing	Well Controlled	A
Operational Services		
Operational Services Admin	Adequately Controlled	B
Park Attendants	Adequately Controlled	A
Regeneration and Development		
Regeneration & Development Admin	Adequately Controlled	B
Corporate Reviews		
Gifts, Hospitality & Register of Outside work	Well controlled	A
Performance Management	Well Controlled	A
Partnerships (follow up)	Well Controlled	A
Information Asset Register	Adequately Controlled	B
Information Governance Toolkit	Adequately Controlled	B

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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 there have been 6 audit days spent undertaking special projects at the request of other Directorates, these have involved both the Audit Manager and various members of the audit team.

3 Options Considered

- 3.1 Audit recommendations are discussed and agreed following the issue of the draft audit report. These draft discussions give management the opportunity to discuss and agree the recommendations that have been proposed.
- 3.2 The audit plan is a living document and as such circumstances may arise that affect it; these are considered in the light of risk and decisions taken to enable intelligent variations to be made to the plan.

4 Proposal

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

5 Reasons for Preferred Solution

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

6 Outcomes Linked to Corporate Priorities

- 6.1 The Internal Audit function contributes to the prevention, detection and investigation of potential fraud and corruption incidents as well as giving assurance on the effectiveness of services in terms of value for money.
- 6.2 By managers ensuring that they have strong controls in all their systems, processes and activities the potential for crime can be reduced whilst providing best value facilities.

7 Legal and Statutory Implications

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

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8 Equality Impact Assessment

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

9 Financial and Resource Implications

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

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

10 Major Risks

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

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

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

11 Key Decision Information

11.1 Not applicable

12 Earlier Cabinet/Committee Resolutions

12.1 Agreement of the Internal Audit Plan for 2014/15 (Audit and Risk Committee 17 February 2014).

13 Recommendations

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

14 List of Appendices

14.1 Internal Audit Plan 2014/15: Progress to the end of Quarter 2 – 2014/15.

15 Background Papers

15.1 Internal Audit Plan & PI's Folder

15.2 APACE files 2014/15

Internal Audit Plan 2014/15**Progress to the end of Quarter 2 – 2014/15****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	
Land Charges	B	Well Controlled	0	0	1	1

The main objectives of the **Land Charges Review** were to ensure that;

- there are clear procedures on what information can be disclosed as part of a search.
- the Land Charges Register is kept up-to-date and amendments are appropriately authorised.
- entries in the Land Charges Register are supported by documentary evidence.
- the correct fees have been charged.
- the function is adequately insured.
- risks have been identified for the service.

Overall the findings from this review concluded an overall audit opinion of **Well Controlled**. This audit opinion means that 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.

There was just one recommendation made which was categorised as low risk and this was in relation to ensuring that the Central Services Risk Register is reviewed to ensure that risk reviews are conducted in a timely manner.

Resources and Support Services Directorate**Areas completed in Quarter 2 of the 2014/15 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	
Housing Benefits Quarterly Testing	A	Well Controlled	0	0	0	0

Housing Benefits Quarterly Testing - The main objectives of this review are to ensure that;

- claim forms have been completed sufficiently;

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- claim forms have been signed by the relevant party / or respective guardian where necessary;
- claims have been subject to the correct verification procedure;
- the supporting evidence has been received and documented within Information@Work;
- supporting documents are returned promptly to the claimant;
- Claims that are not appropriate are rejected.

This audit review has an overall audit opinion of **Well Controlled**. No recommendations were made as a result of this review.

Operational Services Directorate

Areas completed in Quarter 1 of the 2014/15 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	
Operational Services Administration	B	Adequately Controlled	0	1	0	1
Park Attendants	B	Well controlled	0	0	0	0

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

Operational Services Administration- the main objectives from this review were to ensure that;

- Income due to the Authority is correctly recorded, received and banked promptly and in full;
- The value of the petty cash float held is as approved and documentary evidence exists to support all petty cash expenditure;
- Adequate insurance cover for the function is in existence;
- Up to date inventories are maintained in accordance with the Authority's Financial Regulations;
- Controlled stationery is requisitioned via the central controlled stationery register and is held securely following its acquisition;
- Fees charged are in accordance with the approved scale of fees and charges;
- General security within the section protects assets and records against loss, damage and unauthorised access;
- Adequate controls are in place to protect the ICT equipment used within the function from loss, damage and unauthorised access;
- key risks within the function have been identified and are being consistently monitored. To ensure that Health and Safety risks assessments have been completed as necessary;
- contract registers are maintained in line with the Authority's Standing Orders and Financial Regulations, that contracts are monitored appropriately and are updated to reflect payments against the contracts.

Overall the findings from this review concluded an overall audit opinion of **adequately controlled**. This means that 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).

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As a result of the audit review a number of recommendations were made in order to improve systems, processes and controls, these have been summarised below;

- The Administration Manager should be provided with access to the Target 100 system and then given refresher training on how to use the system, enabling risk assessments to be completed.

Park Attendants - the main objectives from this review were to ensure that income in relation the parks service was being collected and administered in accordance with the council's financial regulations.

- 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 at the park, which had been last updated in August 2014. A random sample of 5 items was selected from the inventory and could be agreed to the physical items held at the park.

