

# Public Document Pack

**Date of meeting** Monday, 4th July, 2016  
**Time** 7.00 pm  
**Venue** Committee Room 1, Civic Offices, Merial Street,  
Newcastle-under-Lyme, Staffordshire, ST5 2AG  
**Contact** Geoff Durham

## **Audit and Risk Committee**

### **AGENDA**

#### **PART 1 – OPEN AGENDA**

- 1 DECLARATIONS OF INTEREST**  
To receive Declarations of Interest from Members on items included in the agenda
- 2 MINUTES OF PREVIOUS MEETINGS** (Pages 3 - 6)  
To consider the minutes of the previous meeting(s).
- 3 Terms of Reference** (Pages 7 - 8)
- 4 Work Plan 2016/17** (Pages 9 - 10)
- 5 Health and Safety Annual Report 2015/16** (Pages 11 - 18)
- 6 Risk Management Quarter 4 Report 2015/16** (Pages 19 - 24)
- 7 Treasury Management Annual Report** (Pages 25 - 34)
- 8 Draft Statement of Accounts 2015/16** (Pages 35 - 50)
- 9 Outstanding Audit Recommendations and Assurance Statement Quarter 4** (Pages 51 - 58)
- 10 Annual Report of the Internal Audit Service** (Pages 59 - 74)
- 11 Review of the Effectiveness of the Audit Committee** (Pages 75 - 84)
- 12 Review of the Effectiveness of Internal Audit** (Pages 85 - 106)
- 13 Annual Governance Statement** (Pages 107 - 122)
- 14 Planned Audit Fee for 2016/17** (Pages 123 - 128)
- 15 URGENT BUSINESS**  
To consider any business which is urgent within the meaning of Section 100B(4) of the Local Government Act 1972

**Members:** Councillors Dymond (Vice-Chair), Pickup (Chair), Waring, Cooper, Stubbs, White and Reddish

**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.

**FIELD\_TITLE**

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

## AUDIT AND RISK COMMITTEE

Thursday, 14th April, 2016

**Present:-** Councillor Ms Sarah Pickup – in the Chair

Councillors Dymond, Owen, Waring and Hambleton

Apologies Apologies

### 1. APOLOGIES

Apologies were received from Councillor Loades and Mr P Butters.

### 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 15 February, 2016 be agreed as a correct record.

### 4. MATTERS ARISING FROM THE MINUTES

With regard to item 4, Members had raised a query regarding the strategic risk of Increase in Insurance claims. Members had requested that the answer to the query be brought to this meeting.

Members were contacted by email by the Council's Business Improvement Officer (Risk and Insurance) on 23 February, 2016.

**Resolved:** That the information be received.

### 5. RISK MANAGEMENT STRATEGY

Consideration was given to a report regarding the reviewed Risk Management Policy Statement and Strategy documents.

The documents had been brought to this Committee for information only.

**Resolved:** That the current Risk Management Policy and Strategy for the 2016/17 year be noted, subject to changes listed in the documents and that it be noted that the Chief Executive and Leader of the Council have agreed and signed the Risk Management Policy Statement.

### 6. AUDIT PLAN 2015-16

Consideration was given to a report regarding the Audit Plan for the year ending 31 March, 2016. John Gregory of Grant Thornton presented the report, bringing Members' attention to the section on Materiality where the report had been more explicit in the plans. Areas with low levels of Materiality, such as officers

remuneration, salary and exit packages and Members' allowances were also explained.

Two new significant risks had been added – the Valuation of Pension Fund net liability and the Valuation of Property, Plant and Equipment.

Members were advised that there was a new approach to Value for Money as the National Audit Office had taken over and had issued new guidance in November, 2015.

**Resolved:** That the Audit Plan report be received.

## 7. **CERTIFICATION WORK REPORT 2014/15**

Consideration was given to the Annual Report by Grant Thornton on the Certification Work Report 2014/15 for the Borough Council.

Mr Paul Harvey gave a summary of work done, on pages 78 and 79 of the agenda was explained to Members and their attention brought to a Housing Benefits subsidy claim.

**Resolved:** That Grant Thornton's Annual Report on the Certification of Claims be received.

## 8. **CODE OF CORPORATE GOVERNANCE**

Consideration was given to a report in respect of the Code of Corporate Governance. The Council's Audit Manager advised Members that this was a standard report which is brought to Committee on an annual basis. It was presently unchanged but new guidance is due later in the year and therefore there may be some slight changes.

A letter would be sent out to all Members advising them of the Code and where to view it on line.

**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 this Committee be sent to all Members reminding them that a copy of the Code of Corporate Governance is available in the Members Area on the Council's Intranet site.

## 9. **COUNTER FRAUD ARRANGEMENTS**

Consideration was given to a report regarding Counter Fraud Arrangements and Members were asked to approve four documents:

- Anti-Fraud and Anti-Corruption Framework
- Fraud Response Plan
- The Whistleblowing Policy
- Anti-Money Laundering Policy.

The above documents are reviewed every two years and were due for updates this year. There were no changes to the documents but the Council no longer does benefits fraud work.

Work was currently underway with Stoke on Trent City Council to form a North West Staffordshire Corporate Fraud Team which would include Staffordshire County Council and a number of housing associations and arrangements were being finalised.

**Resolved:** That the following policies which support the Counter Fraud function be approved:

- Anti-Fraud and Anti-Corruption Framework
- Fraud Response Plan
- The Whistleblowing Policy
- Anti-Money Laundering Policy.

10. **URGENT BUSINESS**

There was no Urgent Business.

**COUNCILLOR MS SARAH PICKUP**  
**Chair**

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

### **Terms of Reference – July 2016**

#### **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**  
**2016/17**

Committee Date	Reports
4 July 2016	<ol style="list-style-type: none"> <li>1. Outstanding Recommendations &amp; Assurance Qtr 4</li> <li>2. Annual Report of Internal Audit Service</li> <li>3. Review of Effectiveness of Audit Committee</li> <li>4. Review of Effectiveness of Internal Audit/Updates &amp; Action Plan</li> <li>5. Annual Governance Statement with Supporting Evidence</li> <li>6. Health and Safety Annual Report 2015-16</li> <li>7. Risk Management Qtr 4 2015-16</li> <li>8. Unaudited Statement of Accounts</li> <li>9. Work plan for 2016-17</li> <li>10. Audit and Risk Committee Terms of Reference</li> <li>11. Treasury Management Annual Report</li> </ol>
29 September 2016	<ol style="list-style-type: none"> <li>1. Qtr 1 Progress</li> <li>2. Qtr 1 Outstanding Recommendations &amp; Assurance</li> <li>3. Risk Management Report – Qtr 1 April to June 2016</li> <li>4. Audited Statement of Accounts</li> <li>5. External Audit – Audit Findings Report</li> </ol>
14 November 2016	<ol style="list-style-type: none"> <li>1. Qtr2 Progress</li> <li>2. Qtr 2 Outstanding Recommendations &amp; Assurance</li> <li>3. Health and Safety Half-Year Report April-September 2016</li> <li>4. Risk Management Report –Qtr 2 July to September 2016</li> <li>5. Mid-Year Review of Treasury Management Activities</li> <li>6. External Audit - Annual Audit Letter</li> <li>7. External Audit – Audit Progress</li> </ol>
13 February 2017	<ol style="list-style-type: none"> <li>1. Qtr 3 Progress</li> <li>2. Qtr 3 Outstanding Recommendations &amp; Assurance(include Oct, Nov &amp; Dec assurances)</li> <li>3. Internal Plan 2017/18</li> <li>4. Audit Charter</li> <li>5. Risk Management Report – Qtr 3 October to December 2016</li> </ol>
20 April 2017	<ol style="list-style-type: none"> <li>1. Code of Corporate Governance</li> <li>2. Risk Management Policy &amp; Strategy</li> <li>3. Certification of Claims and Returns (External Audit)</li> <li>4. Overview of the Councils Constitution in respect of Standing Orders and Financial Regulations.</li> <li>5. Corporate Fraud</li> </ol>

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## AUDIT AND RISK COMMITTEE – 4<sup>th</sup> July 2016

### HEALTH AND SAFETY 12 MONTH REPORT

**Submitted by:** Claire Dodd – Corporate Health & Safety Officer

**Portfolio:** Policy, People & Partnerships

**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 1<sup>st</sup> April 2015 to 31<sup>st</sup> March 2016

#### 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 is considerable progress to report, including the delivery of training, Fire Evacuation Drills the revision of health and safety policies and health and safety handbooks for employees.

6.2 Work continues with the use of Target 100, in particular the focus has been on risk assessments and ensuring that they are regularly monitored and reviewed to ensure that they remain suitable and sufficient.

