

Public Document Pack

Date of meeting Monday, 6th July, 2015
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 **MINUTES OF PREVIOUS MEETINGS** (Pages 3 - 6)
To consider the minutes of the previous meeting(s).
- 3 **DECLARATIONS OF INTEREST**
To receive Declarations of Interest from Members on items included in the agenda
- 4 **Audit and Risk Committee Terms of Reference** (Pages 7 - 8)
- 5 **Audit and Risk Committee Plan of Work** (Pages 9 - 10)
- 6 **Health and Safety Annual Report** (Pages 11 - 20)
- 7 **Corporate Risk Management Report January to March 2015** (Pages 21 - 26)
- 8 **Treasury Management Report 2014/2015** (Pages 27 - 38)
- 9 **Statement of Accounts** (Pages 39 - 50)
- 10 **Adoption of Internal Audit High Risk Recommendations and Summary of Assurance** (Pages 51 - 58)
- 11 **Internal Audit Annual Report** (Pages 59 - 74)
- 12 **Review of the Effectiveness of the Audit Committee** (Pages 75 - 82)
- 13 **Self Assessment of Internal Audit** (Pages 83 - 114)
- 14 **Annual Governance Statement** (Pages 115 - 130)
- 15 **Local Government Association Peer Review** (Pages 131 - 150)
- 16 **URGENT BUSINESS**
To consider any business which is urgent within the meaning of Section 100B(4) of the Local Government Act 1972

Members: Councillors Burgess, Dymond (Vice-Chair), Loades, Owen, Pickup (Chair), Waring and 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

Thursday, 16th April, 2015

Present:- Councillor John Taylor – in the Chair
Councillors Loades, Mrs Burgess, Jones and Mrs Hambleton
Co-optee Mr Phil Butters- University of Keele

1. APOLOGIES

Apologies were received from Councillor Sweeney.

2. DECLARATIONS OF INTEREST

There were no declarations of interest stated.

3. MINUTES OF PREVIOUS MEETINGS

Resolved: That the minutes of the meeting held on 16 February, 2015 be agreed as a correct record.

4. MATTERS ARISING

Members raised a question on item 7 of the Minutes, the Internal Audit Progress Report. It was queried as to whether any further progress had been made regarding an action plan. The Audit Manager stated that this would be done as part of the quarterly progress report at the next meeting.

Resolved: That the information be received.

5. CORPORATE RISK MANAGEMENT

Consideration was given to a report which reviewed the Risk Management Policy Statement and Strategy Documents.

Members were advised that there had been no changes from the previous year and that, if agreed, the Strategy would be sent to the Leader of the Council and the Chief Executive for signing off before being put onto the Council's website.

Resolved:

- (i) That the current Risk Management Policy and Strategy for 2015/16 be approved.
- (ii) That the Risk Management Policy Statement be signed by the Leader of the Council and the Chief Executive.

6. GRANT THORNTON - AUDIT PLAN FOR NEWCASTLE UNDER LYME

Members considered Grant Thornton's Audit Plan for Newcastle Borough Council for the year ending 31 March, 2015.

There had been a slight change to the Plan with a prepayment of pension contributions being made up to 2017.

Risks which had been identified included employee remuneration and welfare contributions.

The report identified four areas for consideration:

- Awareness of fraud and suspected fraud.
- Views about the risks of fraud.
- Awareness of whistleblower tips or complaints.
- How the Audit and Risk Committee provide oversight of management's fraud risk assessment process.

Resolved: (i) That the report be received.
 (ii) That the four areas identified for consideration above, be agreed.

7. CODE OF CORPORATE GOVERNANCE

Consideration was given to a report to remind Members of the requirements of the Code of Corporate Governance. In adopting the Code, the Council can demonstrate that it is committed to ensuring that Good Governance is delivered.

The Council's Audit Manager stated that there had been no updates or changes to the Code.

The Chair and Vice Chair of this Committee would be asked to sign a letter in order that a copy of the Code could be sent to Members.

Resolved: (i) That the requirements of the Code of Corporate Governance be noted.
 (ii) That, a covering letter, signed by the Chair and Vice Chair of the Audit and Risk Committee should be sent to all Members reminding them that copy of the Code of Corporate Governance will be available in the Members' area on the Council's Intranet site.

8. ANTI MONEY LAUNDERING POLICY

Consideration was given to a report regarding the Council's Anti Money Laundering Policy which outlines the commitment of the Council in maintaining high ethical standards in its' administration of public funds.

The Policy formed part of the Council's Annual Review and Members were advised that there had been no changes, therefore the Policy remained the same.

Members were also advised that, in future the Policy would be reviewed every two years instead of annually.

The Audit Manager was asked how officers were made aware of the Policy. This was achieved through poster campaign and survey and there were also online training packages available.

Members asked if any training given to officers to could be offered to elected Members. This was confirmed.

Resolved: That the Anti-Money Laundering Policy be Approved.

9. REVIEW OF THE COUNCIL'S ANTI-FRAUD AND ANTI-CORRUPTION FRAMEWORK

Consideration was given to the review of the Council's Anti-Fraud and Anti-Corruption Framework.

The Whistleblowing Policy had been updated to incorporate safeguarding for harassment or victimisation, confidentiality and anonymous allegations.

Resolved: That the Anti-Fraud and Anti-Corruption Framework, the Whistleblowing Policy and the Fraud Response Plan be approved.

10. APPOINTMENT OF THE INDEPENDENT MEMBER

Members were advised that the co-option term was coming to an end for the current Independent Member, Mr Phil Butters.

Good practice guidance recommends that the Audit and Risk Committee would benefit from having independent members.

All Members agreed that the current Independent Member should be co-opted onto this Committee for a further three year period.

Resolved: That the current Independent Member be co-opted onto this Committee for a period of three years.

11. ANY OTHER BUSINESS

The Chair thanked all Members for their contributions and commitment over the last twelve months.

Councillor Loades thanked the Chair for his work and support and the efficiency with which he has handled his Chairmanship.

Resolved: That the comments be noted.

COUNCILLOR JOHN TAYLOR
Chair

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Newcastle-under-Lyme Borough Council – Audit & Risk Committee

Terms of Reference – July 2014

Audit Activity

- To receive, review and approve, but not direct the annual internal audit plan, annual strategy, terms of reference and audit protocol.
- To review quarterly Internal Audit progress reports and the main issues arising and to seek assurance that action has been taken where necessary.
- To consider reports from Internal Audit on agreed recommendations not implemented within a reasonable timescale and to monitor the Council's response to ensure that this is acceptable.
- To ensure that there are effective relationships between external and Internal Audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted.
- To consider the Audit Managers annual report and opinion, and the level of assurance internal audit can give over the Council's corporate governance arrangements.
- To consider any reports dealing with the management or arrangements for the provision of the internal audit service.
- To ensure the internal audit section is adequately resourced and has appropriate standing within the Council.
- To receive, review and approve but not direct the annual external audit plan.
- To consider the external auditors annual audit and inspection letter, relevant reports to those charged with governance, delegating the consideration of such reports and any investigations to other committees as necessary.
- To consider specific reports as agreed with the external auditor.
- To monitor the Councils response to the external auditor's findings and the implementation of external audit recommendations.

Regulatory Framework

- To consider the internal control environment and the level of assurance that may be given as to its effectiveness, to include the review of the Annual Governance Statement and the recommendation to the Council of its adoption.
- To satisfy itself that the Council's assurance statements including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it.
- To monitor the effectiveness of the Councils risk management arrangements, including the actions taken to manage risks and to receive regular reports on risk management. To review the effectiveness of corporate governance arrangements to ensure that the Council complies with best practice.
- To monitor the effectiveness of the Council's policies and arrangements for Anti-Fraud, Anti Corruption, Bribery and Anti Money Laundering.
- To review any issue referred to it by the Chief Executive, Section 151 Officer, Monitoring Officer, Executive Director or any Council body.
- To maintain an overview of the Councils Constitution in respect of Standing Orders in relation to Contracts and Financial Regulations and make recommendations to Council in consultation with the Monitoring Officer and Section 151 Officer for any amendments.
- To receive annual reports on exceptions and exemptions to the councils Financial Regulations and Standing Orders in Relation to Contracts

Accounts

- To approve the Council's Statement of Accounts.
- To consider the external auditors report to those charged with governance on issues arising from the audit of the accounts.

Other Areas

- To consider reports from external inspectors (for example Office of the Surveillance Commissioner, Health & Safety Executive).
- To receive reports from the Corporate Health & Safety Officer.
- To receive reports in respect of the Councils Treasury Management arrangements.

Audit & Risk Committee Plan of work
2015/16

Committee Date	Reports
6 July 2015	<ol style="list-style-type: none"> 1. Outstanding Recommendations & Assurance Qtr 4 2. Annual Report of Internal Audit Service 3. Review of Effectiveness of Audit Committee 4. Review of Effectiveness of Internal Audit/Updates & Action Plan 5. Annual Governance Statement with Supporting Evidence 6. Health and Safety Annual Report 2014-15 7. Risk Management Qtr 4 2014-15 8. Unaudited Statement of Accounts 9. Work plan for 2015-16 10. Audit and Risk Committee Terms of Reference 11. Treasury Management Annual Report
28 September 2015	<ol style="list-style-type: none"> 1. Qtr 1 Progress 2. Qtr 1 Outstanding Recommendations & Assurance 3. Risk Management Report – Qtr 1 April to June 2015 4. Audited Statement of Accounts 5. External Audit – Audit Findings Report
16 November 2015	<ol style="list-style-type: none"> 1. Qtr2 Progress 2. Qtr 2 Outstanding Recommendations & Assurance 3. Health and Safety Half-Year Report April-September 2015 4. Risk Management Report –Qtr 2 July to September 2015 5. Mid-Year Review of Treasury Management Activities 6. External Audit - Annual Audit Letter 7. External Audit – Audit Progress
15 February 2016	<ol style="list-style-type: none"> 1. Qtr 3 Progress 2. Qtr 3 Outstanding Recommendations & Assurance(include Oct, Nov & Dec assurances) 3. Internal Plan 2016/17 4. Audit Charter 5. Risk Management Report – Qtr 3 October to December 2015
15 April 2016	<ol style="list-style-type: none"> 1. Code of Corporate Governance 2. Risk Management Policy & Strategy 3. Certification of Claims and Returns (External Audit) 4. Overview of the Councils Constitution in respect of Standing Orders and Financial Regulations. 5. Corporate Fraud

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AUDIT AND RISK COMMITTEE – 6th July 2015

HEALTH AND SAFETY 12 MONTH REPORT

Submitted by: Claire Dodd – Corporate Health & Safety Officer

Portfolio: Finance, IT and Customer

Ward(s) affected: None

Purpose of the Report

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

Recommendation

That the report be noted.

1. **Background**

1.1 Attached as an Appendix is the health and safety report submitted to the council. It covers the period 1st April 2014 to 31st March 2015

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 significant reduction in the numbers of days lost due to accidents at work compared to previous years. This has been down to long term absentees who have returned to work.

6.2 There has been some work carried out to improve the use and management of the Target 100 Health and Safety Management System in particular the completion of Action Plans, the next push will be a review of all risk assessments across all service areas.

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Newcastle-under-Lyme Borough Council

HEALTH AND SAFETY ANNUAL REPORT APRIL 2014 – MARCH 2015.

1. INTRODUCTION

- 1.1 This report outlines the current state of health and safety matters during the year from 1st April 2014 to 31st March 2015.
- 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 has been agreed and communicated to staff.
- 2.2 The Employee Protection Policy has been agreed and communicated to staff
- 2.3 The Driving at Work Policy is currently under review.
- 2.4 The above policies, once agreed have been communicated to staff and made available on the intranet.

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 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.
- 3.3 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
 - Fire Marshal Training Guildhall – August 2014
 - Fire Marshall Training St Georges Chamber – September 2014
 - Evac Chair (J2, Guildhall, Porters, Museum)
 - Apprentice Inductions
 - Streetscene Health and Safety Refresher

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- Waste Services Health and Safety Refresher
- Park Wardens Health and Safety Refresher
- Controlling Officer – Civic Centre
- Garage Workshops Health and Safety Awareness
- First Aid at Work

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	50	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

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5.2 All accidents (staff & members of public)

Month	RIDDOR	Non-Reportable	Near Miss	Dangerous Occurrence
April 2014	0	18	1	0
May 2014	1	22	1	0
June 2014	1	12	1	0
July 2014	1	20	0	0
August 2014	0	17	2	0
September 2014	1	8	0	0
October 2014	0	43	0	0
November 2014	2	12	1	0
December 2014	0	8	0	0
January 2015	0	11	1	0
February 2015	1	23	1	0
March 2015	4	23	0	0
TOTAL	11	217	8	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	A full investigation and clean-up was undertaken.

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November	Member of the Public	Bereavement Services	Slip, Trip or Fall.	The area was checked for defects, none were found
November	Member of the Public	Jubilee 2	Slip, Trip or Fall.	The IP had had a full demonstration on how to use the equipment; but did not follow the instructions thoroughly.
February	Member of the Public	Jubilee 2	Slip, Trip or Fall.	The area was checked for defects, none were found
March	Member of the Public	Jubilee 2	Medical Condition	No remedial action required.
March	Member of the Public	School Street Car Park	Slip, Trip or Fall.	The area was checked for defects, none were found
March	Member of the Public	Kidsgrove Sports Centre	Medical Condition	No remedial action required.
March	Member of the Public	Jubilee 2	Medical Condition	No remedial 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 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 inspections –

- Knutton Depot
- Kidsgrove Town Hall
- Birchenwood Pavilion
- Roe Lane Pavilion
- Alexandra Street Changing Room
- Knutton Community Centre
- Silverdale Community Centre
- Museum and Art Gallery

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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.

6.3 Action Plans from these reports are reviewed as part of the Corporate Health and Safety Committee Agenda

7. KNUTTON DEPOT

7.1 The Knutton Lane Health and Safety Committee held meetings on

- 5th June
- 5th September
- 4th December
- 11th March

7.2 Matters arising from 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 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 the following meetings during the period

- 25th June 2014
- 1st October 2014
- 17th December 2014
- 25th March 2015

9.2 The committee discussed the following items, throughout the year:

- Noise and Vibration
- Occupational Diseases
- Employee Protection
- Lone Working

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- Fire Evacuation
- Credit Controller Procedure
- Water Quality at Sports Pavilions
- Accidents, Incidents and Near Misses
- Target 100
- Fire – Risk Assessments, Evacuation, Training
- Driving at Work
- Health and Safety Training
- Dealing with aggressive members of the Public Procedures
- Terms of Reference
- Communication of Health and Safety Procedures

10. FIRE

- 10.1 A number of evacuations have taken place in the last 12 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.

11. EVENT SAFETY

There have been a number of events over the past 12 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
- Here and Now Event
- Christmas Light Switch on
- Lantern Parade
- Lymelight
- Food, Folk and Real Ale
- Winter Wonderland

12. Near Miss Reporting

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

13. Water Quality at Sports Pavilions

During the summer after routine water quality sampling at Birchenwood Sports Pavilion, it was noted that legionella was present in the water system. While investigation work was undertaken, the Sports Pavilion remaining closed to the public for a few weeks. The facilities remained closed for the majority of the summer months whilst a specialist water treatment company was on site carrying out remedial works.

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. This has included the introduction of self-flushing showers and site specific water management plans.

14. 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

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provided with information on what controls should be in place to reduce the risk of exposure.

Employees have received information during Team Briefs and provided with information cards, on what to do in the event of discovering a needlestick or sharp.

15. Health Surveillance

Noise and Vibration Screening continues with the assistance our Occupational Health Provider (Hobson Health).

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

6 July 2015

**CORPORATE RISK MANAGEMENT REPORT FOR THE PERIOD January to
March 2015**

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

Portfolio: Policy, People 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 January to March 2015, 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 January to March 2015**
- (c) Identify, as appropriate, individual risk profiles to be scrutinised in more detail at the next meeting of the Committee**
- (d) Note the point 2.1.1 showing no overdue risk reviews.**
- (e) Note the report showing risk rating changes**

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 February 2015.
- 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 Further to an Audit Assurance recommendation, your officer has been asked to report on overdue risk reviews that are 6 months out of date.
 - 2.1.1 At the time of the running report, there were NO overdue risks.
- 2.2 Following a further meeting with the Chair, a request was made that a report was produced to show any risks where the risk level has increased.
 - 2.2.1 Your officer can report that there have been no risk level increases during the period January to March 2015.
 - 2.2.2 There were 52 new risks added to the system that fell into the Medium Amber ratings and can be categorised as follows: 7 x medium amber 6 rating; 10 x medium amber 5 rating and 35 x medium amber 3 rating.
 - 2.2.3 Should there be any increase during April to June 2015 these will be reported to the next Committee meeting.

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 has been one additional risk added of a final rating of medium amber 8 in relation to the council's communication strategy for 2015-2018, where the risk is highlighted as failure to engage or consult with key stakeholders.

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

4. Issues from last meeting

4.1 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 2015, 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 – Notable High and Medium risks

10. **Background Papers**

None



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

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 01/04/2015	as at Sept 14	as at Dec 14	as at March 15
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

Notable High and Medium Risks - Appendix A

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 01/04/2015	as at Sept 14	as at Dec 14	as at March 15	
2	Members not adhering to Officers advice	Resources & Support Services	Planning Peer Review Action Plan approved including a timetable for implementation, included training programme for elected members.	Throughout the year	Strategic	Action Plan due for complete implementation and review by Cabinet in July 2015 but monitored on a monthly basis.	I = 3 L = 3 High 9	I = 3 L = 3 High 9	I = 3 L = 3 High 9
3	Failure to engage or consult with key stakeholders	Communication Strategy			Project	Consultation framework and toolkit in place and available for staff on the Intranet to assist with correct approach.			I = 2 L = 3 Medium 8

NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

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

06 July 2015

1. TREASURY MANAGEMENT ANNUAL REPORT 2014/15

Submitted by: Head of Finance

Portfolio: Finance, ICT and Customer

Ward(s) affected: All Indirectly

Purpose of the Report

To receive the Treasury Management Annual Report for 2014/15 and to review the Treasury Management activity for this period.

Recommendations

- (a) That the Treasury Management Annual Report for 2014/15 be received and be reported to Full Council on 15 July 2015.**

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. Following submission to the Audit and Risk Committee the Treasury Management Annual Report will be reported to Full Council on 15 July 2015.

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 for 2014/15 approved by Council on 26 February 2014.

2. **Issues**

2.1 The Treasury Management Annual 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 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%.

The bank's administrators have confirmed in their latest progress report that if Heritable Bank are successful in proving their cross-claims against their parent Landsbanki in upcoming court proceedings, this would extinguish the Landsbanki claims in full and would enable the Heritable Bank to make a final dividend to creditors of approximately 6p in the pound. There could also be a surplus which would enable statutory interest to be paid in the region of 3-7p in the pound. The exact timing of this outcome is not currently known.

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 Annual 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 (07 April 2015),
- Sector Treasury Services Ltd Treasury Management Annual Report template (updated 23 April 2015)

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		

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TREASURY MANAGEMENT ANNUAL REPORT 2014/15

1. INTRODUCTION AND BACKGROUND

This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2014/15. This report meets the requirements of both the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

The CIPFA Code of Practice on Treasury Management 2009 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 report (including the annual investment strategy) for the year ahead and an annual review report of the previous year.
4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
5. Delegation by the Council of the role of scrutiny of the treasury management strategy to a specific named body which in this Council is the Finance, Resources and Partnerships Scrutiny Committee.
6. Delegation by the Council of the role of scrutiny of treasury management performance to a specific named body which in this Council is the Audit and Risk Committee, a midyear and year end review report is received by this Committee.

Treasury management in this context 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."

The purpose of this report is to meet one of the above requirements of the CIPFA Code, namely the annual review report of treasury management activities, for the financial year 2014/15.

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is therefore important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

This Council has complied with the requirement under the Code to give prior scrutiny to the annual review report by reporting this to the Audit and Risk Committee prior to it being reported to Full Council.

2. THIS ANNUAL TREASURY REPORT COVERS

- ❖ The Council's treasury position as at 31st March 2015;
- ❖ The strategy for 2014/15;
- ❖ The economy in 2014/15;
- ❖ Investment rates in 2014/15;

- ❖ Compliance with treasury limits and Prudential Indicators;
- ❖ Investment outturn for 2014/15;
- ❖ Involvement of Elected Members;
- ❖ Other issues.

3. TREASURY POSITION AS AT 31 MARCH 2015

The Council's investment position at the beginning and the end of the year was as follows:

	At 31/3/15	Return	Average Life (Days)	At 31/3/14	Return	Average Life (Days)
Total Debt	£0m	N/A	N/A	£0m	N/A	N/A
Total Investments	£8.8m	0.46%	7	£3.55m	0.69%	8

It should be noted that the above table is only a snapshot of the Total Investments as at 31 March. Large fluctuations in cash inflows and outflows that occur throughout the month can have an impact on the figure reported. The higher figure for investments for 31 March 2015 is due to two large receipts being received at the end of the year. In addition there was an underspend on the capital programme.

4. THE STRATEGY FOR 2014/15

The strategy agreed by Council on 26 February 2014 was that:

- The Council's Borrowing Need (Capital Financing Requirement) was estimated at £3,000,000 for 2014/15, rising to £10m in future years, to allow for the possibility that the Council may need to borrow to finance capital expenditure which cannot be funded from other revenue or capital resources;
- Short term borrowing would be required in the event to cover any temporary shortfalls in revenue income or to temporarily fund capital expenditure during the interim period before a permanent means of finance became available;
- All borrowing would be kept absolutely within the Authorised Limit of £15m and would not normally exceed the Operational Boundary of £8m (although it could for short periods of time be permitted to rise to a figure between £8m and £15m due to variations in cash flow);
- Temporary surpluses which might arise would be invested, either in short term deposits with the Council's various deposit accounts or in money market investments (cash deposits) if the size warranted this and for an appropriate period in order that these sums would be available for use when required;
- The proportions of loans and investments to be at fixed or variable rates were: fixed rate loans to be between 0% and 100% of the total and variable rate to be between 0% and 100% of the total, thus enabling maximum flexibility to take advantage of interest rate trends;
- Long term investments to be permitted as follows: maturing beyond 31/03/15 £5m, maturing beyond 31/03/16 £5m, maturing beyond 31/03/17, £5m;
- The overriding consideration in determining where to place the Council's surplus funds was to safeguard the Council's capital. Within this constraint the aim was to maximise the return on capital; and,

- Forward commitment of funds for investment is permitted in respect of in house investments.