Regeneration & Development Services

Areas completed in Quarter 2 of the 2014/15 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	
Regeneration and Development Administration	B	Adequately controlled	0	3	0	0

Regeneration and Development Services Administration - The main objectives of this review were to ensure that;

- Income due to the Authority is correctly recorded, received and banked promptly and in full;
- The value of the petty cash float held is as approved and documentary evidence exists to support all petty cash expenditure;
- Adequate insurance cover for the function is in existence;
- Up to date inventories are maintained in accordance with the Authority's Financial Regulations;
- Controlled stationery is requisitioned via the central controlled stationery register and is held securely following its acquisition;
- Fees charged are in accordance with the approved scale of fees and charges;
- General security within the section protects assets and records against loss, damage and unauthorised access;
- Adequate controls are in place to protect the ICT equipment used within the function from loss, damage and unauthorised access;
- key risks within the function have been identified and are being consistently monitored. To ensure that Health and Safety risks assessments have been completed as necessary;

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- contract registers are maintained in line with the Authority’s Standing Orders and Financial Regulations, that contracts are monitored appropriately and are updated to reflect payments against the contracts. •

This audit review has an overall audit opinion of **adequately controlled**. A number of recommendations were made in order to further enhance and improve the existing controls, these are summarised below;

- Inventories should be completed for the Regeneration and Development Directorate for the current financial year.
- When both of the Admin Officers are out of the office, the keys to the safe should be left with a designated, responsible officer in Planning Support.
- The Admin and Performance Officer should be trained on how to use the Target100 system and Health and Safety risk assessments should then be completed for the Admin function.

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 2014/15 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	
Gifts Hospitality and Outside Interests	A	Well Controlled	0	0	0	0
Performance Management	A	Well controlled	0	0	0	0
Partnerships (Follow Up)	A	Well controlled	0	0	0	0
Information Asset Registers	B	Adequately Controlled	0	2	0	2
Information Governance (IG) Toolkit	B	Adequately Controlled	0	2	0	2

Gifts & Hospitality and Register of Outside Works - This review is completed annually and looks to ensure that staff are reminded of their obligations in respect of the receipt of gifts and hospitality and registering of any outside interests as set out in the Employee Code of Conduct. No issues or concerns were identified with this review.

Performance Management - the main objectives of this review were 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,

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- the performance indicator is derived from a system and formal records of the Authority,
- 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,
- 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.

Partnerships (follow up) The objective of the audit was to ensure that progress has been made against the issues identified in the last years audit. The previous audit had identified that there were no controls in place and had given an assurance rating of 'poorly controlled' as a result of this a number of recommendations were made that are summarised below;

- All staff should be reminded of the need, as per Financial Regulations, that all partnerships should be recorded in the Council's Partnerships Register.
- The Partnerships Register should be held and monitored centrally by the Business Improvement and Partnerships team.
- The Partnerships Code of Practice should be replaced by a concise document detailing the key requirements of a partnership. This document should reflect current practices and provide a framework within which any partnerships that the Council enters into must work within.

During the course of the follow up audit, it was confirmed that :

- The Partnerships Register is now held by the Legal Services Practice Administrator.
- An email had been sent out to all service areas for information which can be included in the register. It was confirmed by the Legal Services Practice Administrator that responses had been received from all service areas. The Partnerships Register was obtained on 26th August 2014 and it could be confirmed that it had been significantly updated since 2013. As a bare minimum, the Partnerships Register included, the name of the partnership, partners involved, the purpose of each partnership and the officer responsible for the partnership
- A new Partnerships Code of Practice has been devised and was presented to EMT in July 2014. The Code details key information, e.g. the template for partnership agreements and the definitions of a partnership. Also included in the Code are checklists for the signing off of partnerships. The new code of practice was also submitted to Cabinet on the 15 October 2014.

Overall the review concluded an overall audit opinion of **well controlled**. No further recommendations were made

Information Asset Registers - Information Asset Registers provide a central record of all the information that is held within the council. The registers provide a record of all the

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information that is received into the Council as well as the records that are subsequently disseminated throughout the various departments. The registers also detail the sensitivity/classification of the information held and are also required to support the Councils submission for connection to the Public Services Network.

The main objectives of this review were therefore to ensure that the registers provide an assurance that the council is aware of the nature of all the information that is processed and handled and to ensure that this is done in compliance with Data Protection legislation etc.

This audit review has an overall audit opinion of **adequately controlled**. A number of recommendations were made in order to further enhance and improve the existing controls, these were mainly to ensure that the registers are continually reviewed and kept up to date

Information Governance Toolkit (IG Toolkit) - The Information Governance (IG) Toolkit draws together the legal rules and central guidance to provide a single standard set of information governance requirements. The organisations are required to carry out a self-assessments of their compliance against the IG requirements. The IG Toolkit is also used as a basis for the Information Commissioner's Data Protection Audits and is seen as a best practice checklist for compliance with information security/assurance requirements. The toolkit identifies different sets of information governance requirements for different organisational types.

Although the Council is not required to formally complete the IG Toolkit it has been identified as having similar requirements to that which the Information Commissioners Office utilise as part of their data protection audits. Therefore in order to assess where the organisation currently stands two elements of the toolkit have been examined these being the remaining two elements will be covered as part of next year's audit plan.

The two headings that have been considered are, Information Governance Management and Confidentiality and Data Protection Assurance.

Overall compliance was met with all the criteria with the exception of two elements these being;

- Contracts are monitored and assurance gained in respect of compliance with Information Governance requirements.
- All employment contracts contain comprehensive information governance compliance requirements.

This audit review has an overall audit opinion of **adequately controlled**. The recommendations made were in relation to the areas of non-compliance identified and are summarised below;

- All contracts where applicable should be monitored and comply with information governance requirements.
- Job descriptions Should be updated to include reference to information governance requirements

Note on recommendations

Recommendations fall into one of three categories;

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

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

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

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