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## Newcastle-under-Lyme Borough Council

### **HEALTH AND SAFETY ANNUAL REPORT APRIL 2015 – MARCH 2016.**

#### **1. INTRODUCTION**

- 1.1 This report outlines the current state of health and safety matters during the year from 1<sup>st</sup> April 2015 to 31<sup>st</sup> March 2016.
- 1.2 There is considerable progress to report, including the delivery of training, Fire Evacuation Drills the revision of health and safety policies and health and safety handbooks for employees.

#### **2. POLICIES AND GUIDANCE**

- 2.1 A light touch review of the Corporate Health and Safety Policy was undertaken in September 2015.
- 2.2 A full review of the Employee Health and Safety Handbook has been undertaken in October 2015.
- 2.3 The Terms of Reference for the Corporate Health and Safety Committee have been reviewed and updated.
- 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. A new version of the system is due to be implemented in June 2016.
- 3.2 Work continues with the use of Target 100, in particular the focus has been on risk assessments and ensuring that they are regularly monitored and reviewed to ensure that they remain suitable and sufficient.

#### **4. HEALTH AND SAFETY TRAINING**

- 4.1 The following Health and Safety Training has been completed –
  - First Aid at Work
  - Fire Marshal
  - Controlling Officer
  - Apprentice Inductions
  - First Aid at Work
  - Elected Members Induction
  - Dosimeter Training

**UNCLASSIFIED**

– Health and Safety for Porters

**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
2015/16	36	5	160**	0.34

\* 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

\*\* one incident resulted in a period of absence of 78 days.

**UNCLASSIFIED**

5.2 All accidents (staff & members of public)

Month	RIDDOR*	Non-Reportable	Near Miss	Dangerous Occurrence
April 2015	1	16	1	0
May 2015	0	23	0	0
June 2015	1**	30	6	0
July 2015	0	23	0	0
August 2015	0	19	3	0
September 2015	0	18	0	0
October 2015	1	40	0	0
November 2015	0	12	3	0
December 2015	1	8	1	0
January 2016	1	22	3	0
February 2016	0	22	1	0
March 2016	0	10	1	0
<b>TOTAL</b>	<b>5</b>	<b>243</b>	<b>19</b>	<b>0</b>

\* 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.)

\*\* This incident was reported to the HSE as a RIDDOR Incident in accordance with Schedule 2, it was classed as a Dangerous Occurrence (The unintentional release or escape of any substance which could cause personal injury to any person other than through the combustion of flammable liquids or gases.)

5.3 RIDDOR Summary

Month	Injured Person	Location	Incident Type	Remedial Action
April	Staff	Recycling	Slip, Trip or Fall	A review of the footwear and incident scene was undertaken.
June	None	Leisure	Chemical Leak	Replacement of tank and pipework.
October	Staff	Recycling	Slip, Trip or Fall	A check of the area was undertaken.
December	Staff	Recycling	Hit by Moving Object	Incident was investigated. Toolbox talk was carried out to remind staff on the procedure for the reporting of hazards.
January	Staff	Recycling	Injured while Handling	Staff Training (reminder of correct safe working procedures in regard to handling of Euro Containers

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All RIDDOR Accidents have been reported to the HSE and 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 Lane Depot
- St Georges Chamber
- Kidsgrove Sports Centre
- Knutton Lane – New Recycling Facility

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

- 10<sup>th</sup> June 2015
- 9<sup>th</sup> September 2015
- 17<sup>th</sup> March 2016

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

- 24<sup>th</sup> June 2015
- 25<sup>th</sup> September 2015
- 17<sup>th</sup> December 2015

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

- Noise and Vibration
- Occupational Diseases
- Employee Protection
- Lone Working
- Fire Evacuation
- 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 9<sup>th</sup> September 2015.

## **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
- Kidsgrove Carnival
- Christmas Light Switch on

## **12. Lone Working Review**

A corporate working group has been established to undertake a review of lone working arrangements. The first meeting of this group took place in September attended by staff representatives from all service areas and Trade Unions. As part of this ongoing review, Business Managers have completed a lone working survey which has helped to populate risk assessments and safe working procedures. Using these documents Business Managers will then be asked to complete a specific lone working risk assessment which will assess the adequacy of their existing controls and help us to identify if further control measures are needed such as lone working devices.

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During this review period, Business Managers have been requested to review their lone working risk assessments to ensure that they reduce the risks associated with lone working

### **13. Climbing Wall Audit**

A Health and Safety audit of the Climbing Wall at Jubilee 2 was undertaken in June 2015, which led to a temporary closure of the climbing wall whilst some of the recommendations were implemented. A comprehensive action plan was put into place and the majority of the actions have been completed.

### **14. Accident / Incident Procedures**

Work is underway in producing guidance documentation for employees who would respond to incidents. The documents will provide guidance for employees on what actions need to be taken in response to an accident and also guides Business Managers and Heads of Service through the Accident Investigation Procedure.

### **15. Training Needs Analysis**

Operational Services (Streetscene) are currently in the process of undertaking a training analysis review of health and safety training. They have recorded all historical health and safety training records, which will help to identify any training needs required. This will be rolled out across the organisation.

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

**04 July 2016**

**CORPORATE RISK MANAGEMENT REPORT FOR THE PERIOD January to  
March 2016**

**Submitted by:** Simon Sowerby - Business Improvement Manager

**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 2016, 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 point 2.1.1 showing the number of overdue risks.**
- (c) Note the point 2.2.1 advising of 1 (one) risk level increase.**
- (d) Note the point 2.2.2 regarding no new risks identified between January to March 2016.**
- (e) Identify, as appropriate, individual risk profiles to be scrutinised in more detail at the next meeting of the Committee.**

**Reasons**

The risk management process previously adopted by the Council has been reviewed to incorporate changes in the way the Council works and to provide continuity and streamlined reporting of risks to allow the process to become further embedded at each level of the authority. This will also aid the identification of key risks that potentially threaten the delivery of the Council's corporate priorities. The Risk Management Strategy provides a formal and proportionate framework to manage these identified risks and thus reduce the Council's exposure.

1. **Background**

- 1.1 The Council monitors and manages all its risks through the various risk profiles contained within GRACE (Governance Risk and Control Environment) – the Council's software used to record and manage risks.
- 1.2 The Council currently reviews its high (red 9) risks at least monthly and its medium (amber) risks at least quarterly.
- 1.3 The last review of these risks was reported to the Council's Audit & Risk Committee in February 2016.
- 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. at least 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 running the report, there were 13 (thirteen) overdue reviews, all which should have been reviewed during January 2016.
- 2.2 Following a previous meeting a brief point is now produced to show any risks where the risk level has increased.
  - 2.2.1 Your officer can report that there has been 1 (one) risk level increase during the period January to March 2016. This was due to the potential fluctuations in material collection tonnage, which could result in decreased income to the council. This situation will be monitored by your officers.
  - 2.2.2 There have been no new risks added to any profiles during January to March 2016.
  - 2.2.3 Should there be any increase during April to June 2016 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	7 Amber	8 Amber	9 High Red
	Medium	4 Green	5 Amber	6 Amber
	Low	1 Green	2 Green	3 Amber
		Low	Medium	High
IMPACT				

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

3.5 On Appendix A there are however, 2 (two) risks that will be removed in the next quarter report as they fall below the reportable ratings.

#### 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

<b>Appendix A</b> Risks and Action Plan <b>Risk Identified</b>	<b>Risk Owner</b>	<b>Action Required to Address Risk</b>  in order to reduce the risk	<b>Target Date</b>  for action completion	<b>Risk Category</b>  Strategic, Operational, Project	<b>Current position / progress</b>  as at 10/06/2016	<b>Status</b>  as at Sept 15	<b>Status</b>  as at Dec 15	<b>Current Rating</b>  as at March 16
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 as at Sept 15	Status as at Dec 15	Current Rating as at March 16	
		in order to reduce the risk	for action completion	Strategic, Operational, Project	as at 10/06/2016				
2	Members not adhering to Officers advice	Resources & Support Services	Throughout the year	Strategic	Following Resources and Support Services DMT it was agreed that as the occurrence was over 12 months ago, the likelihood was reduced to a "2" which lowered the final risk rating. The risk will continually be monitored in accordance with the strategy.	I = 3 L = 3 High 9	I = 3 L = 3 High 9	I = 3 L = 2 Medium 6	
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	I = 2 L = 3 Medium 8	I = 2 L = 3 Medium 8	
4	Immigration issues - from countries affected by Civil unrest or wars	Strategic Housing	To support Staffordshire County Council (as lead organisation) and other local partners in responding to the Government's request for support in relocating Syrian Refugees.	Ongoing	Operational	Legal agreement being drafted to engage private landlords	I = 2 L = 3 Medium 8	I = 2 L = 3 Medium 8	I = 2 L = 3 Medium 8
5	Malicious software incursion	ICT Services	Numerous controls in place for this risk to try to prevent any incursions	Ongoing	Operational	Agreed at DMT that the likelihood can be reduced to a "2" which takes the risk below reportable level	I = 2 L = 3 Medium 8	I = 2 L = 2 Medium 5	

**NEWCASTLE-UNDER-LYME BOROUGH COUNCIL**

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

**04 July 2016**

**1. TREASURY MANAGEMENT ANNUAL REPORT 2015/16**

**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 2015/16 and to review the Treasury Management activity for this period.