Changes in strategy and credit Policy during the year

There have been no changes to the Treasury Management Strategy during the year. As approved by Council on 26 February 2014 the Council used the creditworthiness service provided by the Council's treasury management advisors, Sector Treasury Services which uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors, forming the core element, supplemented by additional data (credit watches and outlooks, Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings and Sovereign ratings to select counterparties from only the most creditworthy countries). This modelling approach results in a weighted scoring system providing a series of colour coded bands which indicate the relative creditworthiness of counterparties and a suggested maximum investment duration.

5. THE ECONOMY AND INTEREST RATES - narrative supplied by the Council's Treasury Management Advisors – Sector Treasury Services Limited

The original market expectation at the beginning of 2014/15 was for the first increase in Bank Rate to occur in quarter 1 2015 as the unemployment rate had fallen much faster than expected through the Bank of England's initial forward guidance target of 7%. In May, however, the Bank revised its forward guidance. A combination of very weak pay rises and inflation above the rate of pay rises meant that consumer disposable income was still being eroded and in August the Bank halved its forecast for pay inflation in 2014 from 2.5% to 1.25%. Expectations for the first increase in Bank Rate therefore started to recede as growth was still heavily dependent on buoyant consumer demand. During the second half of 2014 financial markets were caught out by a halving of the oil price and the collapse of the peg between the Swiss franc and the euro. Fears also increased considerably that the ECB was going to do too little too late to ward off the threat of deflation and recession in the Eurozone. In mid-October, financial markets had a major panic for about a week. By the end of 2014, it was clear that inflation in the UK was going to head towards zero in 2015 and possibly even turn negative. In turn, this made it clear that the MPC would have great difficulty in starting to raise Bank Rate in 2015 while inflation was around zero and so market expectations for the first increase receded back to around quarter 3 of 2016.

Gilt yields were on a falling trend for much of the last eight months of 2014/15 but were then pulled in different directions by increasing fears after the anti-austerity parties won power in Greece in January; developments since then have increased fears that Greece could be heading for an exit from the euro. While the direct effects of this would be manageable by the European Union and European Central Bank, it is very hard to quantify quite what the potential knock on effects would be on other countries in the Eurozone once the so called impossibility of a country leaving the Eurozone had been disproved. Another downward pressure on gilt yields was the announcement in January that the ECB would start a major programme of quantitative easing, purchasing Eurozone government and other debt in March. On the other hand, strong growth in the United States caused an increase in confidence that the United States was well on the way to making a full recovery from the financial crash and would be the first country to start increasing its central rate, probably by the end of 2015. The UK would be closely following it due to strong growth over both 2013 and 2014 and good prospects for a continuation into 2015 and beyond. However, there was also an increase in concerns around political risk from the general election due in May 2015.

6. INVESTMENT RATES IN 2014/15 – narrative supplied by the Council's Treasury Management Advisors – Sector Treasury Services Limited

Bank Rate remained at its historic low of 0.5% throughout the year; it has now remained unchanged for six years. Market expectations as to the timing of the start of monetary tightening

started the year at quarter 1 2015 but then moved back to around quarter 3 2016 by the end of the year. Deposit rates remained depressed during the whole of the year, primarily due to the effects of the Funding for Lending Scheme.

7. COMPLIANCE WITH TREASURY LIMITS

During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's annual Treasury Strategy Statement. The outturn for the Prudential Indicators is shown in Annex 1.

8. INVESTMENT OUTTURN FOR 2014/15

Internally Managed Investments

The Council manages its investments in-house and invests with institutions in compliance with Sector Treasury Services credit worthiness service. The Council invested for a range of periods from overnight to up to twelve months dependent on the Council's cash flows, its interest rate view and the interest rates on offer. Six of the seventeen fixed investments (excluding use of the Government's Debt Management Office Debt Management Account Deposit Facility) made in 2014/15 were for a period of three months, with ten fixed investments being for less than three months. The remaining fixed investment is for twelve months and is not yet due to mature until mid 2015/16.

The Council used the Government's Debt Management Office (DMO) Debt Management Account Deposit Facility (DMADF) on forty one occasions during the year with the longest deposit being made for twenty one days.

Aside from fixed investments and use of the DMO DMADF, the Council used its various deposit accounts on a frequent basis.

Investment Outturn for 2014/15

During 2014/15 an average rate of return of 0.46% was achieved on an average individual investment of £1.47m. This compared with the target of 0.50% included in the departmental service plan.

9. INVOLVEMENT OF ELECTED MEMBERS

Elected members have been involved in the treasury management process during 2014/15 including:

- Scrutiny of the treasury management strategy by the Finance, Resources and Partnerships Committee prior to being submitted for approval by the Full Council.
- Scrutiny of treasury management performance by the Audit and Risk Committee through the receipt of a half yearly treasury management report.
- A quarterly budget monitoring and performance report is reported to Cabinet, this contains details of Treasury Management activity undertaken during the quarter.

10. HERITABLE BANK DEFAULTS

This authority currently has the following investment frozen in the Heritable Bank:

- Investment 5092, £2.5m, maturity date 14 September 2009.

Payments up to 31 March 2015 totalled £2,357,691 (94% return of principal invested).

11. BANKING SERVICES CHANGE

As at 10 December 2014 the Council appointed Lloyds Bank for the provision of banking services. Given the potential value of the contract the tender for the Council's banking services was advertised via the Eastern Shires Purchasing Organisation (ESPO) framework.

The contract is due to run until 30 November 2017, with a further option to extend annually by two years with Cabinet approval

This change from the Co-Operative Bank to Lloyds Bank was necessary due to the Council receiving notification from the Co-Operative Bank in November 2013 that they had decided to withdraw its involvement in providing banking transmission services to local authorities as a result of their plan to simplify and rebuild the Bank focusing on serving the needs of individuals and small and medium sized business customers. The Co-Operative Bank stated that the decision was not taken lightly but that they feel it is necessary as they seek to put foundations in place to support the longer term stability of the Bank.

As the provision by the Co-Operative Bank ceased at 31 March 2015, the Council was able to run two concurrent accounts ensuring that the Council received all payments due, even if still sent to the old account. Notifications were made to both residents and organisations to ensure that transactions were undertaken with the Lloyds Bank account going forward.

ANNEX 1: PRUDENTIAL INDICATORS

	Position/Prudential Indicator	2013/14 Actual	2014/15 Original Indicator	2014/15 Actual
1	Capital Expenditure	£3.283m	N/A	£2.061m
2	Capital Financing Requirement at 31 st March	(£0.360m)	£3m	(£0.503m)
3	Treasury Position at 31 st March:			
	Borrowing	£0.0m	N/A	£0
	Other long term liabilities	£0.3m	N/A	£0.147m
	Total Debt	£0.3m	N/A	£0.147m
	Investments	(£3.558m)	N/A	(£8.808m)
	Net Borrowing	(£3.258m)	N/A	(£8.661m)
4	Authorised Limit (against maximum position)	£2.75m	£15.0m	£0
5	Operational Boundary (against maximum position)	£2.75m	£8.0m	£0
6	Ratio of Financing Costs to Net Revenue Stream	(0.48%)	0.02%	(0.27%)
7	Upper Limits on Variable Interest Rates (against maximum position)			
	Loans	0%	100%	0
	Investments	0%	100%	0
8	Actual External Debt	£0.0m	N/A	0
9	Principal Funds Invested for Periods Longer than 364 days (against maximum position)	£0.0m	£5.0m	0

GLOSSARY

CPI – Consumer Price Index

The Consumer Price Index (CPI) is the main UK measure of inflation for macroeconomic purposes and forms the basis for the Government's inflation target. It is also used for international comparisons.

DMO and DMADF - Debt Management Office and Debt Management Account Deposit Facility

The DMO is an Executive Agency of Her Majesty's Treasury. The DMO provides the DMADF to support local authorities' cash management by providing a flexible and secure facility to supplement their existing range of investment options whilst saving interest costs for Central Government.

ECB – European Central Bank

The European Central Bank (ECB) is the central bank for the euro and administers the monetary policy of the EU member states which constitute the Eurozone, one of the largest currency areas in the world.

MPC – Monetary Policy Committee

Interest rates are set by the Bank's Monetary Policy Committee (MPC). The MPC sets an interest rate it judges will enable the inflation target to be met. The Bank's MPC is made up of nine members – the Governor, the two Deputy Governors, the Bank's Chief Economist, the Executive Director for Markets and four external members appointed directly by the Chancellor. The appointment of external members is designed to ensure that the MPC benefits from thinking and expertise in addition to that gained inside the Bank of England.

PWLB – Public Works Loan Board

The Public Works Loan Board (PWLB) is a statutory body operating within the Debt Management Office and is responsible for lending money to local authorities and other prescribed bodies, as well as for collecting the repayments.

QE – Quantitative Easing

Quantitative Easing is an unconventional monetary policy used by central banks to stimulate the national economy when standard monetary policy has become ineffective. A central bank implements quantitative easing by buying financial assets from commercial banks and other private institutions, thus increasing the money supply by flooding financial institutions with capital, in an effort to promote increased lending and liquidity.

REPORT TO THE AUDIT AND RISK COMMITTEE ON 06 JULY 2015

DRAFT STATEMENT OF ACCOUNTS 2014/15.

Submitted by: Head of Finance

Portfolio: Finance ICT and Customer

Ward(s) affected: All

Purpose of the Report

To submit the draft Statement of Accounts 2014/15 for consideration by the Audit and Risk Committee and to gain approval for the financing of capital expenditure. The report highlights the key issues which are contained in these accounts including a commentary on the General Fund outturn, the Collection Fund and the Balance Sheet and to note the position regarding the Council's reserves.

At this stage the Statement of Accounts is in a draft stage and is subject to external audit. Once that audit is completed then the Statement will be submitted to this committee for formal scrutiny and approval.

A copy of the draft Statement of Accounts has already been provided to members of the Committee as part of the recent accounts scrutiny training session papers and they are requested to bring this with them to this meeting. For the benefit of other members a link to the draft Statement of Accounts is provided at the end of this report (paragraph 10.1).

Recommendations

(a) That the contents of the draft Statement of Accounts for 2014/15 be noted.

b) That the financing of capital expenditure incurred during 2014/15, as set out in Appendix 2 be approved.

Reasons

It is a statutory requirement, contained in the Accounts and Audit Regulations 2011 that the Council produces a Statement of Accounts detailing its financial transactions for the year and its position at the year end. It is also a requirement that the financing of capital expenditure incurred in 2014/15 is approved.

1. Background

1.1 The Accounts and Audit Regulations 2011 govern the way in which a local authority should present its financial affairs (n.b. these have in fact been superseded by the Accounts and Audit Regulations 2015 but the replacement regulations specify that the 2011 regulations will apply to financial years ending on 31 March 2015). The regulations require that a local authority must produce a Statement of Accounts for each financial year detailing its financial transactions for the year and its position at the year end and that this Statement be scrutinised and approved by an appropriate committee, in this case the Audit and Risk Committee, by 30 September. The

Statement is produced in a standardised form in line with CIPFA (the Chartered Institute of Public Finance and Accountancy) guidelines.

- 1.2 The Regulations require the draft Statement of Accounts to be certified by the responsible financial officer, who is the Executive Director (Resources and Support Services), as presenting a true and fair view of the Council's financial position by 30 June and this has been done. On presentation to the committee for approval the final audited version of the Statement will be recertified by him.
- 1.3 The annual statutory audit will commence on 13 July 2015 during which the external auditor is required to ascertain that the accounts present a true and fair view of the financial position of the Borough Council and to ensure that they have been produced in accordance with all relevant codes of practice. This should allow time for the audit to be concluded and any amendments required to be made and a final version of the Statement of Accounts produced for submission to the committee for scrutiny and approval at the meeting scheduled for 28 September 2015.
- 1.4 Whilst 30 September is the date by which formal approval must be given, it is felt that members will want to receive a report on the outturn position for 2014/15 before then. Accordingly, the draft Statement is being reported to you now, for information, together with a commentary on the main points of interest in the accounts. It should be noted that it is not intended that this meeting should be the forum for the formal scrutiny of the accounts, although if members wish to raise any queries these will, of course, be responded to. The intention is rather to report on the 2014/15 outturn and year end financial position and any ongoing financial implications arising therefrom.
- 1.5 The format of the Statement of Accounts has been updated to try and make it clearer and more easily digestible, particularly to the non-specialist reader. The revised format has been discussed with the external auditor, Grant Thornton, and they have confirmed its acceptability to them. The main changes which have been made are as follows:
 - The different elements of the statement, such as the Foreword, Core Financial Statements and the Notes to the Statements, have been colour-coded to help the reader to easily locate the part of the statement that they are looking at.
 - Information that is considered to be of greater interest to the non-specialist reader has been placed towards the front of the statement.
 - Technical data, such as Accounting Policies, Standards, Judgements and Assumptions, has been moved to a separate Appendices section at the end of the document. This data is required to comply with the CIPFA Accounting Code of Practice but is probably of greatest interest to technical readers, such as auditors. The Appendices also include the accounts of external bodies, i.e. the North Staffordshire Building Control Partnership and in relation to trusts managed by the Council, the Annual Governance Statement and the Glossary of Terms.
 - Notes which were previously included in relation to small immaterial balances or transactions have been deleted. This is in line with CIPFA's recommendations with regard to "de-cluttering" the statement to concentrate on the essential financial data.
- 1.6 Elsewhere on your agenda the Annual Governance Statement is being submitted for approval. Whilst the Accounts and Audit Regulations do not require this to be included in the Statement of Accounts, they require it to be published, so it is intended to include it in the published Statement of Accounts, as in previous years.

1.7 It is also required that the financing of capital expenditure incurred in the year be approved. Accordingly, Appendix 1 sets out the expenditure for 2014/15 and the ways in which it has been financed.

2. The General Fund Budget

2.1 The General Fund is the main account of the Council and relates to all of those services which are funded by the Council Tax, Retained Business Rates and Revenue Support Grant from the Government.

2.2 The budget for the General Fund for 2014/15 was originally set in February 2014 and amounted to a net total of £14,893,770. The eventual outturn for the year was a positive variance against this figure, of £7,327.

3. The General Fund Outturn

3.1 As mentioned above, the outturn in respect of the General Fund Revenue Account was £7,327 better than the original estimate. Whilst there were adverse variances against some budget heads, these have been offset by positive variances against others.

A number of areas of income, the majority being ones that are sensitive to the state of the local and national economy, were particularly adversely affected as shown in the following table:

Type of Income	Budget	Outturn	Variance
	£000s	£000s	£000s
Commercial Properties Rents	1,385	1,162	223
Bereavement Services Income	1,414	1,319	95
Car Parking Income	1,154	1,072	82
Markets Stalls Income	200	148	52
Kidsgrove Sports Centre Income	399	290	109
Jubilee 2 Income	1,426	1,303	123
Council Tax and Business Rates Summons Costs	670	617	53
Total	6,648	5,911	737

With reference to the Commercial Properties rents shortfall, this is particularly depressed by continuing vacancies in Lancaster Buildings where units remain unlet.

There was also additional expenditure on a number of headings, which is outlined in the following table:

Item	Additional expenditure
	£000s
Kidsgrove Sports Centre Expenditure	44
Terms and Conditions Review in respect of overtime - full amount of savings not realised until 2016/17	47
Contribution to Insurance Provision	57
Total	148

These adverse variances, shown in the two tables above, have however, been met by favourable variances on other budget heads, the more significant of which are highlighted in the table below.

Item	Saving or additional income
	£000s
Additional Income, e.g. Planning fees, VAT refund	164
Business rates reductions	204
Good Housekeeping Efficiencies, e.g. corporate printing and publicity, water courses maintenance, CCTV costs, horticultural materials and supplies	191
Staffing Efficiencies, e.g. re vacant posts and voluntary early retirements	277
Corporate, e.g. additional Non-Specific government grants	17
Other Variances	39
Total	892

The outturn reflects the monitoring statements provided to members throughout the year.

- 3.2 An amount of £7,327 has been transferred into the Budget Support Fund in respect of the positive variance. As can be seen in Note 2.3.7 to the Accounts, the balance on the Budget Support Fund now stands at £0.297m, a reduction of £0.036m from the 1 April 2014 balance.
- 3.3 Some income streams continue to be affected by the adverse economic climate in the current financial year. The ongoing situation will be monitored and any significant shortfalls will be reported in the quarterly monitoring reports to Cabinet. The likely levels of income will also be considered during the compilation of the Medium Term Financial Strategy which is part of the budget setting process for 2016/17.

3.4 Business Rates Retention

There was a positive benefit to the Council arising from the Business Rates Retention Scheme in 2014/15, which is the second year that these arrangements have applied. The Council collects business rates and is able to retain in the General Fund a share of the income after paying part to the government, Staffordshire County Council and the Staffordshire Fire Authority. The amount retained by the Borough Council exceeded the amount budgeted for by £0.454m. This was set aside via a transfer to the Business Rates Reserve (shown at Note 2.3.7 to the Statement of Accounts).

In the current year it is not expected that there will be a significant variance compared to the budgeted amount for retained business rates income, based on the initial NNDR1 return to the government, compiled in January 2015, which was the basis for the budget calculation. It should be noted, however, that business rates income is subject to considerable volatility, particularly owing to successful appeals in relation to rateable values which may occur and businesses closing down etc leading to rates no longer being payable.

The Reserve will be available to meet any such shortfalls in business rates income and to meet the Council's share of business rates Collection Fund deficits, of which the Council's share in relation to 2014/15 was £0.348m. The regulations concerning the Collection Fund require this deficit share to be made good by a transfer from the General Fund into the Collection Fund in subsequent years, which will be the first call upon the Reserve. Because of the previously mentioned volatility in income and the time required to assess the longer term workings of the new rates retention system, it is considered prudent that the remaining balance on the Reserve should remain unused for the time being.

It is worth noting that by participating in the Stoke on Trent and Staffordshire Business Rates Pool, along with Staffordshire County Council, Stoke on Trent City Council, Stafford Borough Council, Staffs Moorlands DC, South Staffs DC and the Fire Authority, and thereby avoiding the payment of a levy to the government, the Borough Council has achieved a worthwhile increase in the amount of rates retained. The amount of levy that would otherwise have been paid was £0.234m. Of this £0.094m (40%) has been retained by the Borough Council, forming part of the £0.454m amount referred to above, with the balance of £0.140m being paid over to the Pool, £0.046m (20%) to be held as a reserve to meet any future business rates income shortfalls experienced by Pool members, and £0.094m (40%) in a reserve to fund economic development projects in Staffordshire. Overall, based on provisional figures from participating authorities the amount of the economic development reserve held by the Pool will total £0.713m as at 31 March 2015, which will be available to fund projects throughout the areas of the participating authorities.

- 3.5 The Statement of Accounts includes (in Appendix 2) the accounts of the North Staffordshire Building Control Partnership, the vehicle through which this Council delivers the Building Control service. Overall the Partnership made a £0.013m surplus in respect of fee earning activities, which is in line with the requirement contained in the Building Control Regulations that a break-even position should be achieved over a number of years.

4. The General Fund as shown in the Statement of Accounts

- 4.1 The transactions of the General Fund are shown in the Statement of Accounts in the Comprehensive Income and Expenditure Statement (CI&ES) and the Movement in Reserves Statement. Further detail of the reserves movements is given in notes 2.1.1, 2.1.2 and 2.3.7. In effect, the CI&ES contains all of the expenditure and income of the General Fund whilst the Movement in Reserves Statement shows the transfers from reserves which have taken place to arrive at the final balance for the year. The Movement in Reserves Statement also shows, at its foot, the final year-end balances on the different classes of reserve.
- 4.2 The CI&ES shows a deficit of £6.627m for the year. At first sight this may seem alarming but it should be remembered that this is the balance before transfers to and from reserves are taken into account, via the Movement in Reserves Statement. All of this balance has been reversed out by net transfers from reserves as shown in the Movement in Reserves Statement. These transfers are either to meet the cost of expenditure contained in the Cost of Services or to reverse out various charges representing proper accounting practice which have been made, as required by the CIPFA Accounting Code of Practice, but which are to be removed from the final total as such charges are, by law, not to be met by Council Tax Payers. Examples of these are various capital charges (such as in relation to depreciation of assets or where an asset has been revalued downwards) and pensions fund transactions.

4.3 In addition the CI&ES includes the surplus or deficit on revaluation of fixed assets and actuarial gains or losses on pensions assets and liabilities. Both of these items can be subject to significant volatility, as can be seen from the revaluation surplus decreasing from £1.177m in 2012/13 to £0.201m in 2014/15. This occurs because each year different groups of assets, mostly land and property, are considered in detail and different market conditions, which affect the valuations, exist from one year to the next. All of the balance of £6.627m has been reversed out by net transfers from reserves as shown in the Movement in Reserves Statement.

4.4 Notes 2.2.1, 2.2.2 and 2.2.3 provide a breakdown of the Other Operating Expenditure, Financing and Investment Income and Expenditure and Taxation and Non-specific Grant Income, respectively, which appear in the bottom half of the CI&ES. The component of Financing and Investment Income and Expenditure shown at Note 2.2.2 relating to Investment Properties rental income shows a significant change from income of £1.644m in 2013/14 to income of £1.046m in 2014/15 owing largely to the inclusion in 2013/14 of backlog rents relating to The Square in Newcastle town centre. The component relating to investment properties revaluations also significantly differs from the 2013/14 amount owing to a stronger upward movement in valuations and the revaluation upwards of The Square, which was disposed of during 2014/15, to reflect its market value. Revaluations of investment properties have to be credited (if the movement is upwards) or debited (if it is downwards) to the CI&ES but are subsequently reversed out by a transfer from reserves as shown in the Movement in Reserves and so do not impact on the final General Fund outturn.

5. The Collection Fund

5.1 The Collection Fund is a separate account which contains the financial details which refer to the collection of Council Tax and Business Rates. The purpose of the account is to illustrate how much of the above income has been collected and to see how this compares to the amounts of the levies and other pre-determined payments that have been made for the Borough Council, the County Council, the Office of the Police and Crime Commissioner and the Fire Authority and to central government.

5.2 Overall the Fund experienced a surplus of £0.127m for the year, leaving a balance of an accumulated deficit of £0.985m at the year-end. Separating this out into its individual components, the respective positions were as follows:

	<u>Council Tax</u>		<u>Business Rates</u>		<u>Total</u>
	£m	£m	£m	£m	£m
Balance Brought Forward - Surplus/(Deficit)		0.969		(2.081)	(1.112)
Contribution towards previous year's surplus/deficit (A)	(0.800)		0.830		
Surplus/(Deficit) relating to 2014/15 (B)	0.968		(0.871)		
Overall Surplus/(Deficit) for Year (A + B)		0.168		(0.041)	0.127
Balance Carried Forward		1.137		(2.122)	(0.985)

5.4 As can be seen the Council Tax element of the Fund achieved a surplus of £0.968m for the year, which compares to an in-year surplus of £0.965m in 2013/14. This will be shared with the precepting authorities (Newcastle Borough Council, Staffordshire County Council, Office of the Police and Crime Commissioner, Fire Authority) and will be used in calculating how much Council Tax will be levied in 2015/16.

- 5.5 The Business Rates element of the Fund experienced an in-year deficit of £0.871m. The deficit must be made good in subsequent years by the four participants in the business rates retention scheme, the Borough Council (40%), Staffordshire County Council (9%), the Fire Authority (1%) and central government (50%). The amounts each body must contribute are shown in brackets and are prescribed by regulations. The Borough Council's 40% share of the deficit amounts to £0.348m and will be met from the Business Rates Reserve referred to in paragraph 3.5. The deficit arose because the Fund is required to pay a sum to each of the four bodies equating to their share of the estimated business rates which will be collected in the year. The estimate is made before the start of the year and if the actual rates collected are less than the estimated amount, there will be a deficit, which is what occurred in 2014/15. The reduced collectable amount occurred because of various factors, chiefly changes in reliefs, exemptions and appeals.
- 5.6 A provision has been created in relation to business rates property value appeals to the Valuation Agency which it is considered likely to represent the amount which may have to be refunded in respect of payments already made by ratepayers. This is intended to provide for appeals already lodged and appeals which may arise in the future relating to bills which have been paid. An amount of £0.520m was paid into the provision out of the Collection Fund in 2013/14 as the initial contribution to set it up. This amount was calculated on the basis of historical experience of appeals lodged and the success rate in terms of changes ultimately made by the Valuation Agency. In fact this proved to be insufficient since the actual value of appeals experienced in 2014/15 was greater than anticipated and the provision was, therefore, fully utilised. A further contribution to the provision was required and this was assessed, using data supplied by a specialist firm, at £0.865m. The arrangements for business rates retention mean that only 40% of the cost of contributions to the provision is borne by the Borough Council (because it affects the amount of rates retained), the rest falling to the other participants in the arrangements.

6. The Balance Sheet

6.1 The main features of the Balance Sheet are as follows

- There are Net Tangible Fixed Assets of £57.427m which consist of Plant, Property and Equipment, Investment Properties and Heritage Assets. Notes 2.3.1, 2.3.2 and 2.3.3 to the Statement of Accounts show an analysis of these assets, together with a summary of movements during 2014/15. The main reason for the decrease in the fixed assets balance compared to the 31 March 2014 value is an increase in the amount of depreciation deducted from the asset values (which only decreased by £0.144m) in order to show the net value in the balance sheet, as required by accounting practice. The depreciation amount has increased by £1.620m, largely accounted for by the addition of the 2014/15 depreciation charge.
- The balance shown as a Long Term Debtor of £0.676m (31/03/2014 £1.923m) relates to the balance owing to the Council in respect of properties let on finance lease terms (£0.283m) and outstanding mortgages (£0.393m). The balance in relation to property leases arises because some of the council's leases are classified as finance leases rather than operating leases. This requires the amount remaining to be paid over the lease term to be shown in this way. The finance lease element has reduced by £1.155m reflecting the sale of "The Square", which was let as a finance lease which has now terminated and payments made in 2014/15 in respect of other properties, whilst the mortgages balance has decreased by £0.005m, as a result of repayments

made by mortgagors in 2014/15. The balance at 31 March 2014 included £0.087m in respect of a loan outstanding to Kidsgrove Town Council, which was repaid in full in 2014/15.

- Investments (all short term at 31 March 2015 - i.e. with less than 1 year to run from that date) amounted to £8.808m and have increased by £5.25m compared to 31 March 2014. In particular, this reflects the receipt of sales proceeds in respect of "The Square" and Hassell Street properties, which have not yet been applied to finance capital investment and the underspend on the 2014/15 capital programme, which means that capital receipts have not been used as soon as expected, together with the particular cash flow situation as at the balance sheet date. Owing to the current situation in the financial markets, the emphasis is now on short term investments as a means of reducing the risk of exposure to default by organisations with whom money has been placed.
- Inventories (stock) have increased from £0.088m as at 31 March 2014 to £0.162m as at 31 March 2015 owing to the creation of an inventory account in respect of vehicle spares held in the transport workshop pending use.
- The amount owed to the Council by its short term debtors (after a deduction for the estimated amount which might be at risk of non-payment) is £10.688m. Short Term Debtors have decreased by £3.064m compared with 31 March 2014. This arises chiefly because the balance at 31 March 2014 included a debtor of £3.045m in respect of the amount owed to the Council by the Department for Work and Pensions (DWP) relating to housing benefits reimbursements for 2013/14. At 31 March 2015, the position has reversed in that the Council owes DWP £1.923m because the Department has overpaid the Council this amount in relation to 2014/15 benefits payments. Therefore, the Department is a creditor at 31 March 2015.
- The amount the Council owes to its creditors is £7.288m. Creditors have increased by £1.658m compared to 31 March 2014. This is mainly attributable to the addition of a creditor in respect of the DWP of £1.923m, referred to in the previous bullet point.
- Provisions, as shown in Note 2.3.6, show little movement in the balance sheet (£0.799m compared with £0.636m), apart from the NNDR Appeals Provision. This had to be increased to reflect the higher than anticipated level of appeals and subsequent refunds paid to business ratepayers experienced in 2014/15 and which is likely to continue into 2015/16.
- The Net Liability relating to Defined Benefit Pension Schemes (i.e. the difference between liabilities and assets of the pension scheme) increased from £70.171 to £74.019m. Normally this increase would be mirrored by an increase in the Pensions Reserve balance of the same amount, the two accounts appearing in the balance sheet as equal and opposite amounts. However, for the first time this is not the case because of the prepayment of pension contributions in respect of 2015/16 and 2016/17 totalling £2.290m. These were paid in 2014/15 in return for a discount paid by the pension fund which significantly reduced the cost to the Borough Council and consequently the amounts to be charged in the 2015/16 and 2016/17 revenue account as pension contributions. In order to account for this transaction, the prepayment must be charged directly to the Pensions Liability, without any corresponding equal and opposite transaction in the Pensions Reserve. In 2015/16 the

prepayment relating to that year will be transferred to the general fund revenue account via a transfer from the Pensions Reserve with a similar transaction in 2016/17. After these transactions have occurred, the two accounts will once more be mirror images of each other. Without the charge of £2.290m, the Pensions Liability would have shown an increase of £6.138m, reflecting other factors. The change mainly arises from the impact of the use of a reduced discount rate to be applied to the value of the Fund's liabilities, taking account of future financial assumptions made by the Fund actuary, which saw liabilities increase by £17.451m. This was offset to some extent by an increase in asset values of £11.313m. These amounts are required to be included in the Council's accounts as a result of the application of International Accounting Standard 19 (IAS19) and the CIPFA Code of Accounting Practice. Neither directly relate to Borough Council transactions - they relate to those of the Staffordshire County Council Pension Fund of which the Council is a member and represent the Council's share of net scheme liabilities (after deduction of the value of scheme assets). Whilst the net liability indicates the Council's long term commitment to pay retirement benefits, statutory arrangements for funding the deficit mean that its financial position remains healthy. Further details relating to the Pension Fund are contained in Note 3.4 to the Accounts.

7. Reserves

7.1 The Council has usable reserves totalling £11.515m. Note 2.3.7 to the Accounts shows a full analysis of all these reserves. The main items, with their balances at 31 March 2015, are:

- General Fund Balance (£1.200m)
- Capital Receipts Reserve (£6.364m)
- Capital Grants Unapplied (£0.868m)
- Budget Support Fund (£0.297m)
- Contingency Reserve Fund (£0.276m)
- New Initiatives Fund (£0.057m)
- ICT Development Fund (£0.253m)
- Renewal and Repairs Fund (£0.003m)
- Equipment Replacement Fund (£0.375m)
- Revenue Investment Fund (£0.112m)
- Business Rates Reserve (£1.475m)

7.2 The General Fund Balance remains the same (£1.200m) as at 31 March 2014. The amount required to be held in this reserve is assessed each year when the revenue budget is compiled, by identifying and quantifying the risks applicable to the revenue budget and using this information as the basis to calculate a prudent sum to keep in reserve to meet those risks should they arise.

7.3 The Capital Receipts Reserve is predominantly committed to financing the current capital programme, the year-end balance reflecting underspending in relation to the 2014/15 capital programme, which will largely be spent in 2015/16 and receipts from the sale of "The Square" and Hassell Street property, which are required to support 2015/16 capital investment. The majority of the balance on the Capital Grants Unapplied Reserve is either already committed to finance current schemes or is earmarked for future schemes. The ICT Development Fund is also committed to finance new or replacement ICT software and hardware.

- 7.4 The balance of the Contingency Reserve remains above its agreed minimum level of £0.100m.
- 7.5 The Budget Support Fund and Business Rates Reserve are discussed at paragraphs 3.2 to 3.3 above and 3.5, respectively.
- 7.6 The Revenue Investment Fund balance is fully committed to funding approved investment projects, including £0.075m of costs relating to the Ryecroft development.
- 7.7 The levels of reserves will be considered as part of the budget preparation process for 2016/17. Some may require “topping up”, either from the revenue budget or a transfer from another reserve. In particular, the Renewals and Repairs Fund needs to be reviewed to ensure that it is adequate.
- 7.8 Unusable Reserves total (£18.099m) and are shown at note 2.3.8 to the accounts. The Unusable Reserves were established as a result of the need to enable various accounting transactions and are not available for use to meet expenditure, either revenue or capital. The main reason for the change from the (£9.068m) balance at 31 March 2014 is the movement in the Pensions Reserve, which mirrors the Net Pensions Liability, apart from the amount of the pre-paid contributions, discussed earlier in the final bullet point of paragraph 6.1.

8. Accounting Policies

- 8.1 Only two amendments have been made to the Policies. Firstly, Policy vii, which refers to Employee Benefits, has been amended in relation to post employment benefits to reflect changes in the method of valuation used by the actuary in respect of scheme liabilities. Secondly Policy xviii, referring to Property, Plant and Equipment, has been amended to add that in the case of infrastructure, community assets and assets under construction, which are normally carried in the balance sheet at historical cost, where the historical cost is unknown they shall be carried at a £1 nominal value.

9. List of Appendices

Appendix 1: Financing of Capital Expenditure

10. Link to Draft Statement of Accounts

- 10.1 A full copy of the Statement of Accounts can be found on the Councils website:

<http://moderngov.newcastle-staffs.gov.uk/ieListDocuments.aspx?CId=122&MId=2635&Ver=4>

APPENDIX 1**Capital Expenditure Financing 2014/15**

	Capital Expenditure	"Ex Deferred Charges"	Total
	£	£	£
<u>Capital Expenditure</u>			
Expenditure during 2014/15	1,082,237	979,217	2,061,454
Total to be Financed	1,082,237	979,217	2,061,454
<u>Financing of Expenditure</u>			
Capital Receipts	433,504	-	433,504
Government Grant -			
Housing Subsidies	-	535,513	535,513
Regional Housing Board Grant	-	250,094	250,094
New Homes Bonus	-	189,704	189,704
Contributions from Other Bodies	193,002	3,906	196,908
Council's Reserves -			
ICT Development Fund	110,435	-	110,435
New Homes Bonus Reserve	345,296	-	345,296
Total Financing	1,082,237	979,217	2,061,454

Notes:

- Expenditure in respect of projects which would formerly have been classified as deferred charges is included in the above table, although it is no longer capital expenditure according to the current CIPFA Accounting Code of Practice, which now classifies such items as "revenue expenditure funded from capital under statute". This is mostly housing renewal type expenditure, for example on renovation grants, disabled facilities grants, etc., where there is no creation of an asset, and is currently included in the Council's capital programme.

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Classification: NULBC UNCLASSIFIED

HEADING

QUARTERLY REPORT : ADOPTION OF INTERNAL AUDIT HIGH RISK RECOMMENDATIONS AND SUMMARY OF ASSURANCE 1 January TO 31 March 2015

Submitted by: Audit Manager

Portfolio Finance, IT and Customer

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.

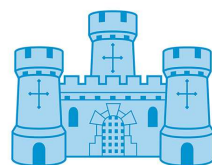
11. List of Appendices

Audit Recommendations Summary of Assurance for Quarter 4 2014/15

12. Background Papers

Internal Audit PI and Assurances file

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NEWCASTLE·UNDER·LYME
BOROUGH COUNCIL

Summary of Outstanding Audit Recommendations and Levels of Assurance – Quarter 4 (2014-15)

	Chief Executives			Resources & Support Services			Regeneration & Development Services			Operational Services		
	Jan	Feb	Mar	Jan	Feb	Mar	Jan	Feb	Mar	Jan	Feb	Mar
Total number of Recommendations	13	13	13	102	109	110	43	29	60	102	68	80
Number of Recommendations Outstanding as at the end of the month	1	3	4	32	39	47	6	3	17	11	5	3
% Implemented as at the end of the month	90	75	70	60	57	53	82	87	68	87	90	90
% Overdue for implementation as at the end of the month	10	25	30	40	43	47	18	13	32	13	10	10
No of recommendations with target date changed > 2	0	0	0	5	5	4	0	0	0	2	0	2
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	3	3	3	0	0	0	1	0	2

	Chief Executives			Resources & Support Services			Regeneration & Development Services			Operational Services		
	Jan	Feb	Mar	Jan	Feb	Mar	Jan	Feb	Mar	Jan	Feb	Mar
Low Risk recommendations with target date changed > 2	0	0	0	2	2	1	0	0	0	1	0	0
Overall Assurance Level	Sub	Sub	Sub	Ltd	Ltd	Ltd	Sub	Sub	Ltd	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 2014-15.

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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Classification: NULBC UNCLASSIFIED

UNCLASSIFIED

NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

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

Date 6 July 2015

INTERNAL AUDIT SECTION ANNUAL REPORT 2014-15

Submitted by: Audit Manager

Portfolio: Finance, IT and Customer

Ward(s) affected: All

Purpose of the Report

To consider the annual report of the Internal Audit Section for the financial year 2014-15 enclosed as Appendix A.

Recommendation

That the Internal Audit Section Annual Report for 2014-15 be received.

Reasons

In accordance with the Internal Audit Charter our objective is *“To deliver a risk-based audit plan in a professional manner, to provide the organisation with an opinion on the level of assurance it can place upon the internal control environment, and to make the recommendations to improve it”*. This report outlines how Internal Audit has achieved this during the 2014-15 financial year.

1. Background

- 1.1 Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- 1.2 Internal Audit reports directly to the Section 151 Officer who is the Executive Director (Resources and Support Services).
- 1.3 The Section also provides a service to management by giving assurance that there are adequate internal controls in operation, ensuring the proper, economic, efficient and effective use of resources, to include the security of assets and data and to assist management in preventing and detecting fraud. This is achieved by the completion of routine system and regularity audits and, under a wider remit, by value for money and special audits

- 1.4 The Council's Internal Audit Section consists of 3.5 FTE staff and is managed by the Audit Manager.
- 1.5 This report aims to provide information about the programme of work undertaken by Internal Audit during the financial year 2014-15, which has been extracted from the Internal Audit time monitoring system. Monitoring of the Section's performance against plan is completed and an analysis undertaken of actual work areas across major audit areas.
- 1.6 The section has continued to contract in specialist external computer support. The contract for 2014-15 was awarded to Information Security Advice Limited.
- 1.7 As required by the Public Sector Internal Audit Standards the Audit Manager has developed an Audit Charter in respect of delivering the Internal Audit Service. The internal audit charter is a formal document that defines internal audit's purpose, authority and responsibility. The charter establishes Internal Audit's position within the organisation, including the nature of the Audit Manager's functional reporting relationship with the Audit Committee; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of Internal Audit's activities. It provides a framework for the conduct of the service and has been approved by the Council's Executive Management Team and the Audit Committee.
- 1.8 The Internal Audit year-end report also builds upon the assurance given by the section in support of the Annual Governance Statement on internal control.

2. Issues

- 2.1 The Audit and Risk Committee approved the Audit Plan for 2014-15 on the 26 February 2014. The plan accounted for 520 audit days.
- 2.2 Internal Audit have maintained a good level of productivity, 85% against a target of 74%, and completed 90% of the audit plan. Productivity for Internal Audit is measured in terms of the available resource which is calculated in terms of audit days, with each day representing 7.4 working hours. The total available days is then adjusted to take into account annual leave, sickness, training, supervision, corporate work and a contingency allowance. The resulting sum is classed as productive days available for the year, for this reason it is not possible to achieve 100% staff productivity.
- 2.3 The percentage of Internal Audit recommendations implemented by your officers has decreased to 71% against a target of 92%. This is due to an increase in the number of recommendations made and also an increase in requests to change the target dates which resulted in a larger number of recommendations that remained outstanding at the end of the year. There are no high or medium risk recommendations that are considered as not receiving adequate management attention. Since the start of the new financial year a number of recommendations have now been updated and actioned which has meant that assurances for the start of the year have improved.
- 2.4 The work of Internal Audit shows the Council to have an adequate, effective and reliable framework of internal control, which provides reasonable assurance regarding the effective and efficient achievement of the Council's objectives.

3. Options Considered

- 3.1 The provision of specialist computer skilled auditors is bought in as a more economically and effective option to training and trying to retain the same quality of staff internally.

4. **Proposal**

Not applicable

5. **Reasons for Preferred Solution**

Not applicable

6. **Outcomes Linked to Corporate Priorities**

6.1 Internal Audit contributes to the prevention, identification and investigation of fraud and corruption and contributes to promoting an anti-fraud culture.

6.2 Internal Audit helps to ensure that best use is made of the Council's resources and contributes to improving efficiency whilst underpinning the remaining priorities of the Council.

7. **Legal and Statutory Implications**

The Local Government Accounts and Audit Regulations 2015 require every Local Authority to maintain an adequate and effective system of internal audit of its accounting records and of its systems of internal control in accordance with proper internal audit practices.

8. **Equality Impact Assessment**

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

9. **Financial and Resource Implications**

9.1 The total budget, for the Section for 2014/15 was £235,730

10. **Major Risks**

10.1 Risk issues are covered in the main report, attached Appendix A.

11. **Key Decision Information**

Not applicable

12. **Earlier Cabinet/Committee Resolutions**

Report to Audit & Risk Committee 26 February 2014 – Internal Audit Plan 2014-15

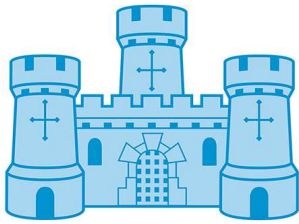
13. **List of Appendices**

13.1 Annual Report of the Internal Audit Section 2014-15

14. **Background Papers**

APACE time recording system
Public Sector Internal Audit Standards (PSIAS)

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ANNUAL REPORT OF THE INTERNAL AUDIT SERVICE 2014/15

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1. INTRODUCTION

The Annual Reporting Process

- 1.1 Management is responsible for the system of internal control and should set in place policies and procedures to help ensure that the system is functioning correctly. Internal Audit review, appraise and report on the effectiveness of the system of internal control. This report is the culmination of the work during the course of the year and seeks to:
- provide an opinion on the adequacy of the control environment;
 - comment on the nature and extent of significant risks; and
 - report the incidence of significant control failings or weaknesses.
- 1.2 This report is a summary of the work of the Section throughout 2014-15. As such it presents a snapshot picture of the areas at the time that they were reviewed and does not necessarily reflect the actions that have been or are being taken by Managers to address the weaknesses identified. The recommendations made will be progressing through the normal management processes.

Requirement for Internal Audit

- 1.3 The **role of internal audit** is to provide management with an objective assessment of whether systems and controls are working properly. It is a key part of a Council's internal control system because it measures and evaluates the adequacy and effectiveness of controls so that:
- Members and senior management can know the extent to which they can rely on the whole system; and
 - Individual managers can know how reliable the systems are and the controls for which they are responsible.
- 1.4 The internal control system is comprised of the whole network of systems and controls established to manage the Council to ensure that its objectives are met. It includes financial and non-financial controls, and also arrangements for ensuring that the Council is to achieve value for money from its activities.
- 1.5 The requirement for an Internal Audit function derives from local government legislation including Section 151 of the Local Government Act 1972 which requires authorities to "make arrangements for the proper administration of their financial affairs". Proper administration includes Internal Audit. More specific requirements are detailed in the Accounts and Audit Regulations 2015, in that a relevant body must "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 practices in relation to internal control"

2. Adequacy and Effectiveness of the internal control environment

How Internal Control is reviewed

- 2.1 The Audit Manager prepares an annual risk based audit plan which takes into account the adequacy of the organisations risk management, and other assurance processes.

The plan outlines the areas that will be reviewed in terms of their priority and resources required to undertake the review.

2.2 The assessment comprises the two key elements of risk:-

(i) Impact i.e. the materiality/importance of the system in achieving the Council's objectives; and

(ii) Probability, which includes:-

- the results of previous work in the service area/system, both internal and external reviews and also takes into account the last time it was audited;
- the inherent risk, i.e. the underlying potential for fraud; and
- the nature and volume of the transactions, which includes financial materiality.