**Recommendations**

- (a) That the Treasury Management Annual Report for 2015/16 be received and be reported to Full Council on 13 July 2016.**

**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 13 July 2016.

**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 2015/16 approved by Council on 25 February 2015.

2. **Issues**

2.1 The Treasury Management Annual Report for 2015/16 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. Fifteen dividends have been received so far from administrators Ernst and Young representing a return of 98%, compared to their estimated base case return of between 86% and 90%.

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 2015/16.

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 (10 March 2016),
- Sector Treasury Services Ltd Treasury Management Annual Report template (updated 18 April 2016)

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.

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

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## **TREASURY MANAGEMENT ANNUAL REPORT 2015/16**

### **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 the financial year 2015/16. 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; this was updated in November 2011.

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. Receipt by the Full Council of an annual treasury management strategy 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 2015/16.

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 31 March 2016;
- ❖ The strategy for 2015/16;
- ❖ The economy in 2015/16;

- ❖ Investment rates in 2015/16;
- ❖ Compliance with treasury limits and Prudential Indicators;
- ❖ Investment outturn for 2015/16;
- ❖ Involvement of Elected Members;
- ❖ Other issues.

### 3. TREASURY POSITION AS AT 31 MARCH 2016

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

	At 31/03/16	Return	Average Life (Days)	At 31/03/15	Return	Average Life (Days)
<b>Total Debt</b>	<b>£0m</b>	<b>N/A</b>	<b>N/A</b>	<b>£0m</b>	<b>N/A</b>	<b>N/A</b>
<b>Total Investments</b>	<b>£7.5m</b>	<b>0.68%</b>	<b>11</b>	<b>£8.8m</b>	<b>0.46%</b>	<b>7</b>

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 high figure for investments for 31 March 2016 is due to an underspend on the capital programme.

### 4. THE STRATEGY FOR 2015/16

The strategy agreed by Council on 25 February 2015 was that:

- The Council's Borrowing Need (Capital Financing Requirement) for 2015/16 was estimated at £360,000 due to the Council expecting to have funds available and no borrowing requirement, rising to £1m 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 external loans (i.e. repayable on demand or within 12 months) can be taken to fund any temporary capital or revenue borrowing requirement. The amounts involved would fluctuate according to the cash flow position at any one time;
- All borrowing would be kept absolutely within the Authorised Limit of £15m and would not normally exceed the Operational Boundary of £5m (although it could for short periods of time be permitted to rise to a figure between £5m 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 31/03/16 £5m, maturing beyond 31/03/17 £5m, maturing beyond 31/03/18, £5m;

- The overriding consideration is safeguarding the Council's capital. At all times the risk to the Council will be minimised. Within these constraints, the aim will be to maximise the return on investments; and,
- Forward commitment of funds for investment is permitted in respect of in house investments, in instances where market conditions warrant it.

### **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 25 February 2015 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**

Market expectations for the first increase in Bank Rate moved considerably during 2015/16, starting at quarter 3 2015 but soon moving back to quarter 1 2016. However, by the end of the year, market expectations had moved back radically to quarter 2 2018 due to many fears including concerns that China's economic growth could be heading towards a hard landing; the potential destabilisation of some emerging market countries particularly exposed to the Chinese economic slowdown; and the continuation of the collapse in oil prices during 2015 together with continuing Eurozone growth uncertainties.

These concerns have caused sharp market volatility in equity prices during the year with corresponding impacts on bond prices and bond yields due to safe haven flows. Bank Rate, therefore, remained unchanged at 0.5% for the seventh successive year. Economic growth (GDP) in 2015/16 has been disappointing with growth falling steadily from an annual rate of 2.9% in quarter 1 2015 to 2.1% in quarter 4.

The sharp volatility in equity markets during the year was reflected in sharp volatility in bond yields. However, the overall dominant trend in bond yields since July 2015 has been for yields to fall to historically low levels as forecasts for inflation have repeatedly been revised downwards and expectations of increases in central rates have been pushed back. In addition, a notable trend in the year was that several central banks introduced negative interest rates as a measure to stimulate the creation of credit and hence economic growth.

### **6. INVESTMENT RATES IN 2015/16 – 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 seven years. Market expectations as to the timing of the start of monetary tightening started the year at quarter 1 2016 but then moved back to around quarter 2 2018 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 and due to the continuing weak expectations as to when Bank Rate would start rising.

## **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 2015/16**

### **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 six months during 2015/16, dependent on the Council's cash flows, its interest rate view and the interest rates on offer. Seven of the fourteen fixed investments (excluding use of the Government's Debt Management Office Debt Management Account Deposit Facility) made in 2015/16 were for a period of three months or less. Six fixed investments were for six months. The remaining investment was a twelve month investment that was carried over from 2014/15.

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

Aside from fixed investments and use of the DMO DMADF, the Council used its various deposit accounts. This included two deposits in a 32 day notice account, four deposits in a 95 day notice account and one deposit in a 180 day notice account. On four occasions funds were also deposited in the Council's business reserve account. Funds in the general fund account that the Council has with Lloyds Bank also earns interest on a daily basis.

### **Investment Outturn for 2015/16**

During 2015/16 an average rate of return of 0.68% was achieved on an average individual investment of £2.11m. This compared with the target of 0.45% included in the departmental service plan.

## **9. INVOLVEMENT OF ELECTED MEMBERS**

Elected members have been involved in the treasury management process during 2015/16 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 2016 totalled £2,457,623 (98% return of principal invested).

## ANNEX 1: PRUDENTIAL INDICATORS

Position/Prudential Indicator		2014/15 Actual	2015/16 Original Indicator	2015/16 Actual
1	Capital Expenditure	£2.061m	N/A	£2.543m
2	Capital Financing Requirement at 31 <sup>st</sup> March	(£0.503m)	(£0.360m)	(£0.895m)
3	Treasury Position at 31 <sup>st</sup> March:			
	Borrowing	£0	N/A	£0
	Other long term liabilities	£0.155m	N/A	£0m
	Total Debt	£0.155m	N/A	£0m
	Investments	(£8.808m)	N/A	(£7.549m)
	Net Borrowing	(£8.653m)	N/A	(£7.549m)
4	Authorised Limit (against maximum position)	£0	£15.0m	£0
5	Operational Boundary (against maximum position)	£0	£5.0m	£0
6	Ratio of Financing Costs to Net Revenue Stream	(1.48%)	(0.37%)	(1.92%)
7	Upper Limits on Variable Interest Rates (against maximum position)			
	Loans	0	100%	0
	Investments	0	100%	0
8	Actual External Debt	0	N/A	0
9	Principal Funds Invested for Periods Longer than 364 days (against maximum position)	0	£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 04 JULY 2016

### DRAFT STATEMENT OF ACCOUNTS 2015/16.

**Submitted by:** Head of Finance

**Portfolio:** Finance ICT and Customer

**Ward(s) affected:** All

#### **Purpose of the Report**

To report upon the General Fund outturn for 2015/16 and the financial position as at 31 March 2016 as shown in the draft statement of accounts. The report highlights key issues arising, 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.

Reference is also made to the revised earlier deadlines for public inspection, auditing, approval and publication of the statement of accounts prescribed by the Accounts and Audit Regulations 2015.

#### **Recommendations**

**(a) That the information in respect of the outturn and key issues in respect of the Council's financial position as at 31 March 2016 be noted.**

#### **Reasons**

The completion of the draft statement of accounts provides an opportunity to report upon the outturn position and key issues. In addition, the Accounts and Audit Regulations 2015 have revised the deadlines for events leading up to the publication of the statement of accounts.