2.3 This risk based approach to audit planning results in a comprehensive range of audits that are undertaken during the course of the year to support the overall opinion on the control environment. Examples include:-

- system based reviews of all key financial systems that could have a material impact on the accounts e.g. payroll, creditors, council tax and housing benefits;
- regulatory audits of Council establishments e.g. leisure centres;
- systems based reviews of departmental systems/service areas e.g., planning, human resources, and health and safety;
- corporate reviews e.g. corporate governance arrangements and risk management, and
- a small contingency for special investigations and the provision of ad hoc advice.

Internal Audit Opinion for 2014-15 and the Annual Governance Statement (AGS)

2.4 Regulation 4 of the Accounts and Audit Regulations 2015 requires that:-

“The relevant body shall be 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 risk management arrangements.”

“The relevant body shall conduct a review at least once in a year of the effectiveness of its system of internal control and shall publish a statement on internal control, prepared in accordance with proper practices, with any statement of accounts it is obliged to publish.”

2.5 Internal Audit, along with other assurance processes of the Council, have a responsibility to provide assurance from the work they undertake during the year in respect of the internal control systems operating within the Council.

*Based on the work undertaken during the year and the implementation by management of the audit recommendations, Internal Audit can provide **reasonable assurance** that the Council's systems of internal control were operating adequately and there were no breakdown of controls resulting in material discrepancy.*

2.6 However, no system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance. This statement is intended to provide reasonable assurance that there is an ongoing process for identifying, evaluating and managing the key risks. These risks are reflected in the audit plan and are the subject of separate reports during the course of the year.

3. SIGNIFICANT ISSUES ARISING 2014-15

3.1 Internal Audit examined 36 systems in 2014-15. During the conduct of our audit work we have had regard to the following objectives of internal audit:

- to review and appraise the soundness, adequacy and application of the whole system of internal control;
- to ascertain the extent to which the whole system of internal control ensures compliance with established policies and procedures;
- to ascertain the extent to which the assets and interests entrusted to or funded by the Authority are properly controlled and safeguarded from losses of all kinds;
- to ascertain that management information is reliable as a basis for the production of financial, statistical and other returns;
- to ascertain the integrity and reliability of information provided to management including that used in decision making, and
- to ascertain that systems of controls are laid down and operate to achieve the most economic, efficient and effective use of resources.

3.2 Within the Audit Plan there are 10 review areas that are categorised as High Risk Business Critical Systems. These reviews are undertaken annually, full reviews of all systems are conducted every other year with key controls being examined in between. A summary of the level of assurance for each review area together with the number of recommendations made is shown in the table below;

Audit Area	Level of Assurance Given	Number of Recommendations made		
		High	Medium	Low
Payroll	Well Controlled	0	2	1
Asset Management (Capital)*	Well Controlled	0	0	0
Cash Receipting*	Adequately controlled	0	3	0
Council Tax	Well Controlled	0	1	0
Creditors	Well controlled	0	0	3
Treasury	Well	0	0	0

Audit Area	Level of Assurance Given	Number of Recommendations made		
Management	Controlled			
NNDR	Well Controlled	0	2	0
Civica Financial System	Well Controlled	0	0	0
Housing Benefits	Well Controlled	0	1	1
Sundry Debtors	Adequately Controlled	1	4	2

* denotes systems where only key controls examined in 2013-14

- 3.3 A summary of the level of assurance, for all of the systems covered in 2014/15 by risk category, is given in the table below:-

Risk	Assurance			
	Full	Substantial	Limited	Little
High (A)	7	1	0	0
Medium (B)	4	21	2	1
Low (C)	0	0	0	0
	11	22	2	1

Opinions are classified as:

- Full:** The audit did not reveal any control weaknesses based on the samples at the time of the audit.
- Substantial:** The audit identified areas that required necessary action to avoid exposure to significant risk.
- Limited:** The audit identified areas where it was imperative to act to avoid exposure to high risks.
- Little:** The 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.

- 3.4 Whilst there are 3 audits that have been classified as Limited and Little Assurance most of these do not have a significant impact on the Council as a whole, many require a small number of changes to be introduced which will lead to significant improvements in the control environment. .

- 3.5 The main recurring themes across the audits are (figures in brackets demonstrate proportions of outstanding recommendations in these risk areas for 2014/15):

- The lack of written procedures and standards. Without these inconsistencies in working practices can develop, controls can be lost and cover in the event of

absences can be haphazard. There is a need to ensure that all employees are made aware of the working practices that they should be following to ensure that they comply with the correct procedures. During 2014/15 procedure notes were found to be in place for the majority of the business critical systems, however in some instances it was found that these required updating. (38 per cent).

- The completeness and accuracy of records within service areas is important. 12 per cent of the recommendations made during 2014/15 related to issues where records had not been completed correctly, or the correct information was not found. Whilst the categorisation of recommendation accounted for 12 per cent of those made during 2014/15 none of these were categorised as high risk, the majority of these were medium or low and served to act as reminders to staff to ensure care is taken over the recording of data in relation to their particular service areas.
 - Non compliance with Standing Orders and Financial Regulations was found in a number of areas particularly in relation to the lack of stock and inventory controls, there were also a few relatively minor issues in relation to compliance with contract procedures (6 per cent)
 - Another key area that Internal Audit reviews as part of their work is issues of Information Security. 28 per cent of the recommendations outstanding related to this area, and included issues such as ensuring compliance with the Council's policies on Information Security Management.
 - The remaining 16 per cent of recommendations were categorised in terms of risk issues (9 per cent) staffing issues, particularly in relation to training matters (5 per cent), issues of physical security (1 per cent), and business continuity (1 per cent)
- 3.6 In addition to the planned audits 8 special projects were carried out, these were due to various breaches of council policy, procedures and regulations. In all cases where a lack of managerial controls were found to contribute to the improper conduct of officers; a managerial report is completed which highlights the weakness and makes recommendations accordingly. The recommendations from these reports are followed up in the usual way.
- 3.7 Of the 8 special projects identified above, 2 were as a result of the Council's Whistleblowing Policy, and 6 from management.
- 3.8 In relation to main systems, recommendations arising are analysed further in the following section.

4 ANALYSIS OF COMMON OR MATERIAL WEAKNESSES

Analysis of recommendations

4.1 During the period 1/4/14 to 31/3/15 a total of 170 recommendations have been made, of these 49 recommendations were outstanding as at the 31 March 2015. In total 121 recommendations have been implemented, 71%.

Recommendations are classified as:

- High:** Action that is considered imperative to ensure that the authority is not exposed to high risks:
- Medium:** Action that is considered necessary to avoid exposure to significant risks:
- Low:** Action that is considered desirable and which should result on enhanced control or better value for money.

In this context, 'risk' may be viewed as the chance, or probability, of one or more of the association's objectives not being met. It refers both to unwanted outcomes that might arise, and to the potential failure to realise desired outcomes.

4.2 The following table shows the split of recommendations over high, medium and low for those that were due for implementation by the 31 March 2015:

	ALL	IMPLEMENTED	OUTSTANDING
High	15	8	7
Medium	102	71	31
Low	53	42	11
TOTAL	170	121	49
Target 2014/15		90%	
Proposed target 2015/16		90%	

4.3 Compliance with the agreed action plan will ensure that these risks are addressed. Management has given assurance that the action plans will be completed in accordance with the timetables specified.

Details of major findings not acted upon

Acceptance of recommendations

There were no recommendations rejected by Management during the year.

Recommendations not receiving adequate management attention

4.4 There are no high or medium risk recommendations that are considered as not receiving adequate management attention. Where appropriate outstanding high risk recommendations are reported to Audit and Risk Committee on a quarterly basis.

5 AUDIT PERFORMANCE

Work planned to be completed

- 5.1 The following table gives a summary of the results of the performance indicators since 2012/13, together with details of actual figures for 2014/15, and target for 2015/16;

Indicator	2012/13 actual	2013/14 actual	2014/15 actual	2015/16 target
Percentage of audit plan completed	91%	92%	90%	90%
Productivity of staff	85%	79%	85%	74%
Recommendations implemented	91%	89%	71%	90%
Medium to high satisfaction of the service from surveys	91%	93%	94%	90%

- 5.2 The table below indicates the performance against the audit plan for 2014/15, split over the 3 different risk categories for audits and for the audit plan in total.

	Planned	Actual	Actual (%)
High Risk Audits	17	16	94
Medium Risk Audits	36	32	88
Low Risk Audits	0	0	0
Achievement of the Audit Plan	53	48	90

- 5.3 The 2014/15 audit plan as approved by Audit and Risk Committee provided for 520 days of audit work.
- 5.4 The level of productivity within the Section was 85% against the target of 74% that was set at the start of the year. Each year the total resources available in Internal Audit are evaluated in terms of audit days, each day representative of 7.4 working hours. This figure is adjusted for leave, training, sickness, supervision, corporate work and a contingency allowance. The resulting sum is classed as productive days available for the year, for this reason it is not possible to achieve 100% staff productivity.
- 5.5 Out of 53 planned audits, 48 were completed, 90% against a target of 90%.

- 5.6 Completion of audits against the total plan does include some of the Audit Manager's time, since with the time being recorded direct to audit areas it is not practical to identify and remove it completely.
- 5.7 Satisfaction levels in terms of the service remained high at 94% this is above the set target of 85%. Any comments and feedback that is received following each audit is constantly reviewed to ensure that the service continues to meet the expectations of our customers

Factors affecting the extent of our internal audit work

- 5.8 There are a number of issues that have affected the extent of our internal audit work during the year, they are:
- the completion of work as part of a number of special investigations that has absorbed in excess of 65 days audit time, 13% of the original available planned time.
 - The Audit Manager has mentored a student from Newcastle College's Career Academy programme.
 - In May 2014 the Audit Manager was appointed as the Council's Monitoring Officer following the departure of the former Head of Central Services. Careful consideration was given to this to ensure that this did not undermine the independence role of the audit, however given the similarity in nature to both the roles it was felt that there would be no compromise to independence. In fact as part of the research for this it was found that there have been occasions in other authorities where the role of Monitoring Officer has also been undertaken by the Head of Audit, in a combined post.

6.0 **NON AUDIT AREAS**

- 6.1 This is work undertaken by the Internal Audit Section that is not directly related to audit areas and includes administration, supporting the corporate management of the authority, professional and staff training and attendance at Staffordshire Chief Auditors Group meetings. Non-audit work in 2014/15 accounted for 168 days.
- 6.2 The Internal Audit Section provides support; advice and guidance to corporate initiatives, this year this has included attendance at the Corporate Governance Working Group, the Procurement Working Group, the Health and Safety Committee and the Information Security Group. In addition the Audit Manager is a member of the Resources and Support Services Departmental Management Team and also a member of the corporate Wider Management Team, and in her role as Monitoring Officer attends the Statutory Officers Group

7.0 **OPERATIONAL PLANS FOR 2015/16**

- 7.1 Internal Audit will continue to identify ways to actively promote awareness of risks in relation to fraud and corruption in line with the national strategy 'Fighting Fraud Locally'. Following on from the Fraud Awareness Campaign that was undertaken in 2013 a Staff Survey was completed in November 2014, the survey was designed to test the knowledge and understanding amongst staff and enable training needs to be identified and then targeted accordingly
- 7.2 The council has also joined forces with Stoke-on-Trent City Council to form a North West Staffordshire Corporate Fraud Team. This also includes Staffordshire County Council and a number of Housing Associations, one of which is ASPIRE housing. This collaboration was successful in securing funding to set up a unit that is designed to tackle all aspects of 'corporate fraud'. The funding was made available by Department for Communities and Local Government (DCLG) to bridge the gap of local authority fraud investigators transferring to the Department for Work and Pensions (DWP) as part of the Single Fraud Investigation Service (SFIS). Operationally this joint venture will see the set-up of a data hub which will allow all the organisations to share information across the different service areas and will also incorporate the award winning 'Spot the Cheater' campaign being rolled out across Borough.
- 7.3 The contract for computer auditing will be provided by Information Security Advice who successfully won the contract to provide computer audit services for 2015/16. Quotations for the computer audit work are sought on an annual basis.
- 7.4 The Section will continue to review and improve its service where appropriate. It will also ensure that adequate training is provided and the role of the Audit and Risk Committee is developed in line with best practice.
- 7.5 The Audit Manager will continue to mentor and coach staff within the section to ensure that the team continues to develop and improve its knowledge and experience in all aspects of audit work.
- 7.6 The Audit Manager will continue to raise the awareness of Information Security in order to ensure that the Authority maintains high standards in terms of the information/data that is held within the organisation, this will be increasingly important as we begin to share accommodation with external partners etc.
- 7.7 The Audit Manager is a member of the Staffordshire Information Governance Group; this looks at Information Governance issues across the county and in addition has developed an information sharing protocol that enables organisations to share information with partner agencies etc.
- 7.8 In April 2013 the CIPFA Code of Practice for Internal Audit in Local Government was replaced with a new set of standards, The Public Sector Internal Audit Standards (PSIAS) which were produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Institute of Internal Auditors (IIA) to ensure a consistent set of standards for Internal Auditors irrespective of the sector in which they work. An initial assessment against the new standards was undertaken in 2013/14, and then this was further developed during 2014/15 with some joint work being undertaken by the Staffordshire Chief Auditors Group (SCAG) to develop a standardised Quality Assurance and Improvement Programme (QAIP). Under the new PSIAS there is also a requirement to have an external assessment of Internal Audit completed every 5

years, SCAG are also currently working on this to try and establish a collaborative approach to undertaking this assessment.

NOTE ALL PARAGRAPHS SHOULD BE NUMBERED WITH SUB-PARAGRAPHS BEING
 CI. NUMBERED 2.1, 2.2 ETC.

NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

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

Date 6 July 2015

HEADING Review of the Effectiveness of the Audit Committee

Submitted by: Audit Manager

Portfolio Finance, IT and Customer

Ward(s) affected All

Purpose of the Report

In order to demonstrate that the Council has good governance and as part of providing evidence to support the Annual Governance Statement, the Council needs to demonstrate that it has an effective Audit Committee. An assessment has been completed on the effectiveness of the Audit Committee for 2014/15 and the results are summarised within this report.

Recommendations

A That the report outlining the findings from the review of the effectiveness of the Audit Committee for 2014/15 be noted.

Reasons

That members agree with the findings of the review which concludes that the effectiveness of the Audit Committee during 2014/15 can be relied upon when considering the Annual Governance Statement.

1. Background

- 1.1 In accordance with the Accounts and Audit (Amendment) (England) Regulations 2015 the Council is required to undertake an annual review of its governance arrangements, which involves the production of an Annual Governance Statement. In producing this statement various forms of assurance are gathered one of which is giving an assurance on the effectiveness of its Audit Committee.
- 1.2 This review of the effectiveness of the Council’s Audit Committee is undertaken annually.
- 1.3 To assess the effectiveness of the Audit Committee the Audit Manager in consultation with the Chair and Vice Chair of the Committee has completed and formulated a file of evidence in accordance with the CIPFA Checklist for ‘Measuring the Effectiveness of the Audit Committee’.

2. Issues

- 2.1 The results of this self-assessment are outlined in Appendix A, the supporting file of evidence has been collated and a copy is available in the Members’ area on the intranet.

- 2.2 The results of the self assessment show that the Audit Committee **is effective** and can be relied upon when considering the Annual Governance Statement for 2014/15.
3. **Options Considered** (if any)
- Not to complete a self assessment would be in breach of the legislation already outlined in the background.
4. **Proposal**
- The completed checklist against the self assessment together with the results have been included as Appendices to this report.
5. **Reasons for Preferred Solution**
- The adoption of 'good practice' processes and procedures contributes to reducing risks and liabilities to the Council.
6. **Outcomes Linked to Corporate Priorities**
- An effective Audit Committee means that the Authority can place reliance on the assurances of the systems of internal control. If controls are operating effectively the potential for fraud and corruption is reduced. There is also an assurance that resources are being used efficiently and effectively.
7. **Legal and Statutory Implications**
- Under the Accounts and Audit Regulations 2015 the Council is required to undertake an annual assessment of the effectiveness of its Audit Committee.
8. **Equality Impact Assessment**
- There are no differential equality impact issues identified from this proposal.
9. **Financial and Resource Implications**
- There are no financial implications identified from this proposal.
10. **Major Risks**
- 10.1 If the Authority does not maintain an effective Audit Committee, reliance cannot be placed on the adequacy of the internal controls operating throughout the Authority.
11. **Key Decision Information**
- Not applicable
12. **Earlier Cabinet/Committee Resolutions**
- Not applicable

13. **List of Appendices**

Appendix A Completed Self Assessment CIPFA checklist – Measuring the effectiveness of the Audit Committee

14. **Background Papers**

File of evidence compiled against the CIPFA Code of Practice Checklist

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SELF-ASSESSMENT CHECKLIST 2014/15– MEASURING THE EFFECTIVENESS OF THE AUDIT COMMITTEE

Ref.	Issue	Yes	No	N/A	Comment	Evidence Ref
1.0	Terms of Reference					
1.1	Have the Committee's terms of reference been approved by full Council?	✓			Yes, these were approved as part of the Constitution by Full council.	1
1.2	Do the terms of reference follow the CIPFA model?	✓				1,16
2.0	Internal Audit Process					
2.1	Does the Committee approve the strategic audit approach and the annual programme?	✓			The audit charter and audit plan are reported annually to the Committee.	2,3
2.2	Is the work of internal audit reviewed regularly?	✓			Regular progress reports are presented to the Committee.	4
2.3	Are summaries of quality questionnaires from managers reviewed?	✓			This is included in the annual report. Satisfaction scores are also one of the PI's for the services and again these are reported quarterly.	5
2.4	Is the annual report, from the Head of Audit, presented to the Committee?	✓				6
3.0	External Audit Process					
3.1	Are reports on the work of external audit and other inspection agencies presented to the Committee?	✓			All external audit reports are presented to committee	7
3.2	Does the Committee input into the external audit programme?	✓			The Committee does receive and provide feedback on the external audit plan. In addition the Committee does have a right to request that External Auditors undertake a specific piece of work if they have concerns over a specific issue.	
3.3	Does the Committee ensure that officers are acting on and monitoring action taken to implement recommendations?	✓			The Committee can request that Officers are in attendance at meeting to respond to any queries or concerns that they may have. Quarterly Reports regarding outstanding fundamental recommendations are presented to Committee.	8

Ref.	Issue	Yes	No	N/A	Comment	Evidence Ref
	Does the Committee take a role in overseeing: <ul style="list-style-type: none"> • Risk Management Strategies • Internal Control Statements • Anti-Fraud Arrangements • Whistle-Blowing Strategies? 	✓ ✓ ✓ ✓			All of these are reported to the Audit & Risk Committee.	9 10
4.0	Membership					
4.1	Has the membership of the Committee been formally agreed and a quorum set?	✓			See constitution.	11
4.2	Is the Chair free of executive or scrutiny functions?	✓			Chair is free of Executive functions.	12
4.3	Are members sufficiently independent of the other key Committees of the Council?	✓			Some members sit on a Scrutiny Panel, however, a review of this, does not seem to affect the workings of the Committee.	
4.4	Have all members' skills and experiences been assessed and training given for identified gaps?	✓			A formal assessment of training requirements is undertaken by Member Services. As part of the Member Development Charter, all members will have their own Personal Development Plan. In addition specific training has been given to Members on the Annual Statement of Accounts, and the role of the Audit & Risk Committee.	13,14
4.5	Can the Committee access other Committees as necessary?	✓				
5.0	Meetings					
5.1	Does the Committee meet regularly?	✓			Yes the Committee meets 5 times per year.	15
5.2	Are separate, private meetings held with the external auditor and the internal auditor?	✓			The Chair, Vice Chair receive monthly reports from the Audit Manager in respect of assurance statements and outstanding audit recommendations, meetings are held as and when required. Pre meetings with the Chair and Vice Chair prior to the agendas being sent out for the committee meetings.	

Ref.	Issue	Yes	No	N/A	Comment	Evidence Ref
5.3	Are meetings free and open without political influences being displayed?	✓			All meetings are held in public unless there is a good reason for Confidentiality. All Members are aware of the need to declare any interests.	
5.4	Are decisions reached promptly?	✓				
5.5	Are agenda papers circulated in advance of meetings to allow adequate preparation by members?	✓			Papers are circulated 2 weeks in advance of the meeting.	4
5.6	Does the Committee have the benefit of attendance of appropriate officers at its meetings?	✓			All meetings of the committee are attended by the Executive Director (Resources & Support Services), as Section 151 Officer, the Audit Manager and a representative from the Councils External Auditors, Grant Thornton. In addition the Head of Business Improvement, Central Services & Partnerships attends in relation to Risk Management Reports and the Head of Environmental Services in respect of Corporate Health & Safety Reports.	
6.0	Training					
6.1	Is induction training provided to members?	✓			All new members receive induction training. In addition as part of Member charter Status each member will have their own person specification/job description	13
6.2	Is more advanced training available as required?	✓			Specific training in relation to the Scrutiny of the Accounts, the role of the audit committee and risk management is provided annually for Members of the Audit & Risk Committee.	14
7.0	Administration					
7.1	Does the authority's S151 officer or deputy attend all meetings?	✓			The Executive Director (Resources and Support Services) as the Councils Section 151 Officer attends all the meetings of the Audit & Risk committee	

Ref.	Issue	Yes	No	N/A	Comment	Evidence Ref
73	Are the key officers available to support the Committee?	✓				

NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

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

Date 6 July 2015

HEADING **Review of the Effectiveness of the System of Internal Audit**

Submitted by: Audit Manager

Portfolio Finance IT and Customer

Ward(s) affected All

Purpose of the Report

For members to consider the findings of the annual review of the effectiveness of the system of Internal Audit for 2014/15.

Recommendations

That the report outlining the findings from the review of the effectiveness of the system of Internal Audit for 2014/15, together with the action plan be agreed.

Reasons

That members agree with the findings of the review which concludes that the system of Internal Audit for 2014/15 can be relied upon when considering the Annual Governance Statement.

1. **Background**

- 1.1 In accordance with the Accounts and Audit Regulations 2015 the Council is required to undertake an annual review of the effectiveness of its system of Internal Audit.
- 1.2 A self-assessment against a checklist for compliance against the Public Sector Internal Audit Standards (PSIAS) has been completed by the Audit Manager in order to demonstrate this.
- 1.3 The PSIAS came into effect on 1 April 2013 and were produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Institute of Internal Auditors (IIA) to ensure a consistent set of standards for Internal Auditors irrespective of the sector in which they work. The new standards mean that a few changes will be required to be undertaken in terms of working practices; however the main changes seem to be in relation to the terminology used. CIPFA have produced an application note designed to assist/clarify the standards that have been produced. This guidance note has been applied during the completion of the assessment to ensure that Internal Audit is compliant with the new standards.

2. **Issues**

- 2.1 The results of the self-assessment review undertaken by the Audit Manager have been made available electronically to members via the member's intranet site, together with a copy of all the evidence in support of the self-assessment. A copy of the list of evidence that has been produced has been provided at Appendix A.
- 2.2 On completing the checklist the Audit Manager is required to indicate whether or not there is compliance with the PSIAS by answering yes 'Y' partial 'P' or no 'N'. Where we have answered 'P' or 'N' these areas have been carried forward to an action plan which identifies areas for improvement. A review of the action plan for 2014/15 has been undertaken and this can be found at Appendix B. There are some actions that are still on going, where this is the case these have been carried forward to a revised and updated action plan for the current financial year 2015/16. The revised action plan for 2015/16 can be found at Appendix C.
- 2.3 One of the main areas of improvement identified in the action plan that is required in order to demonstrate compliance with the PSIAS relates to the need for an external assessment. This is an area of work that the Staffordshire Chief Auditors Group (SCAG) has been considering. A proposal was presented to the Staffordshire Chief Finance Officers Group (SCFOG) meeting on the 5 June 2015 with a view to undertaking a collaborative approach by procuring an independent external assessor to complete all the reviews for the Staffordshire authorities. The benefits of this being that the approach would be consistent, demonstrate a true independent assessment, and enable best practice to be shared. This proposal was agreed by SCFOG with the proviso that they agree and sign off a specification for this procurement. The specification is being drafted and will go to the SCAG at their July 2015 meeting for approval. Once agreed by SCAG the specification will be presented for approval by SCFOG at their September 2015 meeting. In terms of timescales it is envisaged that the procurement of an external assessor will be completed by the end of the calendar year with a view to the assessments being undertaken between July and December 2016. A full report in relation to this will be presented to a subsequent meeting of this committee.
- 2.4 Despite the fact that a detailed action plan has been completed in order to demonstrate full compliance with the PSIAS, it is felt that overall the internal review shows that the system of Internal Audit is operating effectively and therefore can be relied upon when considering the Annual Governance Statement for 2014/15. The areas identified in the action plan will seek to further improve and develop the audit service.

3. **Options Considered** (if any)

Not to complete a self assessment would be in breach of the legislation already outlined in the background.

4. **Proposal**

The completed checklist against the PSIAS has been made available electronically for members and the action plan resulting from this has been included as an appendix to this report.

5. **Reasons for Preferred Solution**

The adoption of 'good practice' processes and procedures inevitably contributes to reducing risks and liabilities to the Council. Internal Audit plays an important role in this regard and clearly its systems and processes should be effective.

6. **Outcomes Linked to Corporate Priorities**

An effective system of Internal Audit means that the Authority can place reliance on the assurances of the systems of internal control. If controls are operating effectively the potential for fraud and corruption is reduced. There is also an assurance that resources are being used efficiently and effectively.

7. **Legal and Statutory Implications**

Under the Accounts and Audit Regulations 2015 the Council is required to undertake an annual review of the effectiveness of its system of Internal Audit.

8. **Equality Impact Assessment**

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

9. **Financial and Resource Implications**

There are no financial implications identified from this proposal; the Action Plan will be resourced as part of the work plan for the Audit Manager.

10. **Major Risks**

- 10.1 If the Authority does not maintain an effective system of Internal Audit; reliance cannot be placed on the adequacy of the internal controls operating throughout the Authority.

11. **Key Decision Information**

Not applicable

12. **Earlier Cabinet/Committee Resolutions**

Not applicable

13. **List of Appendices**

Appendix A - Key to Evidence for Self Assessment
Appendix B – Progress against Action plan for 2014/15
Appendix C- Action Plan for 2015/16.

14. **Background Papers**

File of evidence compiled against the PSIAS

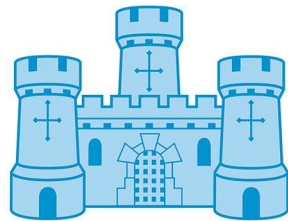
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**Internal Audit – Self Assessment against
Public Sector Internal Audit Standards and the Local Government Application Note for 2014-15**

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24.	Email to Executive Directors and Heads of Service re Audit Plan
25.	Reports to EMT and Audit and Risk committee Re: Outstanding Recommendations
26.	Code of Corporate Governance
27.	Fraud Awareness Guide
28.	Outline for Audit Brief
29.	Audit Report Template
30.	Example of Monthly Assurance Statement
31	Example template for Audit Programme

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NEWCASTLE·UNDER·LYME
BOROUGH COUNCIL

Progress against the 2014/15 Action Plan to ensure Compliance with the Public Sector Internal Audit Standards and the Local Government Application Note

This action plan has been produced following the completion of the checklist that was developed to satisfy the requirements set out in PSIAS 1311 and 1312 for periodic self-assessments and externally validated self-assessments as part of the Quality Assurance and Improvement Programme. The action plan identifies those areas where at present Internal Audit do not fully meet the requirements of the standards and as such a programme of work is now required to ensure compliance.

Key to Terminology used in the document;

PSIAS	Public Sector Internal Audit Standards	LGAN	Local Government Application Note
CIPFA	Chartered Institute of Public Finance & Accountancy	AAT	Association of Accounting Technicians
ACCA	Association of Certified Chartered Accountants	CPD	Continuing Professional Development
A&R	Audit and Risk Committee	EMT	Executive Management Team
WMT	Wider Management Team	HoS	Heads of Service
BM	Business Managers	SCAG	Staffordshire Chief Auditors Group
SCFOG	Staffordshire Chief Financial Officers Group	AGS	Annual Governance Statement
WP	Working Papers	CAE	Chief Audit Executive
CFO	Chief Finance Officer	QAIP	Quality Assurance Improvement Programme
GRACE	Councils Risk Management System		

Ref	Conformance with the Standard	Y	P	N	Action Required	Progress to date
	Is feedback sought from the chair of the audit committee for the CAE's performance appraisal?			N	The Executive Director (Resources and Support Services) will consult with the Chair of the Audit and risk Committee prior to the Audit Managers next performance appraisal	Action carried forward to 2015/16 Action Plan
	Do internal auditors have sufficient knowledge of key information technology risks and controls?		P		<p>This has been identified as an area of weakness within the team as it is such a specialist area of work. The size of the audit team does not justify a FTE Computer Audit Specialist therefore the Audit service currently buys in 30 days specialist computer audit work as part of the annual audit plan.</p> <p>In addition to this the Staffordshire Chief Auditors Group are trying to develop the IT skills within our own teams through an IT Sub Group which comprises auditors with some IT awareness – the aim of the group is to share best practice in order to enhance the skills in this area.</p>	<p>The SCAG IT group is currently looking at various training courses that will help to improve these skills.</p> <p>Action carried forward to 2015/16 Action Plan</p>

Ref	Conformance with the Standard	Y	P	N	Action Required	Progress to date
	Do internal auditors have sufficient knowledge of the appropriate computer-assisted audit techniques that are available to them to perform their work, including data analysis techniques?		P		This is an area that needs to be developed further and is an area of work being considered by the Staffordshire Chief Auditors IT Sub Group	In addition to the work of the SCAG IT group we are currently exploring these methods internally with some assistance from ICT Services Action carried forward to 2015/16 Action Plan
	Do internal auditors maintain a record of their professional development and training activities?		P		Training records need to be reviewed and updated	Continuing professional development requirements are included as part of the annual appraisal process. Completed

Ref	Conformance with the Standard	Y	P	N	Action Required	Progress to date
	Has the CAE developed a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the internal audit activity and enables conformance with all aspects of the PSIAS to be evaluated?		P		A more formalised QAIP needs to be developed in line with the PSIAS	Completed – this has been developed as part of some joint working across the SCAG.
	Does the QAIP assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement?		P		A more formalised QAIP needs to be developed in line with the PSIAS	Completed – this has been developed as part of some joint working across the SCAG.
	Does the CAE maintain the QAIP		P		A more formalised QAIP needs to be developed in line with the PSIAS	Completed – this has been developed as part of some joint working across the SCAG.

Ref	Conformance with the Standard	Y	P	N	Action Required	Progress to date
	Does the QAIP include both internal and external assessments?		P		At present the QAIP is an internal assessment only, the SCAG is currently looking at how external assessments can be developed.	Completed – this has been developed as part of some joint working across the SCAG.
	Do internal assessments include on-going monitoring of the internal audit activity, such as:- a) Routine quality monitoring processes? b) Periodic assessments for evaluating conformance with the PSIAS?	Y	P		All reports are reviewed at the draft stage by the Audit Manager before they are issued. In addition a further review is made of the final report once the findings and recommendations have been discussed and agreed. Working papers are reviewed – however given that they are stored as word/excel documents within Microsoft office – it is not practical for the Audit Manager to go in and sign off every WP. The introduction of a fully integrated audit management system would assist with this process	A new software system is currently being configured. Action carried forward to 2015/16 Action Plan
	Are periodic self-assessments or assessments carried out by people external to the internal activity undertaken by those with a sufficient knowledge of internal audit practices? Sufficiency would require knowledge of the PSIAS and the wider guidance available such as the Local Government Application Note and/or IIA practice advisories, etc.?			N	This is on the work programme for SCAG and is to be discussed at their July meeting	Completed – this has been developed as part of some joint working across the SCAG.

Classification: NULBC UNCLASSIFIED

Appendix C

Ref	Conformance with the Standard	Y	P	N	Action Required	Progress to date
LGAN	Does the periodic assessment include a review of the activity against the risk-based plan and the achievement of its aims and objectives?			N	This will be included as part of the external assessment work that SCAG are currently looking at.	Completed – this has been developed as part of some joint working across the SCAG.
	Has an external assessment been carried out, or is planned to be carried out, at least once every 5 years?			N	A timetable for the completion of external assessments will be looked at by SCAG.	Completed – this has been developed as part of some joint working across the SCAG.
	Has the CAE discussed the proposed form of the external assessment and the qualifications and independence of the assessor or assessment team with the board?			N	A report will be submitted to the Audit and Risk Committee with regards to the proposals for an external assessment	carry

Classification: NULBC UNCLASSIFIED

Ref	Conformance with the Standard	Y	P	N	Action Required	Progress to date
LGAN	Has the CAE agreed the scope of the external assessment with an appropriate sponsor, such as the chair of the audit committee, the CFO or the chief executive?			N	The scope of the assessment will be discussed and agreed with S151 officer who attends SCFOG	Specification for the assessment will be presented to SCFOG for approval in September 2015 Action carried forward to 2015/16 Action Plan

Ref	Conformance with the Standard	Y	P	N	Action Required	Progress to date
	Has the CAE agreed the scope of the external assessment with the external assessor or assessment team?			N	The external assessment programme that is being looked at with SCAG will define the scope of the assessment.	This will be reviewed at the July 2015 meeting of SCAG with a view to this then going to SCFOG in September for final approval. Action carried forward to 2015/16 Action Plan

Ref	Conformance with the Standard	Y	P	N	Action Required	Progress to date
	<p>Has the assessor or assessment team demonstrated its competence in both areas of professional practice of internal auditing and the external assessment process?</p> <p>Competence can be determined in the following ways:</p> <ul style="list-style-type: none"> a) experience gained in an organisation of similar size b) complexity c) sector (i.e. the public sector) d) industry (i.e. local government), and e) technical experience <p>Note that if an assessment team is used, competence needs to be demonstrated across the team and not for each individual member.</p>			N	Assessment has not yet been undertaken. These issues will be incorporated into the scope of the external assessment	<p>It is proposed that the assessment will be completed in the 2016/17 financial year.</p> <p>Action carried forward to 2015/16 Action Plan</p>
	<p>How has the CAE used his or her professional judgement to decide whether the assessor or assessment team demonstrates sufficient competence to carry out the external assessment?</p>			N	The criteria for this will be defined by SCAG	<p>Completed – this has been developed as part of some joint working across the SCAG.</p>

Ref	Conformance with the Standard	Y	P	N	Action Required	Progress to date
	Does the assessor or assessment team have any real or apparent conflicts of interest with the organisation? This may include, but is not limited to, being part of or under the control of the organisation to which the internal audit activity belongs.			N	The external assessment team will not be part of the organisation to which internal audit belongs	Completed – this has been developed as part of some joint working across the SCAG.
	Has the CAE reported the result of the QAIP to senior management and the board? Note that: a) the results of both external and periodic internal assessment must be communicated upon completion b) the results of the on-going monitoring must be completed annually c) the results must include the assessor's or assessment team's evaluation with regards to the degree of the internal audit activity's conformance with the PSIAS.		P		External Assessment has not yet been undertaken. However a report has been taken regarding the internal self-assessment against the PSIAS	It is proposed that the assessment will be completed in the 2016/17 financial year. Action carried forward to 2015/16 Action Plan

Ref	Conformance with the Standard	Y	P	N	Action Required	Progress to date
LGAN	Does the risk based plan differentiate between audit and other types of work?			N	The audit plan relates to those areas identified for review as a result of the risk assessment however the Audit Manager when calculating the resource available to complete the plan will have days set aside as a contingency to cover investigations and any consultancy work. The consultancy days are not detailed in the audit plan. The Audit Manager will look to identify these days with the plan	Consultancy days have been included in the individual audit plans for the auditors Completed

Ref	Conformance with the Standard	Y	P	N	Action Required	Progress to date
	Has the CAE developed and put into place policies and procedures to guide the internal audit activity?		P		<p>A folder is maintained electronically of all Audit Documentation – this contains audit briefs and programmes.</p> <p>CIPFA Audit Manual is available for all auditors</p> <p>Audit Protocol sets out procedures for auditors to follow – this document is also circulated to EMT, HoS & Business Managers as well as being available on the intranet.</p> <p>The audit documentation folder needs further development – this would be assisted with a fully integrated audit management system.</p>	<p>Work is still on going in relation to the production of an audit manual.</p> <p>Action carried forward to 2015/16 Action Plan</p>

Ref	Conformance with the Standard	Y	P	N	Action Required	Progress to date
LGAN	<p>Has the CAE established policies and procedures to guide staff in performing their duties in a manner that conforms to the PSIAS?</p> <p>Examples include maintaining an audit manual and/or using electronic management systems.</p>		P		<p>A folder is maintained electronically of all Audit Documentation – this contains audit briefs and programmes.</p> <p>CIPFA Audit Manual is available for all auditors</p> <p>Audit Protocol sets out procedures for auditors to follow – this document is also circulated to EMT, HoS & Business Managers as well as being available on the intranet.</p> <p>The audit documentation folder needs further development – this would be assisted with a fully integrated audit management system.</p>	<p>Work is still on going in relation to the production of an audit manual.</p> <p>Action carried forward to 2015/16 Action Plan.</p>
	<p>Does the risk-based plan include the approach to using other sources of assurance and any work that may be required to place reliance upon those sources?</p>			N	<p>An assurance mapping process needs to be developed</p>	<p>Work is still on going</p> <p>Action carried forward to 2015/16 Action Plan.</p>

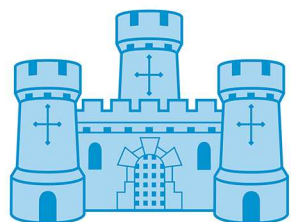
Ref	Conformance with the Standard	Y	P	N	Action Required	Progress to date
LGAN	Has the CAE carried out an assurance mapping exercise as part of identifying and determining the approach to using other sources of assurance?			N	An assurance mapping process needs to be developed	Work is still on going Action carried forward to 2015/16 Action Plan.
	Does the internal audit activity evaluate and contribute to the improvement of the above using a disciplined and systematic approach and is this evidenced?			N	Evidence of the assurance mapping process will be documented.	Work is still on going Action carried forward to 2015/16 Action Plan.
	Has the internal audit activity evaluated the: a) Design b) Implementation, and c) Effectiveness of the organisation's ethics related objectives, programmes and activities?			N	The Audit Manager will look to incorporate an audit of 'ethical governance' in the audit plan for 2015/16	This has been included in the audit plan for 2015/16 Completed

Ref	Conformance with the Standard	Y	P	N	Action Required	Progress to date
	For significant consulting engagements, has this understanding been documented?		P		<p>This would normally be in the form of email correspondence.</p> <p>A formal process will be defined along similar lines to the audit briefs that are produced for the audit areas contained within the audit plan.</p>	<p>This will be looked at as part of the new audit system March 2016</p> <p>Action carried forward to 2015/16 Action Plan.</p>

Ref	Conformance with the Standard	Y	P	N	Action Required	Progress to date
	Where significant consulting opportunities have arisen during an assurance engagement, was a specific written understanding as to the objectives, scope, respective responsibilities and other expectations drawn up?		P		Where additional issues arise that require consideration – Audit Manager will consult with management – dependent upon the issues that have been identified these will either be reviewed at the time as an additional piece of work or will be included in next year’s audit plan. Resources within a small team do not allow every issue to be reviewed.	Work is still on going. Action carried forward to 2015/16 Action Plan.
	Is appropriate evidence of supervision documented and retained for each engagement?		P		There will be email correspondence that evidences this but nothing formal is in place. A process needs to be developed – the implementation of an integrated audit management system would assist with this.	Completed – email trails substantiate this
	Do internal auditors report that engagements are “conducted in conformance with the PSIAS” only if the results of the QAIP support such a statement?			N	Internal Audit reports do not state that they have been conducted in accordance with the PSIAS standards. The audit manager will review the report template and look to include a suitable form of words that will cover this.	This will be considered with the implementation of the new system. March 2016 Action carried forward to 2015/16 Action Plan.

Ref	Conformance with the Standard	Y	P	N	Action Required	Progress to date
	<p>Where any non-conformance with the PSIAS has impacted on a specific engagement, do the communication of the results disclose the following:</p> <ul style="list-style-type: none"> a) The principle rule of conduct of the <i>Code of Ethics</i> or <i>Standard(s)</i> with which full conformance was not achieved? b) The reason(s) for non-conformance? c) The impact of non-conformance on the engagement and the engagement results? 			N	<p>This is not done at present consideration will be given to the need to disclose such information as part of the audit assignments – in the event that this should occur</p>	<p>Completed</p>

Ref	Conformance with the Standard	Y	P	N	Action Required	Progress to date
LGAN LGAN LGAN LGAN LGAN LGAN	Does the annual report incorporate the following: a) The annual internal audit opinion b) A summary of the work that supports that opinion? c) A disclosure of any qualifications to the opinion? d) The reasons for any for any qualifications to the opinion? e) A disclosure of any impairments or restrictions in scope? f) A comparison or work actually carried out with the work planned? g) A statement on conformance with the PSIAS h) The results of the QAIP i) Progress against any improvement plans resulting from the QAIP? j) A summary of the performance of the internal audit activity against its performance measures and targets? k) Any other issues which the CAE judges is relevant to the preparation of the governance statement?		P		At present there is no formal QAIP therefore this is not included in the annual report. Once developed, the QAIP will ensure that these issues are covered.	Completed – this has been developed as part of some joint working across the SCAG.
	Where issues have changed during the follow-up process, has the CAE considered revising the internal audit opinion?			N	Audit opinion is based on findings at time of review – this would be reviewed as part of the next audit assignment	Completed



NEWCASTLE·UNDER·LYME
BOROUGH COUNCIL

2015-16 Action Plan: Compliance with the Public Sector Internal Audit Standards and the Local Government Application Note Self-Assessment 2014-15

This action plan has been produced following the completion of the checklist that was developed to satisfy the requirements set out in PSIAS 1311 and 1312 for periodic self-assessments and externally validated self-assessments as part of the Quality Assurance and Improvement Programme. The action plan identifies those areas where at present Internal Audit do not fully meet the requirements of the standards and as such a programme of work is now required to ensure compliance.