### **1. Background**

- 1.1 The Accounts and Audit Regulations 2015 govern the way in which a local authority should present its financial affairs. The regulations require that a local authority must produce a statement of accounts for each financial year detailing its financial transactions for the year. They set out procedures which must be followed with regard to public inspection rights, audit, approval and publication of the statement.
- 1.2 The Regulations introduce earlier deadlines for these events, with the intention of ensuring that publication is achieved much earlier than the date set by the previous regulations, issued in 2011, largely to fit in with the publication of the national accounts, which incorporate those of local authorities, but also to achieve timely accountability for the use and custody of public funds and assets by local authorities. The new regulations now require publication in two stages, firstly prior to completion of the audit to facilitate public inspection, and finally once the audit has been completed and members have approved the statement. With effect from the statement of accounts relating to the 2017/18 accounts, initial publication will have to take place by 1 June and final publication of a statement of accounts which has been approved by members must be by 31 July. This is much earlier than the date specified by the previous regulations, which was to publish the audited statement as

soon as practicable after approval by members, which had to be given by 30 September. There are, however, transitory provisions to allow authorities time to prepare for meeting the earlier deadline, whereby for the 2015/16 and 2016/17 accounts, initial publication must be by 1 July and final publication by 30 September.

The table below summarises the changes in respect of the key deadlines:

Action	2011 RegIns	2015 Regulations	
	2014/15 Accounts & Earlier	2015/16 & 2016/17 Accounts	2017/18 Accounts Onwards
Production of draft statement of accounts (illustrative dates) *	24-Jun	24-Jun	24-May
Certification of draft statement of accounts by responsible financial officer	30-Jun	01-Jul	01-Jun
Publication of draft Statement of Accounts	No requirement	01-Jul	01-Jun
Public Inspection period commences	Date determined by external auditor	01-Jul	01-Jun
Audit of draft statement of accounts commences *	July	July	June
Audit Findings report (illustrative dates) *	15-Sep	15-Sep	15-Jul
Approval of statement of accounts by Audit and Risk Committee	30-Sep	30-Sep	31-Jul
Audit Certificate	30-Sep	30-Sep	31-Jul
Audited statement of accounts published	30-Sep	30-Sep	31-Jul
* No statutory deadline - these dates are those which need to apply to enable other deadlines to be met			

Except where noted, the dates shown are the latest by which the actions may take place to comply with regulations. In practice some will need to occur earlier, for example the Audit and Risk Committee meeting to approve the accounts needs to be at least a day prior to the deadline for publication.

- 1.3 It should be noted that this means that, in practical terms, with effect from the 2017/18 accounts, the statement of accounts will have to be produced at least a week before the end of May to allow time for review by the Executive Director (Resources and Support Services) to enable him to certify the statement for publication on 1 June.
- 1.4 The 2015/16 statement of accounts has been published on the Council's website, certified by the Council's responsible financial officer, the Executive Director (Resources and Support Services), as presenting a true and fair view of the financial position of the authority and its income and expenditure for the year, as required by the regulations. The period during which the public have the right to inspect the accounts commenced on 1 July 2016.
- 1.5 The audit of the 2015/16 statement of accounts will commence on 11 July and is scheduled to take around three weeks to complete in terms of the on-site auditing process, leading up to the production of the auditor's final audit findings report by the end of August. This will allow time for a final version of the Statement of Accounts to be produced for submission to the committee for scrutiny and approval at the meeting scheduled for 26 September 2016, following which the statement can be published to meet the 30 September deadline.
- 1.6 In recent years it has been the practice to present the statement of accounts to the Audit and Risk committee on two occasions, firstly at its July meeting, for information, and secondly at its September meeting for formal approval to be given. However, it is

now felt that it is preferable to submit the full statement of accounts once only, for formal approval in September, thereby avoiding duplication and enabling members to concentrate on reviewing an audited rather than draft statement. Indeed once the provisions for earlier approval are in place in respect of the 2017/18 accounts and thereafter, there will only be the one opportunity to review the statement at the July meeting. Should members wish to view the draft statement, this can be accessed via the Council's website and in addition a copy has been placed in the members' room. Instead, it is felt that it would be more beneficial to concentrate at this stage on reporting upon the outturn position and the key elements of the Council's financial position as at 31 March.

- 1.7 Accordingly, the rest of this report consists of commentary on the outturn and information and explanation in respect of key areas in relation to the financial position. Appendix 1 shows the income and expenditure account, movement in reserves statement, balance sheet, and collection fund account, together with the table from Note 2.3.7 in relation to useable reserves balances and movements, as included in the published draft statement of accounts, to provide background information and context for what is discussed in the report.
- 1.8 Training will be provided for members of the committee to assist them in carrying out their role of approving the statement of accounts. This is likely to be scheduled for some time during the couple of weeks prior to the 26 September meeting to approve the statement.
- 1.9 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, firstly at the same time that the statement of accounts is first published for public inspection purposes (i.e. 1 July in respect of the 2015/16 statement) and finally by 30 September, if the initial publication was of an unapproved governance statement. It is intended to include it in the audited Statement of Accounts to be published in September, as in previous years.

## **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 2015/16 was originally set in February 2015 and amounted to a net total of £13,830,450. The eventual outturn for the year was a positive variance against this figure, of £1,648.

## **3. The General Fund Outturn**

- 3.1 As mentioned above, the outturn in respect of the General Fund Revenue Account was £1,648 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
Land Charges Search Fees	245	220	25
Commercial Portfolio Rents	1,188	1,111	77
Newcastle Open Market Stall Fees	198	160	38
Car Parking Income	1,076	948	128
Commercial Refuse Fees	513	455	58
Jubilee 2 Income	1,462	1,367	95
Kidsgrove Sports Centre Income	716	592	124
Cemeteries Income	350	322	28
<b>Total</b>	<b>5,748</b>	<b>5,175</b>	<b>573</b>

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

Item	Additional expenditure
	£000s
Terms and Conditions Savings not achieved	31
Kidsgrove Sports Centre costs	34
Household Waste - short term vehicle hire	27
<b>Total</b>	<b>92</b>

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
<b>Additional Income:</b>	
Right to Buy Receipts less than £10k (not capital receipts)	39
Reimbursement by government of Search Fees refunds	78
Crematorium Income	14
<b>Procurement Savings:</b>	
Vehicle Fuel and Tyres	81
<b>Good Housekeeping Efficiencies:</b>	
Housing Advice Contract	45
Pollution Control & Contaminated Land - Other Fees for Services/Equipment	28
Corporate Training expenditure	10
External Audit Fee	18
Water Courses expenditure	11

<b>Staffing Efficiencies:</b>	
Overall employee costs savings	40
<b>Corporate:</b> e.g. additional government grant, further Heritable Bank repayments, additional interest receipts	266
<b>Other Variances</b>	37
<b>Total</b>	<b>667</b>

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

3.2 An amount of £1,648 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 £0.341m, an increase of £0.044m from the 1 April 2015 balance, which apart from the above transfer is accounted for by payments into the reserve in respect of commitments carried forward.

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 2017/18.

#### 3.4 Business Rates Retention

3.4.1 There was a positive benefit to the Council arising from the Business Rates Retention Scheme in 2015/16, which is the third 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 £0.043m. This was set aside via a transfer to the Business Rates Reserve (shown at Note 2.3.7 to the Statement of Accounts).

3.4.2 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 2016 which forecast the estimated business rates income for 2016/17 and 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.

3.4.3 Various anomalies and grey areas exist within the business rates system which from time to time result in ratepayers making representations that they are entitled to reductions in the amounts payable by them, for example applications for downwards revaluation of their properties or for the granting of reliefs which they assert they are entitled to and, if successful, refunds of amounts already paid. In 2015/16 the basis for the valuation of some types of doctors' surgeries was questioned and resulted in the Valuation Office accepting that a much lower valuation was appropriate. This did not significantly affect the amount of tax collectable by the Borough Council, although for some authorities it amounted to a much larger loss of income. Looking forward, a more significant claim for a reduction in the amounts payable is being

made by National Health Service Trusts, which contend that they are entitled to mandatory charitable relief in relation to their properties, which would reduce the amount payable by 80%. This contention is not accepted by the Council, in common with other authorities, and the Local Government Association has obtained a legal opinion which does not support the NHS Trusts' view, therefore, NHS properties will continue to be billed for the full amount. Fortunately there are no major NHS facilities within the Borough Council boundaries so the impact would be nowhere near as severe as it could be for some other authorities. It looks likely that this issue will take some time to resolve, probably through the courts. Instances such as these, unless they involve large amounts of income loss, are presently of limited significance to the Borough Council because the loss of income is shared with the government and the County Council and Fire Authority with this Council suffering only 40 per cent of the loss. However, from 2020 local authorities will be permitted to retain 100 per cent of business rates collected, so will suffer the whole of any losses, with 80 per cent of the amount lost being attributable to the Borough Council. As a result of the new arrangements Revenue Support Grant will no longer be paid to authorities by the government so business rates, along with council tax, will become one of the two largest sources of income for the Council. The exact details of the new arrangements have yet to be determined so the precise impact on the Council's finances cannot currently be determined.

- 3.4.4 The Business Rates 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 2015/16 was £0.292m. 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.
- 3.4.5 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 in 2015/16 was £0.381m. Of this £0.152m (40%) has been retained by the Borough Council, with the balance of £0.229m being paid over to the Pool, £0.077m (20%) to be held as a reserve to meet any future business rates income shortfalls experienced by Pool members, and £0.152m (40%) in a reserve to fund economic development projects in Staffordshire.

#### **4. The Collection Fund**

- 4.1 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.
- 4.2 Overall the Fund experienced a surplus of £1.397m for the year, leaving a balance of an accumulated surplus of £0.412m at the year-end. Separating this out into its individual components, the respective positions were as follows:

	Council Tax		Business Rates		Total
	£m	£m	£m	£m	£m
Balance Brought Forward - Surplus/(Deficit)		1.137		(2.122)	(0.985)
Contribution towards previous year's surplus/deficit (A)	(1.143)		2.000		
Surplus/(Deficit) relating to 2015/16 (B)	1.149		(0.609)		
Overall Surplus/(Deficit) for Year (A + B)		0.006		1.391	1.397
Balance Carried Forward - Surplus/(Deficit)		1.143		(0.731)	0.412

More details of the Collection Fund transactions are shown in the Collection Fund Account at Appendix 1.

4.3 As can be seen the Council Tax element of the Fund achieved a surplus of £1.149m for the year, which compares to an in-year surplus of £0.968m in 2014/15. 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 2017/18.

4.4 The Business Rates element of the Fund experienced an in-year deficit of £0.609m. 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 £0.244m and will be met from the Business Rates Reserve referred to in paragraph 3.4. 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 2015/16. The reduced collectable amount occurred because of various factors, chiefly changes in reliefs, exemptions and appeals.

4.5 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. Movements on the Provision in 2015/16 were as follows:

	£m
Balance Brought Forward at 1 April 2015	0.865
Used in 2015/16	(0.865)
Contribution to Provision	1.932
Balance at 31 March 2016	<u>1.932</u>

The balance of £1.932m was assessed, using data supplied by a specialist firm, as being a prudent amount to set aside to meet future appeals. 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. The value included in the balance sheet is also 40%, i.e. £0.773m. The amount has increased

due to the high level of appeals currently being experienced, reflecting the volatility referred to in paragraph 3.4.

## **5. The Balance Sheet**

5.1 The main features of the Balance Sheet, which is shown in full at Appendix 1, are as follows

- There are Net Tangible Fixed Assets of £57.304m (£57.427m at 31 March 2015) which consist of Plant, Property and Equipment, Investment Properties and Heritage Assets.
- Investments (all short term at 31 March 2016 - i.e. with less than 1 year to run from that date) show a small decrease, amounting to £7.549m compared to £8.808m at 31 March 2015.
- 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 £9.306m. Short Term Debtors have decreased by £1.382m compared with 31 March 2015. The main reasons for this are the debtor relating to the government's share of the business rates deficit was £1.061m at 31 March 2015 but only £0.365m at 31 March 2016. Also there was an outstanding debtor account, amounting to £0.227m in relation to Staffordshire County Council in respect of locality commissioning, which is not present at 31 March 2016 and the level of sundry debtors has decreased by £0.522m at 31 March 2016.
- The amount the Council owes to its creditors is £5.495m. Creditors have decreased by £3.705m compared to 31 March 2015. At 31 March 2015 an amount of £1.923m was included in creditors in respect of the Department for Work and Pensions (DWP) relating to housing benefits reimbursements for 2014/15, which the DWP had overpaid. At 31 March 2016, however, DWP owe the Council £0.042m in respect of 2015/16 reimbursements, which amount is included in debtors. There was also a creditor of £0.906m at 31 March 2015 relating to the DWP because a payment relating to 2015/16 had been received in 2014/15. Payments accrued for in relation to housing benefit payments paid in April but relating to March was £0.562m at 31 March 2015 but only £0.020m at 31 March 2016.
- Provisions have increased overall (£1.290m compared with £0.799m). The NNDR Appeals Provision has increased by £0.427m for reasons outlined in paragraph 4.5. The Employee Benefits Provision has increased from £0.188m to £0.366m owing to a re-definition of the data used to calculate the provision to be made. The Land Charges Provision has been extinguished because outstanding claims have been settled.
- The Net Liability relating to Defined Benefit Pension Schemes (i.e. the difference between liabilities and assets of the pension scheme) decreased from £74.019m to £68.428m. Normally this decrease 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, this is not the case because of the prepayment of pension contributions in respect of 2016/17 totalling £1.200m. These, together with an amount for 2015/16, 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 2016/17 the prepayment relating to that year will be transferred to the general fund revenue account via a transfer from the Pensions Reserve. After these transactions have occurred, the two accounts will once more be mirror images of each other. Without the charge of £1.200m, the Pensions Liability would have shown a decrease of £4.391m, reflecting other factors. The change mainly arises as a result of an increase in the net discount rate applied to pension fund assets over this period, the positive impact of which has outweighed the lower than expected pension fund asset returns. 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.

## 6. Reserves

6.1 The Council has usable reserves totalling £10.982m. The note included in Appendix 1 shows a full analysis of all these reserves. The main items, with their balances at 31 March 2016, are:

- General Fund Balance (£1.200m)
- Capital Receipts Reserve (£6.586m)
- Capital Grants Unapplied (£0.889m)
- Budget Support Fund (£0.341m)
- Contingency Reserve Fund (£0.226m)
- ICT Development Fund (£0.225m)
- Renewal and Repairs Fund (£0.002m)
- Equipment Replacement Fund (£0.376m)
- Revenue Investment Fund (£0.071m)
- Business Rates Reserve (£0.718m)

6.2 The General Fund Balance remains the same (£1.200m) as at 31 March 2015. 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.

6.3 The Capital Receipts Reserve is fully committed to financing the currently approved capital programme, the year-end balance reflecting underspending in relation to the 2015/16 capital programme, as discussed at paragraphs 7.2 and 7.3, and will all need to be spent in 2016/17. 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.

- 6.4 The balance of the Contingency Reserve remains above its agreed minimum level of £0.100m.
- 6.5 The Budget Support Fund and Business Rates Reserve are discussed at paragraphs 3.2 above and 3.4, respectively.
- 6.6 The levels of reserves will be considered as part of the budget preparation process for 2017/18. Some may require “topping up”, either from the revenue budget or a transfer from another reserve. In particular, the Renewals and Repairs Fund balance is insufficient to meet likely commitments. An additional contribution of £0.050m was approved by Full Council in February 2016 and will be made in the 2016/17 accounts.

## **7. Capital Expenditure**

- 7.1 Capital expenditure totalled £2.543m in 2015/16.
- 7.2 The capital programme approved by Full Council on 25 February 2015 provided for an amount of £5.564m to be spent in 2015/16. However, the budget report to Full Council on 24 February 2016 revised the estimated spend for 2015/16 to £3.731m owing to slippage on a number of projects, particularly arising from the requirement to include budget provision in 2015/16 for the ordering of the new vehicles required for the new waste service although actual expenditure will not be incurred until the vehicles are delivered in 2016/17 and replacement vehicles where purchase has been delayed until the current vehicle becomes unserviceable.
- 7.3 As can be seen, the actual outturn for the year was lower than the forecast reported to Full Council. The main reasons for the further slippage are: more vehicle replacements were deferred until 2016/17 (£0.750m), some of the work to enable the new waste service was not completed until 2016/17 (£0.174m) and some stock condition works were delayed or not completed by 31 March (£0.145m).
- 7.4 Projects in progress or committed which are included in the slippage will be completed or commenced in 2016/17. The remainder will be reviewed to confirm they are still required and considered in the context of available resources to finance the capital programme, particularly in view of the uncertainty regarding the timing of receipts from land sales, upon which much of the financing of the capital programme is dependent, owing to the delay in commencing the assets disposal programme. The new projects included in the 2016/17 programme will also need to be reviewed for the same reason.
- 7.5 The expenditure of £2.543m was financed as shown below:

	£m
Capital Receipts	1.047
New Homes Bonus	0.392
BetterCare Funding (re Disabled Facilities Grant)	0.654
Contributions from Other Bodies	0.062
Section 106 payments	0.086
Reserves - ICT Development Fund	0.090
Sport England Grant (Clayton Sports Centre)	0.212
Total Financing	<u>2.543</u>