Key to Terminology used in the document;

PSIAS	Public Sector Internal Audit Standards	LGAN	Local Government Application Note
CIPFA	Chartered Institute of Public Finance & Accountancy	AAT	Association of Accounting Technicians
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A&R	Audit and Risk Committee	EMT	Executive Management Team
WMT	Wider Management Team	HoS	Heads of Service
BM	Business Managers	SCAG	Staffordshire Chief Auditors Group
SCFOG	Staffordshire Chief Financial Officers Group	AGS	Annual Governance Statement
WP	Working Papers	CAE	Chief Audit Executive
CFO	Chief Finance Officer	QAIP	Quality Assurance Improvement Programme
GRACE	Councils Risk Management System		

Ref	Conformance with the Standard	Y	P	N	Action Required	Target Date
	Is feedback sought from the chair of the audit committee for the CAE's performance appraisal?			N	The Executive Director (Resources and Support Services) will consult with the Chair of the Audit and risk Committee prior to the Audit Managers next performance appraisal	March 2016
	Do internal auditors have sufficient knowledge of key information technology risks and controls?		P		This has been identified as an area of weakness within the team as it is such a specialist area of work. The size of the audit team does not justify a FTE Computer Audit Specialist therefore the Audit service currently buys in 30 days specialist computer audit work as part of the annual audit plan. In addition to this the Staffordshire Chief Auditors Group are trying to develop the IT skills within our own teams through an IT Sub Group which comprises auditors with some IT awareness – the aim of the group is to share best practice in order to enhance the skills in this area.	The SCAG IT group is currently looking at various training courses that will help to improve these skills. March 2016
	Do internal auditors have sufficient knowledge of the appropriate computer-assisted audit techniques that are available to them to perform their work, including data analysis techniques?		P		This is an area that needs to be developed further and is an area of work being considered by the Staffordshire Chief Auditors IT Sub Group In addition to the work of the SCAG IT group we are currently exploring these methods internally with some assistance from ICT Services	March 2016

Ref	Conformance with the Standard	Y	P	N	Action Required	Target Date
	<p>Do internal assessments include on-going monitoring of the internal audit activity, such as:-</p> <ul style="list-style-type: none"> a) Routine quality monitoring processes? b) Periodic assessments for evaluating conformance with the PSIAS? 	Y	P		<p>All reports are reviewed at the draft stage by the Audit Manager before they are issued. In addition a further review is made of the final report once the findings and recommendations have been discussed and agreed.</p> <p>Working papers are reviewed – however given that they are stored as word/excel documents within Microsoft office – it is not practical for the Audit Manager to go in and sign off every WP. The introduction of a fully integrated audit management system would assist with this process</p> <p>A new software system is currently being configured.</p>	September 2015
	<p>Has the CAE discussed the proposed form of the external assessment and the qualifications and independence of the assessor or assessment team with the board?</p>			N	<p>A report will be submitted to the Audit and Risk Committee with regards to the proposals for an external assessment</p>	November 2015
LGAN	<p>Has the CAE agreed the scope of the external assessment with an appropriate sponsor, such as the chair of the audit committee, the CFO or the chief executive?</p>			N	<p>The scope of the assessment will be discussed and agreed with S151 officer who attends SCFOG.</p> <p>A specification for the assessment will be presented to SCFOG for approval in September 2015</p>	September 2015

Ref	Conformance with the Standard	Y	P	N	Action Required	Target Date
	Has the CAE agreed the scope of the external assessment with the external assessor or assessment team?			N	The external assessment programme that is being looked at with SCAG will define the scope of the assessment. This will be reviewed at the July 2015 meeting of SCAG with a view to this then going to SCFOG in September for final approval.	September 2015
	Has the assessor or assessment team demonstrated its competence in both areas of professional practice of internal auditing and the external assessment process? Competence can be determined in the following ways: <ul style="list-style-type: none"> a) experience gained in an organisation of similar size b) complexity c) sector (i.e. the public sector) d) industry (i.e. local government), and e) technical experience Note that if an assessment team is used, competence needs to be demonstrated across the team and not for each individual member.			N	Assessment has not yet been undertaken. These issues will be incorporated into the scope of the external assessment. It is proposed that the assessment will be completed in the 2016/17 financial year.	March 2017

Ref	Conformance with the Standard	Y	P	N	Action Required	Target Date
	<p>Has the CAE reported the result of the QAIP to senior management and the board?</p> <p>Note that:</p> <ul style="list-style-type: none"> a) the results of both external and periodic internal assessment must be communicated upon completion b) the results of the on-going monitoring must be completed annually <p>the results must include the assessor's or assessment team's evaluation with regards to the degree of the internal audit activity's conformance with the PSIAS.</p>				<p>External Assessment has not yet been undertaken.</p> <p>However a report has been taken regarding the internal self-assessment against the PSIAS</p>	<p>It is proposed that the assessment will be completed in the 2016/17 financial year.</p> <p>Action carried forward to 2015/16 Action Plan</p>
	<ul style="list-style-type: none"> c) Has the CAE developed and put into place policies and procedures to guide the internal audit activity? 		P		<p>External Assessment has not yet been undertaken.</p> <p>However a report has been taken regarding the internal self-assessment against the PSIAS.</p> <p>It is proposed that the assessment will be completed in the 2016/17 financial year.</p>	<p>March 2017</p>

Ref	Conformance with the Standard	Y	P	N	Action Required	Target Date
LGAN	<p>Has the CAE established policies and procedures to guide staff in performing their duties in a manner that conforms to the PSIAS?</p> <p>Examples include maintaining an audit manual and/or using electronic management systems.</p>		P		<p>A folder is maintained electronically of all Audit Documentation – this contains audit briefs and programmes.</p> <p>CIPFA Audit Manual is available for all auditors</p> <p>Audit Protocol sets out procedures for auditors to follow – this document is also circulated to EMT, HoS & Business Managers as well as being available on the intranet.</p> <p>The audit documentation folder needs further development – this would be assisted with a fully integrated audit management system.</p> <p>Work is still on going in relation to the production of an audit manual.</p>	March 2016

Ref	Conformance with the Standard	Y	P	N	Action Required	Target Date
	Does the risk-based plan include the approach to using other sources of assurance and any work that may be required to place reliance upon those sources?		P		<p>A folder is maintained electronically of all Audit Documentation – this contains audit briefs and programmes.</p> <p>CIPFA Audit Manual is available for all auditors</p> <p>Audit Protocol sets out procedures for auditors to follow – this document is also circulated to EMT, HoS & Business Managers as well as being available on the intranet.</p> <p>The audit documentation folder needs further development – this would be assisted with a fully integrated audit management system.</p> <p>Work is still on going in relation to the production of an audit manual</p>	March 2016
LGAN	Has the CAE carried out an assurance mapping exercise as part of identifying and determining the approach to using other sources of assurance?			N	An assurance mapping process needs to be developed	March 2016
	Does the internal audit activity evaluate and contribute to the improvement of the above using a disciplined and systematic approach and is this evidenced?			N	An assurance mapping process needs to be developed	March 2016
	For significant consulting engagements, has this understanding been documented?			N	Evidence of the assurance mapping process will be documented.	March 2016

Ref	Conformance with the Standard	Y	P	N	Action Required	Target Date
	Where significant consulting opportunities have arisen during an assurance engagement, was a specific written understanding as to the objectives, scope, respective responsibilities and other expectations drawn up?		P		<p>This would normally be in the form of email correspondence.</p> <p>A formal process will be defined along similar lines to the audit briefs that are produced for the audit areas contained within the audit plan.</p> <p>This will be looked at as par to of the new audit system</p>	March 2016
	Do internal auditors report that engagements are "conducted in conformance with the PSIAS" only if the results of the QAIP support such a statement?		P		<p>Where additional issues arise that require consideration – Audit Manager will consult with management – dependent upon the issues that have been identified these will either be reviewed at the time as an additional piece of work or will be included in next year's audit plan. Resources within a small team do not allow every issue to be reviewed.</p>	March 2016
				N	<p>Internal Audit reports do not state that they have been conducted in accordance with the PSIAS standards. The audit manager will review the report template and look to include a suitable form of words that will cover this.</p> <p>This will be considered with the implementation of the new system.</p>	March 2016

NOTE ALL PARAGRAPHS SHOULD BE NUMBERED WITH SUB-PARAGRAPHS BEING
 CI. NUMBERED 2.1, 2.2 ETC.

NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

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

Date 6 July 2015

HEADING ANNUAL GOVERNANCE STATEMENT

Submitted by: Audit Manager

Portfolio Finance IT and Customer

Ward(s) affected All

Purpose of the Report To recommend that the Annual Governance Statement 2014/15 be approved for inclusion in the financial statements.

Recommendations

That Members approve the Annual Governance Statement 2014/15(AGS)

Reasons

To seek members approval of the Annual Governance Statement 2014/15 based upon their satisfaction that it is based upon relevant and reliable evidence.

1. Background

- 1.1 Members and senior officers are responsible for putting in place proper arrangements for the governance of the Council's affairs and the stewardship of the resources at its disposal.
- 1.2 The Council has approved and adopted a Code of Corporate Governance. A copy of the Code is on our website.
- 1.3 Under the Accounts and Audit Regulations 2015 the Council is required to publish an AGS with the financial statements and emphasise the importance of embedding internal control, including the process of risk management throughout the Council. In response the Council produced an Annual Governance Statement for 2014/15 covering corporate governance, financial and other key control issues.
- 1.4 The AGS is published with the financial statements. In considering the approval of the AGS Members should satisfy themselves that the statement is based upon relevant and reliable evidence. Details of the evidence relied upon when collating the AGS will be placed in the members' area on the Council's intranet site, and can also be made available by contacting the Audit Manager.
- 1.5 The AGS includes the following headings:

- Scope of responsibility;
- Delivering Good Governance in Local Government: Framework;
- The governance framework;
- Review of effectiveness and
- Significant governance issues.

2. **Issues**

- 2.1 In preparing the AGS your officers have considered the Chartered Institute of Public Finance and Accountancy's (C.I.P.F.A.'s) and the Society of Local Authority Chief Executives (S.O.L.A.C.E) 'Delivering Good Governance Framework' guidance document
- 2.2 The AGS has been produced combining findings from a Corporate Governance review, Assurance statements from Executive Directors, informed by Heads of Service, the work of Internal Audit and various corporate working parties and comments from external auditors and other review agencies.
- 2.3 Section 5 of the AGS identifies those areas, following the review of internal controls for the financial year 2014/15 that need addressing. Action plans where not already in place will be drawn up by your officers to address the issues highlighted.

3. **Options Considered** (if any)

Not to complete an AGS would be in breach of the legislation already outlined in the background. Completion of the Statement is best practice and demonstrates the transparency of the Council's Governance arrangements for 2014/15.

4. **Proposal**

The statement is provided as Appendix A.

5. **Reasons for Preferred Solution**

The statement identifies areas of good practice provided from various sources where internal controls are strong and those areas for improvement.

6. **Outcomes Linked to Corporate Priorities**

- 6.1 The Council has adopted a Code of Corporate Governance which demonstrates that it is complying with the principles of openness and inclusivity, integrity and accountability.
- 6.2 By managers ensuring that they have strong controls in all their systems, processes and activities the potential for fraud and error can be reduced whilst providing value for money services.

7. **Legal and Statutory Implications**

Under the Accounts and Audit Regulations 2015 the Council is required to publish an AGS with the financial statements.

8. **Equality Impact Assessment**

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

9. **Financial and Resource Implications**

There are none for the AGS, resource requirements linked to action plans will be brought to members as separate projects if required.

10. **Major Risks**

10.1 If internal controls are not managed effectively and within the law, public resources will not be safeguarded from waste or properly accounted for.

10.2 If internal controls are not reviewed regularly, continuous improvement may not be exercised.

11. **Key Decision Information**

Not applicable

12. **Earlier Cabinet/Committee Resolutions**

Not applicable

13. **List of Appendices**

Appendix A: Annual Governance Statement 2014/15

14. **Background Papers**

Executive Directors, Corporate and Service Managers - Assurance Statements
 Corporate Governance Reviews
 CIPFA/SOLACE guidance – Delivering Good Governance in Local Government

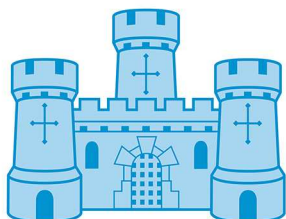
15. **Management Sign-Off**

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

	Dated	
	Signed	
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		

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ANNUAL GOVERNANCE STATEMENT 2014/15

1.0 Scope of responsibility

- 1.1 Newcastle-under-Lyme Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Newcastle-under-Lyme Borough Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.2 In discharging this overall responsibility, Newcastle-under-Lyme Borough Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.
- 1.3 Newcastle-under-Lyme Borough Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the Code is on the Council's website at <http://www.newcastle-staffs.gov.uk/corporategov> or can be obtained from the Audit Manager. This statement explains how Newcastle-under-Lyme Borough Council complies with the Code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2015 in relation to the publication of a Statement on Internal Control.

2.0 Delivering Good Governance in Local Government: Framework

2.1 The purpose of the governance framework

The governance framework comprises the systems, processes, culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

- 2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing and embedded process designed to identify and prioritise the risks to the achievement of Newcastle-under-Lyme Borough Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

- 2.3 The governance framework has been in place at Newcastle-under-Lyme Borough Council for the year ended 31 March 2015 and up to the date of approval of the Statement of Accounts.

3.0 The governance framework

3.1 The Council operates a number of systems, policies and procedures that constitute or contribute to the operation of the internal control environment and support the principles set out in the Code of Corporate Governance as detailed in the tables below:

Core Principle 1	Focusing on the purpose of the Authority and on the outcomes for the community and implementing a vision for the local area.
	<ul style="list-style-type: none"> • Identifying and communicating the authority’s vision of its purpose and intended outcomes for citizens and service users • Reviewing the authority’s vision and its implications for the authority’s governance arrangements • Measuring the quality of services for users, for ensuring they are delivered in accordance with the authority’s objectives and for ensuring that they represent the best use of resources <p>The Council Plan sets out the vision for the council and includes the four corporate priorities in order to inform the overall business planning process for the organisation in terms of resource allocation and performance management. These corporate priorities were originally drawn from the borough’s Sustainable Community Strategy (SCS), produced under the auspices of the Newcastle Partnership. The Strategy focuses on the Partnership’s two priorities of enhancing economic growth and tackling vulnerability.</p> <p>The Borough Council has refreshed its Council Plan to take account of these developments, and has also developed a number of supporting strategies focused on Economic Development, Stronger and Safer Communities and Health and Well-Being. This strategic framework is supplemented by the Co-operative Strategy, which builds on the new corporate priority of “becoming a co-operative council which delivers high-quality, community-driven services”.</p> <p>The Council has developed targets against which progress is monitored throughout the year through the performance management framework. This framework focuses on outcomes which are important to the well-being of the borough. Targets and indicators have been matched to these outcomes and the Council Plan is focused and organised around these outcomes.</p> <p>Individual service plans are completed as part of the corporate planning process - they demonstrate how each service contributes to the overall delivery of the Council’s vision and corporate priorities, as well as being focused on outcomes. Service Plans are translated and communicated to employees via the Appraisal Process, Team Briefings and the Core Brief via Heads of Service and Business Managers. This process and the overall governance arrangements for the Authority are undertaken annually. The Council also communicates via the website and the Reporter Newspaper for the wider community.</p> <p>Service quality, and being able to demonstrate that services are providing the best value for money are key requirements of the Service Plans and value for money is a key outcome for the council. Managers are required to evidence clearly that the service they provide is making best use of available resources. Benchmarking exercises are undertaken by service areas and also corporately as a means of demonstrating value for money; the Council continues to learn more from best practice examples found elsewhere.</p> <p>The Council continues to monitor the delivery of its services, including ensuring that resources follow priorities (see above) and that customers are satisfied with services being delivered.</p> <p>In addition to engagement and consultation work, the council and its partners across all sectors seek to work together against the key partnership priorities as part of the Newcastle Partnership. A number of projects have been developed, framed by key strategic areas for the Borough Council and its partners. Partners have continued to develop service delivery approaches which are in line with citizen requirements and which meet the expectations of citizens. Positive engagement with communities is at the heart of how the Council and its partners work and is a key factor in the</p>

Core Principle 1	Focusing on the purpose of the Authority and on the outcomes for the community and implementing a vision for the local area.
<p>Borough Council's drive to become a co-operative council. Locality Action Partnerships continue to be reviewed in order to ensure that they are fit for purpose in delivering positive change for their communities.</p> <p>A programme of changes to the way consultation is carried out by the organisation has been devised and is in the process of being implemented. Moving away from 'paper and post' surveys, the focus of consultation is shifting towards community based engagement and an emphasis on the role of members as champions for their areas.</p> <p>The Corporate Complaints Compliments and Comments policy ensures continuous improvement in the services that we deliver by responding and reflecting on the challenges raised by our customers. As part of the Council's continued commitment to improving its services for the customer the Customer Standards Access Strategy sets out the quality assurance process to ensure that customer needs are met through a variety of access channels in respect of the frontline services that we deliver and the Customer Promise ensures that the way in which we interact with our customers is done so in a consistent manner. A Customer Case Management Policy enables the Council to deal with customers who display unreasonable behaviour and actions, in a fair and consistent way through adhering to sector guidelines and best practice.</p> <p>Technology is in place that measures customer demand and preferences and this is used to identify avoidable contact that can be used to enhance our services.</p> <p>The Council is putting in place a programme of 'channel choice' to increase access to its services by providing greater choice in the ways that customers can contact us, linked to customer preferences and needs</p> <p>The Council has achieved the Customer Service Excellence award in Customer Services for the fourth consecutive year</p> <p>The Newcastle Partnership Commissioning & Delivery Group (NPCDG) demonstrates the Council's commitment to collaborative working. The Council also remains a part of the countywide Public Sector Commissioning in Partnership process (the only district or borough council in Staffordshire to do so) and continues to examine further ways to commissioning jointly with partners in order to deliver positive outcomes for the borough as a whole.</p> <p>The Council's Constitution commits the organisation to working in partnership with others to assist with the delivery of its priorities. Before entering into any partnership a full assessment of the aims, objectives, and risks to the Authority of entering into that Partnership is completed. To assist with this process guidelines have been produced. All of the Council's significant partnerships are assessed against the guidelines and all future proposals for partnership working will also be assessed in the same way.</p> <p>There are four Scrutiny Committees that reflect each of the Council's Corporate Priorities. The Scrutiny Process is internally and externally reviewed to ensure it continues to challenge policy development and decision making in a robust, constructive and purposeful way while developing a partnership with external agencies and authorities to reflect the concerns of the public and communities and impacts on the delivery of public services.</p>	

Core Principle 2	Members and Officers working together to achieve a common purpose with clearly defined functions and roles.
<ul style="list-style-type: none"> Defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication. 	

Core Principle 2	Members and Officers working together to achieve a common purpose with clearly defined functions and roles.
<p>The Council's Constitution and Scheme of Delegation set out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to the local people. Further detail is provided via the Council's Financial Regulations. These documents are kept under review by Officers and Members.</p> <p>The issue of how Members and Officers work together is a key one for the organisation, in terms of having the right capacity and achieving maximum levels of performance. Work has progressed in terms of developing scrutiny in the Council, including liaison with chairs of Scrutiny Committees to ensure that the proper leadership is provided when it comes to identifying areas for scrutiny and pursuing lines of investigation. In addition, Members are encouraged to play a greater role in scrutiny and to recognise the positive impact of the scrutiny process on policy development and holding the executive to account. A number of areas of work have shown this to have developed well, including the Council's scrutiny of the HS2 issue and also greater scrutiny of the budget setting process. A number of areas, including those relating to health, have shown a willingness on the part of Members to work across party lines. There is now a much greater incidence of pre-decision scrutiny in a range of key areas of policy development, including work around the Asset Management Strategy. These changes have been reflected in significant developments constitutionally, a process which is ongoing and is now likely to include greater public access at meetings. Finally, Members have shown considerable interest in using more examples of technology to aid their role, including enhanced use of the 'modern gov' software and also the ongoing pilot around the use of iPads in order to access agenda items and other information.</p>	

Core Principle 3	Promoting values for the Authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour
<ul style="list-style-type: none"> • Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff • Reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks <p>The Authority's Codes of Conduct for Employees and Members are regularly reviewed and updated. Both Officers and Members are reminded annually of their need to ensure compliance with these codes, and the need to declare any outside interests, private work or the receipt of any gift or acceptance of hospitality. Any instances of non compliance are dealt with under the Council's disciplinary process in respect of Employees and through the Monitoring Officer and the Standards Committee in respect of Members.</p> <p>Members receive training on an annual basis in respect of Ethical Standards. Specific training has been provided to officers in relation to contract management, which covered the principles, set out in the Council's Contract Procedures and Financial Regulations and also incorporated the principles of the Bribery Act. As part of the Workforce Development Plan a formal training programme for employees will be put in place.</p> <p>The Council's Contract Procedures, Financial Regulations and Scheme of Delegation are all reviewed annually and approved as part of the Council's Constitution.</p> <p>A regular programme of work is completed by Internal Audit which reviews the compliance with established procedures.</p> <p>All new employees go through a corporate induction process to ensure they are informed of all corporate policies and procedures. In addition regular reminders are given to all employees via the Appraisal Process, Team Briefings and Executive Bulletins. A copy of all Council policies and procedures are available on the internet and intranet sites.</p> <p>Risk Management continues to be embedded throughout the organisation. Risk Champions work</p>	

Core Principle 3	Promoting values for the Authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour
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at both operational and strategic levels within all Directorates. All operational risks are aligned to business objectives, whilst at a strategic level risks are linked to the Council's corporate priorities. Risk assessments are in place for all of the Council's significant partnerships and in addition a formal risk assessment is required to be completed for all major projects which are being undertaken within the Council. All reports to members contain a section on risk implications. In addition, the Risk Management Strategy is reviewed annually, including changes to the risk rating process and also the way risks are escalated in the organisation.

Work has continued during 2014/15 to raise the awareness and profile of Information Security, this has included a refresh of the Information Security posters displayed throughout all Council buildings and the designation of Information Security Champions for each of the councils directorates. .

Core Principle 4	Taking informed and transparent decisions which are subject to effective scrutiny and managing risk
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- Undertaking the core functions of an audit committee, as identified in CIPFA's *Audit Committees – Practical Guidance for Local Authorities*
- Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful
- Whistle-blowing and for receiving and investigating complaints from the public

The terms of reference for the Audit and Risk Committee are in accordance with the CIPFA model. A self assessment to ensure compliance with the CIPFA model has been completed by the Audit Manager in consultation with the Chair of the Audit and Risk Committee. This self assessment concluded that the Audit and Risk Committee is effective and can be relied upon when considering this Annual Governance Statement.

The Audit Manager has the statutory role of Monitoring Officer to ensure that relevant laws and regulations are complied with and performs this role in conjunction with the Head of Business Improvement, Central Services and Partnerships who has responsibility for the Council's Legal Service. The Executive Director (Resources and Support Services) has the statutory responsibility under Section 151 of Local Government Act to ensure the proper administration of the Council's financial affairs. A Statutory Officers Group which comprises, the Monitoring Officer, Section 151 Officer and the Head of Paid Service meets regularly to monitor the key Corporate Governance issues.

The Health & Safety policy has been updated. Further training on the use of Target 100 the corporate Health & Safety IT system has been undertaken and the use of the system has been extended to include accident and near miss reporting, risk assessments and action planning for Departments. Toolbox talks detailed in Target 100 are also being used to train staff in Health & Safety and safe working practices. A monthly audit monitoring report is created and reviewed at Corporate Health & Safety committee on the use of the system.