## **8. List of Appendices**

Appendix 1: Extracts from Draft Statement of Accounts

**9. Link to Draft Statement of Accounts**

- 9.1 Please click on the following link for the appendix - [Statement of Accounts 2015-16](https://www.newcastle-staffs.gov.uk/sites/default/files/IMCE/YourCouncil/Accounts/Statement%20of%20Accounts%202015-16%20UNAUDITED.pdf) or <https://www.newcastle-staffs.gov.uk/sites/default/files/IMCE/YourCouncil/Accounts/Statement%20of%20Accounts%202015-16%20UNAUDITED.pdf>

A hard copy is also available in the Member's Room

**APPENDIX 1****Comprehensive Income and Expenditure Statement**

Gross Expenditure	2014/15			2015/16		
	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000		£000	£000	£000
2,315	1,349	966	Central Services to the Public	2,515	1,413	1,102
7,112	2,257	4,855	Cultural & Related Services	7,152	2,736	4,416
10,608	3,971	6,637	Environmental & Regulatory Services	10,963	3,898	7,065
2,812	824	1,988	Planning Services	2,533	772	1,761
1,334	1,518	(184)	Highways & Transport Services	1,243	1,352	(109)
32,445	31,095	1,350	Housing Services	33,621	32,561	1,060
2,106	92	2,014	Corporate & Democratic Core	2,246	267	1,979
86	-	86	Non-Distributed Costs	186		186
<b>58,818</b>	<b>41,106</b>	<b>17,712</b>	<b>Cost of Services</b>	<b>60,459</b>	<b>42,999</b>	<b>17,460</b>
297	362	(65)	Other Operating Expenditure (Note 2.2.1, page 24)	460	541	(81)
2,017	1,248	769	Financing & Investment Income/Expenditure (Note 2.2.2, page 24)	1,698	1,463	235
-	15,643	(15,643)	Taxation & Non-Specific Grant Income (Note 2.2.3, page 25)	-	15,146	(15,106)
		<b>2,773</b>	<b>(Surplus)/Deficit on Provision of Services</b>			<b>2,508</b>
		(201)	(Surplus)/Deficit on Revaluation of Property, Plant & Equipment Assets			(253)
		4,055	Remeasurement of the Net Defined Benefit Liability/Asset			(8,680)
		<b>3,854</b>	<b>Other Comprehensive Income &amp; Expenditure</b>			<b>(8,933)</b>
		<b>6,627</b>	<b>Total Comprehensive Income &amp; Expenditure</b>			<b>(6,425)</b>

**Note**

The pension liability of the Council decreased during the financial year 2015/16 (remeasurement of the net defined benefit liability/asset). This is as a result of an increase in the net discount rate applied to pension fund assets over this period, the positive impact of which has outweighed the lower than expected pension fund asset returns.

**Movement in Reserves Statement**

	General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 31 March 2015 B/Fwd</b>	(1,200)	(3,084)	(6,365)	(868)	(11,517)	18,099	6,582
<b>Movement in Reserves 2015/16</b>							
Surplus/(Deficit) on Provision of Services	2,508	-	-	-	2,508	-	2,508
Other Comprehensive Income & Expenditure	-	-	-	-	-	(8,933)	(8,933)
<b>Total Comprehensive Income &amp; Expenditure</b>	<b>2,508</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,508</b>	<b>(8,933)</b>	<b>(6,425)</b>
Adjustments Between Accounting & Funding Basis (Note 2.1.1, page 22)	(1,948)	-	(221)	(21)	(2,190)	2,190	-
<b>Net Increase/Decrease Before Transfers to Earmarked Reserves</b>	<b>560</b>	<b>-</b>	<b>(221)</b>	<b>(21)</b>	<b>318</b>	<b>(6,743)</b>	<b>(6,425)</b>
Transfers to/from Earmarked Reserves	(560)	777	-	-	217	(217)	-
<b>Increase/Decrease in Year</b>	<b>-</b>	<b>777</b>	<b>(221)</b>	<b>(21)</b>	<b>535</b>	<b>(6,960)</b>	<b>(6,425)</b>
<b>Balance at 31 March 2016 C/Fwd</b>	<b>(1,200)</b>	<b>(2,307)</b>	<b>(6,586)</b>	<b>(889)</b>	<b>(10,982)</b>	<b>11,139</b>	<b>157</b>

**Balance Sheet**

31/03/2015		Note	31/03/2016	
£000	£000		£000	£000
40,755	Property, Plant & Equipment	2.3.1	40,323	
1,025	Surplus Assets	2.3.1	1,025	
14,218	Investment Property	2.3.2	14,527	
1,429	Heritage Assets	2.3.3	1,429	
217	Intangible Assets		158	
676	Long Term Debtors	2.3.4	591	
<b>58,320</b>	<b>Long Term Assets</b>		<b>58,053</b>	
8,808	Short Term Investments	3.7.1	7,549	
162	Inventories		206	
10,688	Short Term Debtors	2.3.4	9,306	
319	Cash and Cash Equivalents		595	
<b>19,977</b>	<b>Current Assets</b>		<b>17,656</b>	
(9,200)	Short Term Creditors	2.3.5	(5,495)	
(36)	Short Term Borrowing	3.7.1	(59)	
(196)	Deposits		(198)	
<b>(9,432)</b>	<b>Current Liabilities</b>		<b>(5,752)</b>	
(799)	Provisions	2.3.6	(1,290)	
(74,019)	Net Pensions Liability	3.4	(68,428)	
(155)	Deferred Liabilities		-	
(74,174)			(68,428)	
(474)	Capital Grants Receipts in Advance		(396)	
<b>(75,447)</b>	<b>Long Term Liabilities</b>		<b>(70,114)</b>	
<b>(6,582)</b>	<b>Net Assets</b>		<b>(157)</b>	
	<b>Usable Reserves</b>	2.3.7		
1,200	General Fund Balance		1,200	
3,084	Other Usable Reserves		2,307	
6,365	Capital Receipts Reserve		6,586	
868	Capital Grants Unapplied Account		889	
<b>11,517</b>	<b>Total Usable Reserves</b>		<b>10,982</b>	
	<b>Unusable Reserves</b>	2.3.8		
14,458	Revaluation Reserve		14,711	
43,916	Capital Adjustment Account		43,634	
690	Deferred Capital Receipts Reserve		620	
(76,309)	Pensions Reserve		(69,628)	
(666)	Collection Fund Adjustment Account		(110)	
(188)	Accumulated Absences Account		(366)	
<b>(18,099)</b>	<b>Total Unusable Reserves</b>		<b>(11,139)</b>	
<b>(6,582)</b>	<b>Total Reserves</b>		<b>(157)</b>	

**Usable Reserves**

	At 31 March 2014 £000	Transfers Out 2014/15 £000	Transfers In 2014/15 £000	At 31 March 2015 £000	Transfers Out 2015/16 £000	Transfers In 2015/16 £000	At 31 March 2016 £000
<b>Capital:</b>							
Capital Receipts Reserve	3,395	(456)	3,426	6,365	(1,047)	1,268	6,586
Capital Grants Unapplied	1,153	(460)	175	868	(221)	242	889
<b>Both Revenue and Capital:</b>							
Equipment Replacement Fund	350	(588)	614	376	(141)	141	376
Renewals and Repairs Fund	55	(412)	360	3	(431)	430	2
ICT Development Fund	321	(138)	70	253	(118)	90	225
New Homes Bonus Reserve	18	(363)	345	-	(186)	186	-
New Initiatives Fund	75	(18)	-	57	(57)	-	-
<b>Revenue:</b>							
General Fund Balance	1,200	-	-	1,200	-	-	1,200
Insurance Fund	215	(215)	-	-	-	-	-
Contingency Reserve Fund	291	(15)	-	276	(50)	-	226
Budget Support Fund	333	(77)	41	297	(28)	72	341
Conservation and Heritage Fund	62	(25)	-	37	(12)	10	35
Museum Purchases Fund	66	-	2	68	(8)	-	60
Maintenance Contributions	78	(17)	15	76	(50)	35	61
Mayors Charities Reserve	12	-	-	12	(1)	-	11
Standards Fund	15	(9)	-	6	-	-	6
Deposit Guarantee Scheme Reserve	32	-	4	36	-	-	36
Revenue Investment Fund	89	(77)	100	112	(76)	35	71
Keele Master Plan Reserve	-	-	-	-	-	139	139
Business Rates Reserve	1,353	(332)	454	1,475	(800)	43	718
<b>Total</b>	<b>9,113</b>	<b>(3,202)</b>	<b>5,606</b>	<b>11,517</b>	<b>(3,226)</b>	<b>2,691</b>	<b>10,982</b>

**Collection Fund Account**

2014/15 Council Tax £'000	2014/15 Business Rates £'000	2014/15 Total £'000		2015/16 Council Tax £'000	2015/16 Business Rates £'000	2015/16 Total £'000
<b>Income</b>						
(52,198)	-	(52,198)	Council Tax Payers	(53,488)	-	(53,488)
-	(33,075)	(33,075)	Business Rates Payers	-	(33,588)	(33,588)
<i>Transfer of Previous Years Deficit</i>						
-	(332)	(332)	- Newcastle-under-Lyme Borough Council	-	(800)	(800)
-	(75)	(75)	- Staffordshire County Council	-	(180)	(180)
-	-	-	- Office of Police & Crime Commissioner	-	-	-
-	(8)	(8)	- Staffordshire Fire and Rescue Authority	-	(20)	(20)
-	(415)	(415)	- Central Government	-	(1,000)	(1,000)
<b>(52,198)</b>	<b>(33,905)</b>	<b>(86,103)</b>	<b>Total Income</b>	<b>(53,488)</b>	<b>(35,588)</b>	<b>(89,076)</b>
<b>Expenditure</b>						
<i>Council Tax Precepts</i>						
6,466	-	6,466	- Newcastle-under-Lyme Borough Council	6,541	-	6,541
35,841	-	35,841	- Staffordshire County Council	36,907	-	36,907
6,197	-	6,197	- Office of Police & Crime Commissioner	6,259	-	6,259
2,360	-	2,360	- Staffordshire Fire and Rescue Authority	2,430	-	2,430
<i>Business Rates Apportionment</i>						
-	13,035	13,035	- Newcastle-under-Lyme Borough Council	-	13,144	13,144
-	2,933	2,933	- Staffordshire County Council	-	2,958	2,958
-	326	326	- Staffordshire Fire and Rescue Authority	-	328	328
-	16,293	16,293	- Central Government	-	16,430	16,430
<i>Other Expenditure</i>						
-	142	142	Cost of Collection	-	141	141
-	131	131	Transitional Protection	-	(230)	(230)
366	221	587	Provision for Bad Debts	202	359	561
-	865	865	Provision for Appeals	-	1,067	1,067
<i>Transfer of Previous Years Surplus</i>						
98	-	98	- Newcastle-under-Lyme Borough Council	140	-	140
567	-	567	- Staffordshire County Council	809	-	809
98	-	98	- Office of Police & Crime Commissioner	140	-	140
37	-	37	- Staffordshire Fire and Rescue Authority	54	-	54
<b>52,030</b>	<b>33,946</b>	<b>85,976</b>	<b>Total Expenditure</b>	<b>53,482</b>	<b>34,197</b>	<b>87,679</b>
<b>(168)</b>	<b>41</b>	<b>(127)</b>	<b>Deficit/(Surplus) for the Year</b>	<b>(6)</b>	<b>(1,391)</b>	<b>(1,397)</b>
<b>(969)</b>	<b>2,081</b>	<b>1,112</b>	<b>Balance Brought Forward at 1 April</b>	<b>(1,137)</b>	<b>2,122</b>	<b>985</b>
<b>(168)</b>	<b>41</b>	<b>(127)</b>	<b>Deficit/(Surplus) for the year</b>	<b>(6)</b>	<b>(1,391)</b>	<b>(1,397)</b>
<b>(1,137)</b>	<b>2,122</b>	<b>985</b>	<b>Balance Carried Forward at 31 March</b>	<b>(1,143)</b>	<b>731</b>	<b>(412)</b>
<b>Allocation of Collection Fund Balance</b>						
(145)	849	704	- Newcastle-under-Lyme Borough Council	(144)	292	148
(801)	191	(610)	- Staffordshire County Council	(809)	66	(743)
(53)	21	(32)	- Staffordshire Fire and Rescue Authority	(53)	7	(46)
-	1,061	1,061	- Central Government	-	366	366
(138)	-	(138)	- Office of Police & Crime Commissioner	(137)	-	(137)
<b>(1,137)</b>	<b>2,122</b>	<b>985</b>		<b>(1,143)</b>	<b>731</b>	<b>(412)</b>

# Agenda Item 9

## HEADING

### QUARTERLY REPORT : ADOPTION OF INTERNAL AUDIT HIGH RISK RECOMMENDATIONS AND SUMMARY OF ASSURANCE 1 JANUARY TO 31 MARCH 2016

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.

## **2. Issues**

- 2.1 At the end of quarter four there was just one outstanding high risk recommendation, this was at its first target date change and therefore no further action is required at this stage.
- 2.2 A summary of the assurance levels for each of the 4 directorates during quarter 4 can be found at Appendix A.
- 2.3 Given these results at the end of the fourth quarter there is a slight concern with regards to one of the Directorates which has an overall assurance of Little. This is as a result of resource issues within certain service areas; however assurance has been provided that work is underway to ensure that the recommendations are addressed and actioned.

## **3. Reasons for Preferred Solution**

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

## **4. Outcomes Linked to Corporate Priorities**

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

## **5. Legal and Statutory Implications**

- 5.1 The Accounts and Audit Regulations 2015 require the Council to 'maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices'.

## **6. Equality Impact Assessment**

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

## **7. Financial and Resource Implications**

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

## **8. Major Risks**

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

## **9. Key Decision Information**

- 9.1 Not applicable

## **10. Earlier Cabinet/Committee Resolutions**

- 10.1 Where fundamental recommendations show a target date change; this identifies the number of times the recommendation has been referred back to Executive

Management Team and to members for consideration of the risks prior to agreeing an extended implementation date or other action.

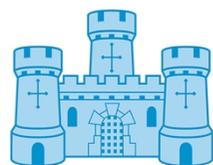
**11. List of Appendices**

Audit Recommendations Summary of Assurance for March 2016

**12. Background Papers**

Internal Audit PI and Assurances file

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**Summary of Outstanding Audit Recommendations and Levels of Assurance – Quarter 4 (2015-16)**

	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	50	50	50	49	57	57	21	22	25	47	18	18
Number of Recommendations Outstanding as at the end of the month	10	12	25	5	3	8	4	4	7	1	0	1
% Implemented as at the end of the month	57	52	34	86	90	79	78	78	71	2	100	94
% Overdue for implementation as at the end of the month	43	48	66	14	10	21	22	22	29	4	0	6
No of recommendations with target date changed > 2	0	0	0	0	0	2	0	0	0	0	0	0
High Risk recommendations with target date changed > 2	0	0	0	0	0	0	0	0	0	0	0	0
Medium Risk recommendations with target date changed > 2	0	0	0	0	0	1	0	0	0	0	0	0

Classification: NULBC **UNCLASSIFIED**

	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	0	0	1	0	0	0	0	0	0
<b>Overall Assurance Level</b>	<b>Ltd</b>	<b>Ltd</b>	<b>Little</b>	<b>Sub</b>	<b>Sub</b>	<b>Sub</b>	<b>Sub</b>	<b>Sub</b>	<b>Sub</b>	<b>Full</b>	<b>Full</b>	<b>Full</b>
<b>Annual Audit Days for Directorate*</b>	<b>50</b>			<b>168</b>			<b>115</b>			<b>77</b>		
<b>Total number of audit reviews for the Directorate*</b>	<b>5</b>			<b>24</b>			<b>13</b>			<b>7</b>		

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 2015-16.

Classification: NULBC **UNCLASSIFIED**

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

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

**Medium Risk:** *(action that is considered necessary to avoid exposure to significant risks: (Implemented within 3 months))*By changing the date the risk is not being managed and therefore you may wish to seek additional assurance as to the security of the controls in place.