The Council acts and takes seriously its responsibilities to safeguard and promote the interests of all children and vulnerable adults. Children Acts 1989 and 2004 place a statutory obligation on local authorities to safeguard from harm all children and young people under the age of 18 and vulnerable adults irrespective of ability, family background, sexuality, lifestyle, religion, belief or culture. The Council has policies and procedures in place to guide elected members, staff, contractors and volunteers who come into contact with children, young people and vulnerable adults during their work with the Council. All relevant officers will be trained to Level 1 Introduction to Safeguarding Children.

The Authority continues to review and monitor its arrangements in respect of Information Security to ensure continued compliance to the Government security standards and has recently obtained Government's Public Sector Network Code of Connection compliance.

Core Principle 4	Taking informed and transparent decisions which are subject to effective scrutiny and managing risk
<p>The Council has formalised and consolidated its complaints procedures to reflect best practice from the Local Government Ombudsman, which is under the corporate remit of the Customer Relations Officer.</p> <p>The Council's Anti Fraud and Anti Corruption Framework, together with its Fraud Response plan are reviewed and updated annually to ensure that they remain fit purpose. During the course of 2014/15 a staff survey to test the knowledge and understanding of Council staff was completed. The results of the survey will help to identify and formulate a programme of awareness raising both internal and external to the Council.</p> <p>The council has also joined forces with Stoke-on-Trent City Council to form a North West Staffordshire Corporate Fraud Team. This also includes Staffordshire County Council and a number of Housing Associations, one of which is ASPIRE housing. This collaboration was successful in securing funding to set up a unit that is designed to tackle all aspects of 'corporate fraud'. The funding was made available by Department for Communities and Local Government (DCLG) to bridge the gap of local authority fraud investigators transferring to the Department for Work and Pensions (DWP) as part of the Single Fraud Investigation Service (SFIS). Operationally this joint venture will see the set-up of a data hub which will allow all the organisations to share information across the different service areas and will also incorporate the award winning 'Spot the Cheater' campaign being rolled out across Borough.</p> <p>The Authority's Whistleblowing Policy actively promotes officers, members, contractors and the public to report any concerns they may have in respect of any potential wrong doing. A helpline number is included amongst the A-Z list of Council Services. The policy is also available on the Council's website, in addition to this the Authority subscribes to Public Concern at Work, an independent charity set up to deal with any concerns that the Public may have in respect of any potential fraud, corruption or wrong doing. During 2014-15 the Council has received and dealt with 3 whistleblowing allegations.</p>	

Core Principle 5	Developing capacity and capability of members and officers to be effective
<ul style="list-style-type: none"> • Identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training <p>A robust recruitment process is followed up by induction training and ongoing training identified as part of the employee appraisal process ensuring that staff are appropriately qualified and trained to undertake the role for which they are employed and to aid succession planning. A Management Development Strategy is in place that incorporates a Competency Framework for senior officers. Senior managers are trained in specific management competencies.</p> <p>All elected members receive induction training. Specific training is provided for members in relation to Financial Management and the Budget Process, as well as more detailed training for members of Audit and Risk Committee, Scrutiny Committees, Planning Committee, Public Protection and Licensing Committee in relation to their roles for those particular committees</p> <p>A Member Development Programme is in place and Charter Status has been achieved. Work continues in this area towards the next level of Charter Status. A Member Development Panel ensures that Members receive guidance and support in their work as a councillor, including ICT.</p>	

Core Principle 6	Engaging with local people and other stakeholders to ensure robust public accountability
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- Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation
- Incorporating good governance arrangements in respect of partnerships and other group working as identified by the Audit Commission's report on the governance of partnerships and reflecting these in the authority's overall governance arrangements.

All meetings of the Authority are held in public, unless the Part II requirements of the Local Authorities (Executive Arrangements) (Access to Information) Regulations 2000, are met in terms of confidentiality. Copies of all the minutes and agendas for these meetings are available on the Council's website.

There are a number of ways of ensuring that the Authority communicates with all sections of the community, including the website, an E-panel, face-to-face engagement and the Reporter newspaper. In addition the Council has a 'Compact' in place to guide the ways in which it engages with third sector organisations. Also the Newcastle-under-Lyme and Stoke-on-Trent Statement of Community Involvement contains the council's policies on engaging local communities, developers, key stakeholders and other agencies in the preparation of planning documents and in the determination of planning applications. In this sense it establishes the benchmark for consultation on planning matters and demonstrates the council's commitment to consultation on planning matters within available resources.

Consultation has been carried out with residents on the Councils recycling and waste service as part of a major service change process. The outcome of this work has been used by the all-party Cabinet Panel to agree and design a new improved service which will be implemented in July 2016. Further consultation and extensive awareness initiatives are planned as part of a communications plan for the service area. In addition consultations also took place in relation to the Thistleberry Parkway cycle lighting

Feedback on the outcomes from these consultations was provided through the Council's Website, the Reporter as well as reports to Cabinet and the relevant Scrutiny Committees.

The Council's Financial Regulations and Newcastle Partnership Constitution and Terms of Reference ensure that there are sound governance arrangements in place for all of the Council's significant partnerships.

4.0 Review of effectiveness

- 4.1 Newcastle-under-Lyme Borough Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive directors within the authority who have responsibility for the development and maintenance of the governance and internal control environment, and also by comments made by the external auditors and other review agencies and inspectorates.
- 4.2 The Code of Corporate Governance adopted by Newcastle-under-Lyme Borough Council demonstrates the Council is committed to ensuring that the principles of good governance flow from a shared ethos or culture, as well as from sound management systems, structures, and processes that are transparent to all its stakeholders. By making explicit the high standards of self-governance the Council aims to provide a lead to potential partners, to the public, private or voluntary sectors and to all citizens.
- 4.3 The Audit and Risk Committee monitors effectively the system of internal control, this has been demonstrated through the completion of a self assessment against CIPFA's checklist on 'Measuring the Effectiveness of the Audit Committee'. The Committee receives regular reports on both the Audit and Risk issues and has demonstrated effective challenge to

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senior officers in instances of non-compliance; it can therefore be relied upon when considering the Annual Governance Statement for 2014/15.

- 4.4 The Scrutiny function continues to ensure effective monitoring and challenge. There are four Scrutiny Committees that reflect each of the Council's Corporate Priorities. The terms of reference for each of these committees ensure that performance is effectively monitored and challenged
- 4.5 Internal Audit is responsible for monitoring the quality and effectiveness of the systems of internal control. A risk model is used to formulate a twelve month plan which is approved by the Audit and Risk Committee, and from which the annual workload is identified. The reporting process for Internal Audit requires a report of each audit to be submitted to the relevant Executive Director. The report includes recommendations for improvements that are included within an action plan and require agreement, or challenge, by Directors. The process includes follow ups on a monthly basis, the results of which are reported quarterly to the Audit and Risk Committee in terms of fundamental recommendations and the level of assurance that can be given for that directorate based on the implementation of their recommendations. In addition quarterly reports on all outstanding recommendations are also presented to the Executive Management Team. Internal Audit has continued to receive very positive feedback from External Audit with regards to the coverage of their work and high professional standards.
- 4.6 Internal Audit can provide a level of assurance that the Council's systems of internal control are operating adequately, from their work in 2014/15. Whilst the Internal Audit Service has identified some material deficiencies in controls, the service is satisfied that based upon assurances from Management, action is now being taken to address the issues raised.
- 4.7 A self assessment on the effectiveness of the system of internal control has been completed in respect of the financial year 2014/15. The internal review showed that the system of internal control can be relied upon when considering the Governance Statement for 2014/15. This was informed by the completion of a self-assessment against the checklist for compliance with the Public Sector Internal Audit Standards and Local Government Application Note.
- 4.8 An assessment of the role of the Chief Finance Officer (CFO) has been completed in accordance with the 'CIPFA Statement on the role of the Chief Financial Officer in public service organisations'. The statement produced by CIPFA seeks to strengthen governance and financial management throughout the public sector, in addition it sets out the core responsibilities, personal skills and professional standards that are crucial to the role. It requires that the CFO is professionally qualified, reports directly to the Chief Executive and is a member of the Leadership team. Having undertaken the assessment of the role of the CFO within the Council it can be confirmed that the Authority complies with this statement.
- 4.9 The role of the Head of Internal Audit has been reviewed in accordance with 'CIPFA Statement on the role of the Head of Internal Audit'. The role of the Head of Internal Audit occupies a critical position within any organisation helping it to achieve its objectives by giving assurance on its internal control arrangements and playing a key role on promoting good corporate governance. The main aim of the CIPFA statement is to promote and raise the profile of the Head of Internal Audit within public service organisations.
- 4.10 The Monitoring Officer has a duty to monitor and review the operation of the Constitution to ensure its aims and principles are given full effect. The Council keeps the Constitution under review throughout the year, with a report setting out changes to be consolidated to Council on an annual basis.
- 4.11 Managers Assurance Statements are produced annually by both Executive Directors and Heads of Service. These statements provide a level of assurance with regards to the adequacy of internal controls within their own Directorate and Service areas.

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- 4.12 There are various specialist working groups, i.e. Capital Programme Review Group, Corporate Governance, Information Security, Procurement, and Corporate Health and Safety, that agree, oversee and review the various disciplines giving assurance that the Council complies with statute, identifies and manages its risks.
- 4.13 The External Auditors, Grant Thornton gave an unqualified opinion on the 2013/14 accounts, in their Governance Report. In addition their review of the Council's arrangements for securing financial resilience concluded that the Council had robust financial systems and processes in place to manage its financial risks and opportunities and to secure a stable financial position that enabled it to continue to operate for the foreseeable future.
- 4.14 The Council has a zero tolerance to Fraud and Corruption, the Anti Fraud and Corruption Framework, Fraud Response Plan and Whistleblowing Policy are in place to help deliver our commitment to protecting public funds and ensuring that all Council activities are carried out in accordance with the principles of openness, honesty and integrity. The commitment to deterring fraud and corruption is actively promoted throughout the organisation. Anyone who has any concerns about any aspect of the Council's work are encouraged to come forward and voice those concerns.

5.0 Significant governance issues

We have been advised on the results of the review of the effectiveness of the governance framework as set out in Section 3 of this Statement and a plan to address weaknesses and ensure continuous improvement is in place. The following matters have been identified as issues that need to be addressed in order to further improve the Council's overall governance arrangements;

- To ensure that the Council continues to deliver services that meet the needs of our customers and respond to any issues our customers may have with the current level of service provision. Working with our partners we will ensure that we can deliver effectively and co-operatively against citizen/customer requirements.
- To ensure that our services demonstrate value for money we will continue to review all service areas against best practice and implement actions outlined in Service Plans, in addition we will seek to improve efficiencies across all council services and ensure that the savings identified from this process can be realised.
- To continue to raise the profile and status of Information Security and Governance throughout the Council.
- To work in partnership as part of the North West Staffordshire Corporate Fraud Team to ensure that the council remains vigilant in combating and tackling all aspects of fraud and corruption
- To continue to develop the capability and capacity of officers through the application of the Workforce Development Strategy.
- To ensure that all relevant officers are trained to Level 1 Introduction to Safeguarding Children through the Staffordshire e-learning portal.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for

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improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed _____ **Councillor Elizabeth Shenton, Leader of the Council**

Signed _____ **John Sellgren, Chief Executive**

Dated _____

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Local Government Association Peer Review of Decision Making Arrangements

Submitted by: Chief Executive

Portfolio: Finance IT and customer

Ward(s) affected: Non-specific

Purpose of the Report

To advise Members on the recommendations of the LGA Peer Review and to request feedback on the recommendations.

Recommendations

- (a) That the Committee consider the recommendations for changes to the Council' democratic decision-making arrangements, Peer Review Recommendations 1 and 2 and draft Council report in as far as they relate to the work of the Committee.
- (b) That the Committee comment on the wider proposals made by the Peer Review recommendations 3, 4 and 5 having particular consideration of these matters in respect of the work of the Committee.
- (c) That the Committee record the summary of its responses on these matters so these can be collated with the comments of all other Committees and considered by the Finance, Resources and Partnerships Scrutiny Committee.

Reasons

Resolution by the Finance, Resources and Partnerships Scrutiny Committee on Monday 15th June 2015.

1. **Background**

- 1.1 In the autumn of 2014 an LGA Peer Review team carried out a review of the council's democratic decision-making arrangements. The team made their report in January 2015. In light of this the Group Leaders asked the Chief Executive to draft a report which could be considered by Council to give effect to the recommendations made by the Peer Review report. The draft council report sought to implement the Peer Review recommendations but also to take account of some initial comments which had been made by the Group Leaders on the Peer Review Report.

2. **Scrutiny of Peer Review recommendations**

- 2.1 In view of the fact that the proposals made by the Peer Review have implications for all of the council's Committees it has been considered prudent for the proposals to be considered by the relevant committee.
- 2.2 The attached report was considered by the Finance, Resources and Partnerships Scrutiny Committee at its meeting on 15 June. The Committee has resolved that each Committee be asked to consider the proposals made by the LGA Peer Review and the draft report to

Council in as far as they relate to that particular Committee and to feedback these comments.

Actions for the Committee

- 3.1 The Committee is asked to consider the recommendations for changes to the Council's democratic decision-making arrangements, Peer Review Recommendations 1 and 2 and draft Council report in as far as they relate to the work of the Committee.
- 3.2 To comment on the wider proposals made by the Peer Review Recommendations 3, 4 and 5 having particular consideration of these matters in respect of the work of the Committee.
- 3.3 The Committee is asked to record the summary of its responses on these matters so that they can be collated with the comments of all other Committees and considered by the Finance, Resources and Partnerships Scrutiny Committee.

4. Legal and Statutory Implications

- 4.1 There are no legal implications directly associated with this report although it may affect the Council's Primary Charter status.

4. Equality Impact Assessment

- 4.1 There are no equalities implications directly associated with this report.

5. Financial and Resource Implications

- 5.1 There are no financial or resource implications other than your officers' time at meetings.

7. Major Risks

- 7.1 There are no major risks associated with this report.

8. Key Decision Information

- 8.1 The proposals within this report are not regarded as Key Decisions in the sense that it should be included within the Forward Plan. However, as this is not regarded as a non-Executive function, a Cabinet (executive) decision is required to give effect to the proposals.

9. Appendices

Appendix 1 – Report to the Finance, Resources and Partnerships Scrutiny Committee

10. Earlier Cabinet/Committee Resolutions

Finance, Resources and Partnerships Scrutiny Committee on 15th June 2015.

REPORT ON CHANGES TO COMMITTEE ARRANGEMENTS

Submitted by: Chief Executive

Portfolio: Communications, Policy & Partnerships

Wards affected: All

Purpose

To update Members on the outcome of a review undertaken by a Local Government Association peer review team of the democratic decision-making structures of the Council. To make recommendations to the Council to implement changes to the Council's Committee arrangements in line with the recommendations of the Peer Review report.

RECOMMENDATIONS:-

- (a) That the Council approves the following changes to the Committee arrangements
 - i. Merge the Audit and Risk and Standards Committees
 - ii. Disband the Staffing Committee
 - iii. Disband the Joint Parking Committee
 - iv. Disband the Member Development Committee
 - v. To create the Constitution Working Group as a Committee of the Council and to title it the Constitution Review Committee.
- (b) That the number of places on the Public Protection Committee be set at 15.
- (c) That the Constitution Working Party be asked to make recommendations for changes to the Council's Constitution to give effect to recommendation (a) above and make a report to the next meeting of the Council.
- (d) That the Council approves the Audit and Risk Committee and Standards Committees to operate as a combined Committee until the appropriate changes are made to the Council's Constitution as required consequentially by recommendation (a) above to request the Group Leaders to nominate the same named individuals to both the Audit and Risk Committee and the Standards Committee with immediate effect.
- (e) That the Group Leaders be requested to nominate the same named individuals to both the Licensing Committee and the Public Protection Committee with immediate effect.
- (f) That the Constitution Working Party be asked to undertake a review of the Council's scrutiny arrangements and to bring forward recommendations consistent with the objectives and recommendations of the Peer Review to improve the efficiency of the Council's democratic arrangements.
- (g) That the Council approves the transfer of the powers and duties of the Staffing Committee to the Head of Paid Service acting with the agreement of the Portfolio Holder for human resources with immediate effect and until the appropriate changes

are made to the Council's Constitution as required consequentially by recommendation (a) above.

- (h) That the Constitution Working Party be asked to consider recommending to the Council conventions which could be adopted to improve the efficiency of formal meeting which are consistent with promoting effective debate, efficient use of Member and officer time, and facilitate the involvement of the public, consultees and others in the work of the Council's formal meetings.

1. Context

- 1.1 In December 2014 the Council invited an LGA Peer Review team to conduct a review of its democratic decision making structures. The review reported in January 2015 and a copy of the report is contained in full at Appendix 1 of this report.
- 1.2 The review was commissioned as part of a wider organisational drive for further efficiency. It was specifically designed to help the council look at the way in which its various committees and panels are organised and identify potential options to consider.

2. Findings of the Peer Review

- 2.1 The Peer Review noted that the current democratic decision making arrangements demand a lot of time from both Members and officers. This arises from the extensive array of formally constituted committees and panels. The review team noted that the number of committees and committee positions is very large when compared with similar district and borough councils benchmarked by the team. They noted that the number of meetings (well over 100 per year) is amongst the highest of the benchmark authorities. Similarly the number of committee positions is 3.6 per councillor for this councillor compared to an average of 2.6 amongst the comparator councils.
- 2.2 The Peer Review team undertook a detailed analysis of the implications of these headline findings and these are set out in the report.

2.3 Peer Review recommendations

The Peer Review Report makes recommendations for a number of committees to be merged, combined or disbanded. The specific recommendations are as follows:

- Merge / amalgamate the Public Protection Committee and Licensing Committees
- Merge / amalgamate the Audit and Risk and Standards Committees
- Merge / amalgamate the Active and Cohesive Communities and Health and Well Being Scrutiny Committee
- Review the continued need for the Staffing Committee
- Review some of the historical / legacy arrangements, such as the Joint Parking Committee and Conservation Advisory Working Party, and whether the Council should continue to service these bodies

Each of these recommendations is considered in detail below.

Merge / amalgamate the Public Protection Committee and Licensing Committees

The Peer Review Report proposes that the Public Protection Committee and the Licensing Committee be amalgamated. It is noted that a single committee covering all of the functions of those two committees is common practice in other councils. However, it should be noted that these two Committees are responsible for two discrete areas of licensing working under two distinct sets of statutory provisions. The Public Protection Committee under the provisions of the local government Act 1972 and the Licensing Committee under the Licensing Act 2003 and Licensing Act 2005.

Given the semi-judicial nature of these Committees care needs to be taken to ensure that Members serving on them are given adequate training. Members will be aware that to facilitate the participation of businesses and their representatives where this is required sub-committees of the Licensing Committee have met during the daytime. It should be noted that on occasion, due to other commitments on the part of some Committee Members, it has been challenging for a suitable quorum of Members to be assembled. It may therefore be prudent in making changes to these committees to enlarge the size of the Public Protection Committee to standardise the number of Members on each Committee at 15 places. In making nominations, Group Leaders should advise their Members of the daytime meeting requirements of these roles.

Whilst the Peer Review recommendation to amalgamate the two committees has merit, some eminent legal authorities maintain that Parliament's intention under the Licensing Act 2003 was to create a standalone licensing committee. This being the case it may be prudent at this time for the Council to retain the separate entities of a Licensing Committee and a Public Protection Committee but that identical nominations be made to the two Committees and that meetings be scheduled so that they run sequentially on the same occasion. On the basis of the amount of business over recent years for the two committees this is considered to be a practical proposal. This arrangement would give efficiencies since the officer time required in supporting the meeting would be less where the businesses of the two Committees is conducted on a 'back-to-back' basis.

It is proposed therefore to accept the principle of Peer Review recommendation and to bring together the operation of two existing committees but to retain the two legally distinct Committee roles.

Merge / amalgamate the Audit and Risk and Standards Committees

The Peer Review report makes the case for the Audit and Risk and Standards Committees to be merged to create an Audit and Governance Committee. There is a high degree of synergy between the work of the two existing committees and it is therefore proposed to accept the Peer Review recommendation and to merge the two existing committees.

Merge / amalgamate the Active and Cohesive Communities and Health and Well Being Scrutiny Committee

In relation generally to the work of the Overview and Scrutiny Committees the Peer Review team observed that they “appear to operate like service committees”. However, the only proposed change to scrutiny arrangements made by the Peer Review team is the merger of the Active and Cohesive Communities and Health and Well Being Scrutiny Committee.

Feedback from Members has indicated a strong desire to retain a separate Health and Wellbeing Scrutiny Committee. In light of the experience of Stafford Borough and the comments made by the Francis Inquiry (in relation to Stafford General Hospital) it would be advisable at this time to recommend the retention of the separate Health and Wellbeing Scrutiny Committee. It is suggested that the Constitution Working Group should be asked to review and recommend the revision of the terms of reference of the Health and Wellbeing Scrutiny Committee to ensure that recommendations from the Francis Report and the experience of Stafford Borough Council have been embedded in this Council’s arrangements.

However, in light of the comments made by the Peer Review about the work of scrutiny committees it is recommended that the Constitution Working Group be asked to undertake a short task and complete piece of work to make recommendations for improvements to be made to the Council’s scrutiny arrangements particularly to ensure that these are efficient and effective and in line with best practice.

Review the continued need for the Staffing Committee

The Peer Review report states that the team was not certain of the role of the Staffing Committee and how it adds value to decision-making. Concerns were expressed that it may add unnecessary delay to the process of getting relatively minor policy updates approved, or escalates issues which might be resolved more quickly and collaboratively at a lower level. The team expressed the view that most of the functions of the Staffing Committee “appear to be in the remit of the Head of Paid Service”. It is therefore proposed to disband the Staffing Committee and to amend the Constitution to pass the functions currently performed by the Committee to be discharged by the Head of Paid Service in consultation with the Cabinet Portfolio Holder for human resources as appropriate. The Constitution Working Group will be asked to oversee the task of recommending the required changes to the Constitution.

Review some of the historical / legacy arrangements, such as the Joint Parking Committee and Conservation Working Group, and whether the Council should continue to service these bodies

The Joint Parking Committee has naturally come to an end with effect from 1 April 2015 as a result of the County Council’s decision to commission its Civil Parking Enforcement service through a single provider. It is therefore recommended that this Committee be disbanded.

The Conservation Advisory Working Party is an advisory Committee which makes comments to the Planning Committee on matters which affect the historic built environment and in particular on applications for planning permission in Conservation Areas, listed building consent, conservation area consent, consents for advertisements, passing comment on applications for historic building grants and to

recommend on conservation policy. It is held on a 3-weekly cycle in order to facilitate efficient decision-making on applications for permission or consent. Its members are drawn from Borough Councillors (5), 7 representatives of local organisations and a representative of each Parish Council.

In terms of officer resources it is supported by one specialist member of staff. In view of the importance of achieving good quality design in historically important parts of the built environment it is considered that there is merit in retaining this advisory group, particularly in view of the relatively modest demands placed upon the Council. It is proposed that the Conservation Advisory Working Party be retained in its current form.

The Member Development Committee was set up on a task and complete basis to advise on improvements to the support arrangements for elected Members. The Committee has reviewed the arrangements and recently made recommendation for the future use of ICT arrangements in line with those which exist for officers and in accordance with good practice. It may be considered that the Committee has now completed its task and should be disbanded.

The Constitution Working Group is technically a Committee of the Council. When this was first established it was done on a task and complete basis with the remit to update the Council's Constitution. Whilst the bulk of the substantive task was completed a year or so ago, the Council has subsequently retained the good practice of keeping the Constitution updated on a rolling basis and the Constitution Working Group has continued to undertake this work. The working group has been kept small and operated on a cross-party basis. It is proposed that this group should become a full Committee of the Council and that the Constitution should be amended to reflect this.

At its meeting on 26 November 2014 the Council established a Committee to look at the future of election cycles and the size of the council. This Governance Committee was established on a task and complete basis with a requirement to report its findings to the Council no later than September 2015. It is proposed that this Committee be retained for the duration of its current remit.

Timing of meetings

Although not considered as part of the brief of the Peer Review there has been discussion within the Council about the timing of meetings. By convention the majority of the council's formal meetings start at 7pm. As part of wider moves to ensure that the council is efficient in the way it conducts its business it has been suggested that consideration be given by Members about whether this is the most convenient time in view of the other demands on the time of both Members and officers.

It is suggested that the Constitution Working Party be asked to give this matter greater consideration and to make recommendations for whether there are ways in which meetings could be scheduled to be more efficient on the time of Members and officers. In doing this the Working Group would also be asked to make recommendations about other practices which could be adopted by convention which may assist the business management of meetings to promote efficient use of time and also to consider this in relation to meetings where members of the public, consultees or others are in attendance.

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A review of the democratic decision-making structures at Newcastle-under-Lyme Borough Council

January 2015

1. Introduction

Background and scope of the review

Like many other local authorities and other public sector organisations, Newcastle-under-Lyme Borough Council is facing financial challenges as a result of reduced Central Government funding to local government. In dealing with these challenges, the Council has introduced the 'Newcastle 2020' programme which is designed to identify efficiencies, cost savings and improvements across all aspects of the Council in terms of its organisation and also the services it delivers.

This review was commissioned as part of that wider drive for further organisational efficiency. It was specifically designed to help the Council look at the way in which its' various committees and panels are organised and identify potential options to consider. The review will feed into the planned local democracy review, and inform and complement the work the Council is already doing. As such the review has been commissioned as a 'light-touch' review focussing on improving current structures and arrangements, not a fundamental examination of the governance model.

Methodology and approach

The review has been undertaken by local government peers, drawing on the principles of sector-led improvement and informed by the following activity:

- Desk top analysis of Newcastle-under-Lyme Borough Council's committee terms of reference, committee membership, and agendas and reports.
- Benchmarking exercise, comparing Newcastle-under-Lyme Borough Council with other district and borough councils in terms of numbers of committees, numbers of committee positions, and frequency of meetings. (Appendix 1)
- Stakeholder engagement facilitated through an online survey to all councillors (and relevant officers) (Appendix 2), face-to-face engagement with committee chairs, vice chairs, senior management and democratic services staff onsite at Newcastle-under-Lyme, plus telephone conversations with other relevant officers (Appendix 3 provides a list of stakeholders engaged during the Review).

The peers who carried out the review at Newcastle-under-Lyme were:

Jane Burns – Director of Strategy and Challenge, Gloucestershire County Council
Councillor Michael Payne – Deputy Leader, Gedling Borough Council
Jeremy Thomas – Head of Law and Governance, Oxford City Council
Paul Clarke – Programme Manager (Local Government Support), LGA

The peer team used their experience and knowledge of local government to reflect on the information presented to them by people they met, things they saw and materials they read. This report provides a summary of the peer team's findings.

2. Review Findings

Our findings are divided into sections:

- Section 2.1 below summarises our key observations and recommendations about the current arrangements and practice at Newcastle-under-Lyme Borough Council. These are essentially the ‘quick wins’ that will help achieve efficiencies.
- In section 2.2 we summarise other areas we think need to be considered as part of the wider work on governance and culture the Council is already embarking on, or is planning to undertake.

2.1 Key Observations

The current democratic decision-making arrangements at Newcastle-under-Lyme demand a lot from both councillors in terms of their participation, and officer time to service an extensive array of formally constituted committees and panels. The numbers of committees and committee positions per councillor is high when compared to the other district and borough councils we benchmarked Newcastle-under-Lyme against (3.6 positions per councillor at Newcastle compared to an average of 2.6 positions per councillor in other councils), and we know there have been examples of you struggling to fill all positions on some committees.

The number of meetings per year (well over 100 meetings) is also amongst the highest in terms of the benchmarked authorities. The time and resource required to service and support these mean officers are stretched and are focused on ‘feeding the machine’ rather than ‘doing the day job.’ The sheer volume may also be compromising the quality of committee servicing and support, evidenced by the high number of supplementary papers and replacement reports correcting errors. This in turn puts additional pressure on those trying to read the reports in advance of meetings, and arguably diminishes the quality of discussion and debate.

We questioned whether demands on councillors in terms of the requirement to attend a high number of committee meetings has a detrimental effect on their time to effectively undertake their frontline councillor roles within communities. The councillors we engaged with did not cite this as an issue. In fact, some suggested they saw being involved in committee meetings as the key role of a councillor at Newcastle-under-Lyme. The perceived importance of having formal and public roles on committees is reinforced by the survey results (Appendix 2) which suggest that councillors highly value the principles of all debates and decision making being carried out in formally constituted committee meetings which meet in public and supported by formal agendas and minutes.

We think given the important role councillors have in the overall relationship between Council and community, lessening the demands of meeting attendance will allow these roles and relationships to develop further and crucially ‘free up’ reducing officer resources to focus on service delivery.

It appears the extensive structures, together with the relative low levels of delegated decision-making to officers and individual cabinet members, mean the Council is operating a de facto committee system alongside a Leader and Cabinet model of executive arrangements with all of the additional demands on officer time that that implies. Some of the Overview and Scrutiny Committees appear to operate like service committees (in that they perceive themselves to be directing the work of officers) and the existence of others, such as the Staffing Committee, are out of kilter with current practice in other authorities and seem focused on operational matters that are usually in the domain of officers.

In particular, given the existence of the Employee Consultative Committee, and the fact most of the powers and functions of the Staffing Committee appear to be in the remit of the Head of Paid Service, we do not fully understand or appreciate the role of the Staffing Committee and how it adds value to decision-making. There is a danger we think that the Committee adds unnecessary delays to the process of getting relatively minor policy updates approved, or escalates issues that might be resolved more quickly and collaboratively at a lower level.

All of the above combine to create a set of current arrangements and practice that puts an unnecessary and unsustainable demand on the organisation and its capacity and resources, which due to the financial challenges facing local government are continuing to decrease. There is definite scope to achieve more productivity and efficiency within the current set-up. For example, there are opportunities to reduce and rationalise the numbers of committees by merging those with complementary remits and functions.

In particular, the Public Protection Committee and Licensing Committee could be amalgamated. One committee covering all the functions of those two committees is common practice in other councils. There are other opportunities too, such as incorporating the functions of the Standards Committee into remit of the Audit and Risk Committee to create an Audit and Governance Committee. Another is to merge the Active and Cohesive and the Health and Well Being Scrutiny Committees. The Council may wish to consider being more radical in the reduction of the number of Scrutiny Committees. At the very least, scrutiny committee work-plans should not be agreed without some consideration of the Officer resources available to support them.

The responses to the survey we carried out suggest there is support from both officers and councillors for this. Combining/merging some committees was the type of change most likely to be supported by both councillors and officers (81% of respondents), and many of the specific suggestions for change are reflected in our recommendations. There is also a timely opportunity we suggest to review some of the historical legacy arrangements, such as the Joint Parking Committee and Conservation Working Group. The recent changes made to the arrangements regarding the Sports Council provides a precedent here.

In terms of overview and scrutiny, there are both standing committees and task and finish groups. Scrutiny arrangements need to be flexible enough to adapt

to changing circumstances. The principles of good scrutiny are that they should cover the issues that matter to local people, it should be 'narrow and deep' rather than 'broad and shallow' and that all scrutiny reviews should be properly scoped, task and finish, rather than on-going and have realistic timescales. There needs to be a discipline to ensure scrutiny doesn't drift.

There are also some aspects of how committees are serviced and supported that will benefit from modernising. For example, the way committee agendas are circulated. Currently any member can request to be added to a circulation list, enabling them to receive a hard copy of the committee meeting agenda. This potentially adds significant costs to the servicing of committees. This is something you have already identified and are beginning to address (as per the report 'Use of ICT and ICT Resources' to the Member Development Panel on 2nd October 2014). The recent rule changes enabling councils to send out committee papers electronically will help here too.

The length and style of committee reports was cited as an issue. Reports appear lengthy and many of the officers we spoke to feel they take a disproportionate time to produce. This issue may be being exacerbated by a tendency to establish formally constituted committees and sub-committees for areas and issues that may be served equally well by more informal bodies – especially where they are performing an advisory function (e.g. member development) - meaning a need to generate formal agendas, reports and minutes.

We know you are already looking at report writing and we agree this is an important exercise. Ensuring that report writing becomes more consistent across the organisation, is proportionate to the matter being considered, and that reports can be easily read and digested by councillors are all important facets. There may be an opportunity to also review the style of minutes as part of this work.

We think there are also some underlying organisational and cultural issues, including the perceptions and expectations of councillors that have evolved over time which now need addressing. In particular, the current arrangements appear to be seen by non-executive members as a range of opportunities to feel involved and informed, rather than part of a decision-making system. Our desktop analysis suggests more than 40% of the reports on agendas for meetings during September-November 2014 were 'for information'.

In short, councillors appear to rely heavily on committee meetings and agendas/reports for their information. We understand there used to be a Member's Information Bulletin and suggest it may be timely to consider re-introducing something that enables councillors to be kept informed on major developments so they don't feel the need to attend committee meetings and/or request committee agendas as a way of keeping in touch. There may also be scope to consider ward specific information and tailored briefings for councillors to better support them in their frontline roles.

Recommendations

1. **Merge/combine/disband some committees that appear to have a similar or complementary role and remit, or have roles that are effectively fulfilled elsewhere in the wider governance arrangements, in particular:**
 - Merge/Amalgamate the Public Protection Committee and Licensing Committees
 - Merge/Amalgamate the Audit & Risk Committee and Standards Committees
 - Merge/Amalgamate the Active and Cohesive Communities and Health & Well Being Scrutiny Committee
 - Review the continued need for the Staffing Committee
2. **Review some of the historical/legacy arrangements, such as the Joint Parking Committee and Conservation Working Group, and whether the Council should continue to service these bodies.**
3. **Consider re-introducing a Members' Information Bulletin and critically review any "for information" items on committee agendas.**
4. **Progress and implement the measures you are already considering to improve business practice, including report format and circulation of agendas.**
5. **Consider and progress the other issues and areas as identified in section 2.2 of this report (below) – including delegation - drawing on practice from other authorities. They will bring bigger gains and help address the underlying issues.**

2.2. Other observations and areas to consider

You have rightly identified there are potentially a number of other bigger benefits and savings to be gained. Reviewing the frequency of local elections (currently annual by thirds) for example, and reducing the numbers of councillors, (which at 60 is high compared to similar sized district authorities), are likely to result in more significant cost savings. But the bigger prize will be the political stability. All out elections every four years are likely to bring this, and enable more focus on the medium to longer term ambitions and strategic priorities of the Council. It is this vision for the future, including the future shape and function of the Council that will need to inform the wider review of democracy and governance.

We think this should include consideration of the scheme of delegation to individual Cabinet Members which can help manage business more effectively and speed up decision-making. We also think there could be a review of the scheme of delegation to officers with a view to increasing the levels of delegation. As we have alluded to, the levels of delegation to officers at Newcastle-under-Lyme seems low compared to many other authorities.

Reports to Cabinet tend to be presented in the name of the Executive Director and Scrutiny Committees tend to hold officers rather than executive members to account. Individual decision making and reports to Cabinet in the name of the portfolio holder are now common practice in many councils, and will help to reinforce and embed some of the key principles of a leader/cabinet model of governance. It may be something that warrants consideration at Newcastle-under-Lyme.

The principles of good scrutiny may need to be re-emphasised, so they are fully adopted and embedded, and drive how the overview and scrutiny function operates. It may be timely to review the key objectives of overview and scrutiny and consider where the emphasis needs to be to best support the Council in delivering its priorities – so there is a clearer understanding of the balance between holding to account and informing policy, and the focus on internal and external matters. Ensuring scrutiny is positioned to make a timely and effective contribution to strategic policy development and decision-making will become increasingly important as will an external focus, given that in the future the Council might well directly deliver less, and looks to influence and leverage more from external partners and the community.

There may be a need to consider a re-balancing of the role of councillors and the shape and structure of decision-making arrangements required to enable an emphasis on local community leadership in communities as well as attending and participating in formal committee meetings in the civic offices. The organisation will need to consider the best way of supporting councillors in these roles with the resources and capacity available.

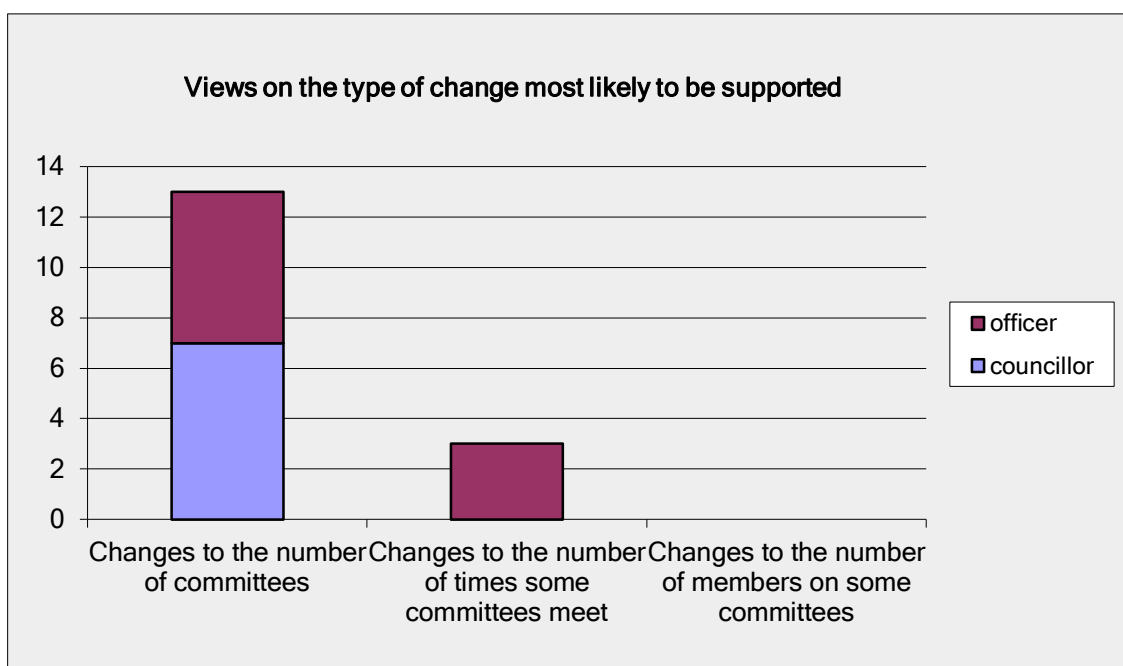
Appendix 1 - Comparison with other councils

	Cotswold DC	Forest of Dean DC	Stroud DC	Cheltenham BC	Tewkesbury BC	Gloucester City	Oxford City	Gedling BC	Ipswich BC	Cannock Chase DC	East Staffs BC	Newcastle-under-Lyme BC	AVERAGE
Current Political Control	Cons (C: 18 / L:9 / LD: 9)	NOC (C: 18 / L:17 / IND: 11 / LD:1 / UKIP:1)	NOC (C: 22 / L:20 / GR: 6 / LD: 3)	Lib Dem (LD 24 / C: 12 / IND: 4)	Cons (C:24 / LD:9 / IND: 5)	NOC (C: 18 / L:9 / LD:9)	Labour (L: 33 / LD: 8 / G: 6 / IND: 1)	Labour (L: 32 / C: 15 / LD: 3)	Labour (L: 35 / C: 10 / LD: 3)	Labour (L: 25 / UKIP: 6 / C: 5 / LD: 3 / IND: 2)	NOC (L: 16 / IND: 4 / C: 18 / LD: 1)	Labour (L: 32 / C:16 / LD: 6 / UKIP: 5/ G:1)	n/a
Total Number of Committees	7	14	9	10	8	11	15	9	12	23	15	16	12
No. of Ctee Positions:No of Members	60:44	114:48	110:40	118:40	82:38	103:36	104:48	95:50	138:48	199:41	45:39	156:60	-
Number of Committee Positions Per Member	1.4	2.4	2.8	3.0	2.2	2.9	2.2	1.9	2.9	4.9	1.2	3.6	2.6
Average Number of Positions Per Committee (Mean)	8.6	11.2	10.9	11.8	8.2	9.4	7	12	11.5	8.6	7.5	9.8	9.7
Total No of Committee Meetings Per Year	48	66	40	51	52	69	114	100	82	120	45	105	74
Average Number of Meetings Per Committee Per Year (Mean)	7	5	4	5	7	6	7	7	7	5	3	7	5.8
Governance Model	Cabinet 6	Cabinet 5	Committee System	Cabinet 8	Fourth option	Cabinet 5	Cabinet 10	Cabinet 7	Cabinet 9	Cabinet 9	Cabinet 6	Cabinet 7	-

Appendix 2 – summary of survey results

All members and a range of relevant officers (senior managers and democratic services staff) were invited to complete a short online survey between 26th November and 10th December 2014. 16 people (9 officers, 7 councillors) completed the survey.

Support for change: The survey responses suggest strong support (81% of respondents) for changing the number of committees, as opposed to changing the numbers of times committees meet (19%) or changing the numbers of members on committees (0%). All councillors (100%) who responded to the survey identified changes to the number of committees as the type of change they would be most likely to support:



Principles and features of governance and decision-making that councillors value the most:

- **Accountability** (which was defined as ‘all debates and decision making are carried out in formally constituted committee meetings with agendas and minutes’) was ranked by 72% of councillors as the principle of governance they value most.
- This contrasts sharply with **Involvement** (which was defined as ‘opportunities for councillors and other stakeholders to be involved in debates and decision making’) which no councillors (0%) ranked as the principle they value most.
- 28% of councillors considered **Transparency** (which was defined as ‘all debates and decision making are carried in meetings that are held in public’) as the principle they most valued.

Specific suggestions for change and consideration: A range of suggestions were put forward by respondents. These included:

- Reduce the number of committees by amalgamating those with obvious synergy
- Get rid of specific committees – e.g. Staffing Committee, Member Development
- Merge the Audit & Risk committee with Standards Committee
- Have less scrutiny committees and/or revisit their remits.
- Less committees and less meetings
- Review the types of agenda items to reduce the number of ‘information only’ items
- Consider the timescales for submission of items to Committee
- Ensure that meetings have a clear outcome/resolution

Appendix 3 – list of stakeholders engaged during the review

The peer team met and/or spoke with the following officers and councillors during the review:

John Sellgren – Chief Executive

Neale Clifton – Executive Director (Regeneration and Development)

David Adams - Executive Director (Operational Services)

Kelvin Turner – Executive Director (Resources and Support Services)

Mark Bailey- Head of Business Improvement, Central Services & Partnerships

Julia Cleary – Democratic Services Manager

Justine Tait – Democratic Services Officer

Geoff Durham – Member Training and Development Officer

Liz Dodd – Audit Manager and Monitoring Officer

Cllr Reginald Bailey – Chair, Active and Cohesive Communities Scrutiny Committee, and member of Health and Wellbeing Scrutiny Committee and Public Protection Committee

Cllr Colin Eastwood - Chair of Health and Wellbeing Scrutiny Committee, and member of Public Protection Committee and Planning Committee

Cllr Sandra Hambleton – Chair of Standards Committee and Staffing Committee and member of Planning Committee and Audit & Risk Committee

Cllr Derrick Huckfield - UKIP Group Leader

Cllr Hilda Johnson – Vice Chair of Health and Wellbeing Scrutiny Committee and member of Active and Cohesive Communities Scrutiny Committee

Cllr Nigel Jones - Liberal Democrat Group Leader

Cllr David Loades – Conservative member of two Scrutiny Committees and Audit & Risk Committee

Cllr Bert Proctor – Vice Chair of Public Protection Committee and Planning Committee and member of Member Development Panel

Cllr Elizabeth Shenton – Deputy Leader of the Council (and Cabinet Member)

Cllr David Stringer – Chair of Economic Development and Enterprise Scrutiny Committee and member of Finance, Resources and Partnerships Scrutiny Committee

Cllr Gill Williams – Chair of Cleaner Greener and Safer Communities Scrutiny Committee and member of Licensing Committee and Public Protection Committee

Cllr Mike Stubbs – Leader of the Council (and Cabinet Member)

Cllr Joan Winfield – Chair of Licensing Committee and member of Cleaner Greener and Safer Communities Scrutiny Committee and Member Development Panel

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