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## NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

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

Date 4 July 2016

#### INTERNAL AUDIT SECTION ANNUAL REPORT 2015-16

**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 2015-16 enclosed as Appendix A.

#### **Recommendation**

**That the Internal Audit Section Annual Report for 2015-16 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 2015-16 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

## UNCLASSIFIED

- 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 2015-16, 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 2015-16 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 2015-16 on the 16 February 2015. The plan accounted for 452 audit days.
- 2.2 Internal Audit productivity was 60% which is lower than the target of 74%, this has been as a result of work in relation to the new computer system that is in the process of being implemented and also the secondment of one of the Audit Technicians into the Finance Section to cover a period of maternity leave. 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 Completion of the Audit Plan was 91% against a target of 90%.
- 2.4 The percentage of Internal Audit recommendations implemented by your officers has increased from 71% in 2014/5 to 88% in 2015/16 against a target of 90%. 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.
- 2.5 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 2015/16 was £255,360

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 16 February 2015 – Internal Audit Plan 2015-16

13. **List of Appendices**

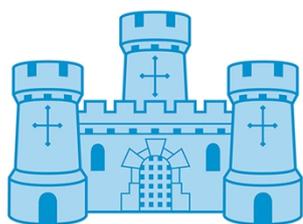
- 13.1 Annual Report of the Internal Audit Section 2015-16

14. **Background Papers**

APACE time recording system

UNCLASSIFIED

Public Sector Internal Audit Standards (PSIAS)



**NEWCASTLE·UNDER·LYME**  
**BOROUGH COUNCIL**

# **ANNUAL REPORT OF THE INTERNAL AUDIT SERVICE 2015/16**

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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 2015-16. 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 2015-16 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 2015-16**

3.1 Internal Audit examined 39 systems in 2015-16. 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	0	1
Asset Management (Capital)*	Well Controlled	0	0	0
Cash Receipting*	Adequately Controlled	0	2	0
Council Tax*	Well Controlled	0	1	0
Creditors*	Well Controlled	0	0	1
Treasury	Well	0	0	0

Audit Area	Level of Assurance Given	Number of Recommendations made		
Management*	Controlled			
NNDR*	Well Controlled	0	1	0
Civica Financial System	Well Controlled	0	0	0
Housing Benefits				
Sundry Debtors	Adequately Controlled	0	3	1

\* denotes systems where only key controls examined in 2015-16

3.3 A summary of the level of assurance, for all of the systems covered in 2015/16 by risk category, is given in the table below:-

Risk	Assurance			
	Full	Substantial	Limited	Little
High (A)	11	4	1	0
Medium (B)	4	18	1	0
Low (C)	0	0	0	0
	15	22	2	0

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 2 audits that have been classified as Limited 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 2015/16):

- 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 2015/16 procedure notes were found to be in place for most of the areas that we reviewed however in some instances it was found that these were either lacking or required updating. (36 per cent).

- The completeness and accuracy of records within service areas is important. 13 per cent of the recommendations made during 2015/16 related to issues where records had not been completed correctly, or the correct information was not found. Whilst the categorisation of recommendation accounted for 13 per cent of those made during 2015/16 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. 22 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 23 per cent of recommendations were categorised in terms of risk issues (5 per cent) staffing issues, particularly in relation to training matters (16 per cent), and business continuity (2 per cent)
- 3.6 In addition to the planned audits 10 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 10 special projects identified above, 5 were as a result of the Council's Whistleblowing Policy, and 5 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 1/4/15 to 31/3/16 a total of 321 recommendations have been made, of these 39 recommendations were outstanding as at the 31 March 2016. In total 282 recommendations have been implemented, 88%.

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 spilt of recommendations over high, medium and low for those that were due for implementation by the 31 March 2016:

	<b>ALL</b>	<b>IMPLEMENTED</b>	<b>OUTSTANDING</b>
High	45	44	1
Medium	179	151	28
Low	97	87	10
<b>TOTAL</b>	<b>321</b>	<b>282</b>	<b>39</b>
Target 2015/16		90%	88%
Proposed target 2016/17		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 2013/14, together with details of actual figures for 2015/16, and target for 2015/16;

Indicator	2013/14 actual	2014/15 actual	2015/16 target	2015/16 actual	2016/17 target
Percentage of audit plan completed	92%	90%	90%	91%	90%
Productivity of staff	79%	85%	74%	60%	74%
Recommendations implemented	89%	71%	90%	88%	90%
Medium to high satisfaction of the service from surveys	93%	94%	90%	90%	90%

5.2 The table below indicates the performance against the audit plan for 2015/16, split over the 3 different risk categories for audits and for the audit plan in total.

	Planned	Actual	Actual (%)
<b>High Risk Audits</b>	17	17	100
<b>Medium Risk Audits</b>	37	32	86%
<b>Low Risk Audits</b>	0	0	0
<b>Achievement of the Audit Plan</b>	54	49	91%

5.3 The 2015/16 audit plan as approved by Audit and Risk Committee provided for 452 days of audit work.

5.4 The level of productivity within the Section was 60% 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 54 planned audits, 50 were completed, 91% 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 90% 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 124 days audit time, 27% of the original available planned time.
  - 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 2015/16 accounted for 152 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.
- 6.3 Work has continued in relation to Corporate Fraud and the development of the role of the Corporate Fraud Officer. In addition during 2015/16 a CIPFA e-learning package in relation to Whistleblowing was purchased and rolled out across the organisation. The training is designed to raise the awareness of Whistleblowing and remind all staff that we have a policy in place and that they should not be afraid to come forward and raise any concerns that they may have. At present this has been delivered to all staff who have access to a computer, the Audit Manager is currently looking at ways in which this training can also be delivered to those operational staff who do not have access to a computer.

7.0 **OPERATIONAL PLANS FOR 2016/17**

- 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'. Training and awareness will continue to be raised across the organisation. During 2016/17 the CIPFA e-learning package in relation to Bribery will be rolled out across the organisation.
- 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 2016/17. 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. Work has been undertaken collaboratively across Staffordshire through, SCAG

to procure a piece of work to undertake an external assessment in accordance with the PSIAS, this work will be completed during 2016/17.

## NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

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

Date 4 July 2016

<b><u>HEADING</u></b>	Review of the Effectiveness of the Audit Committee
<b><u>Submitted by:</u></b>	Audit Manager
<b><u>Portfolio</u></b>	Finance, IT and Customer
<b><u>Ward(s) affected</u></b>	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 2015/16 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 2015/16 be noted.**

#### **Reasons**

That members agree with the findings of the review which concludes that the effectiveness of the Audit Committee during 2015/16 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 2015/16.
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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**Contents List for Self-Assessment of the Effectiveness of the Audit Committee**  
**2015-16.**

<b>Working Paper Reference</b>	<b>Description of Item</b>
1	Council's Constitution
2 a	Report to Audit and Risk Committee re 2015/16 Audit Plan
2 b	2015/16 Audit Plan
3	2015/16 Internal Audit Charter
4 a	Internal Audit Progress Report Quarter 1 2015/16
4 b	Internal Audit Progress Report Quarter 2 2015/16
4 c	Internal Audit Progress Report Quarter 3 2015/16
5	Annual Audit Questionnaire
6	Annual Audit Report
7 a	Outstanding Recommendations Assurance – Quarter 1 2015/16
7 b	Summary of Outstanding Recommendations – Quarter 1 2015/16
7 c	Outstanding Recommendations Assurance – Quarter 2 2015/16
7 d	Summary of Outstanding Recommendations – Quarter 2 2015/16
7 e	Outstanding Recommendations Assurance – Quarter 3 2015/16
7 f	Summary of Outstanding Recommendations – Quarter 3 2015/16
8	Corporate Risk Management Report – Quarter 3 2015/16
9 a	Review of the Council's Anti-Fraud & Anti-Corruption Framework
9 b	Review of the Anti-Money Laundering Policy
9 c	2015-16 Anti-Fraud & Anti-Corruption Framework
9 d	2015-16 Anti-Money Laundering Policy
9 e	2015-16 Fraud Guide for Managers
9 f	2015-16 Fraud Response Plan

9 g	2015-16 Whistleblowing Policy
10	List of Audit and Risk Committee Members
11	Member Induction Pack
12	Scrutiny of the Statement of Accounts by the Audit & Risk Committee
13	Audit & Risk Committee Training
14	Audit Committee Plan of Work 2015/16
15	CIPFA Practical Guide

**SELF-ASSESSMENT CHECKLIST 2015/16– MEASURING THE EFFECTIVENESS OF THE AUDIT COMMITTEE**

Ref.	Issue	Yes	No	N/A	Comment	Evidence Ref
<b>1.0</b>	<b>Terms of Reference</b>					
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?	✓				1,15
<b>2.0</b>	<b>Internal Audit Process</b>					
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
<b>3.0</b>	<b>External Audit Process</b>					
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	
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.	7
4	Does the Committee take a role in overseeing:				All of these are reported to the Audit & Risk	

Page 82	<ul style="list-style-type: none"> <li>• Risk Management Strategies</li> <li>• Internal Control Statements</li> <li>• Anti-Fraud Arrangements</li> <li>• Whistle-Blowing Strategies?</li> </ul>	✓			Committee.	8
		✓				9
		✓				
		✓				

Ref.	Issue	Yes	No	N/A	Comment	Evidence Ref
<b>4.0</b>	<b>Membership</b>					
4.1	Has the membership of the Committee been formally agreed and a quorum set?	✓			See constitution.	<b>10</b>
4.2	Is the Chair free of executive or scrutiny functions?	✓			Chair is free of Executive functions.	<b>10</b>
4.3	Are members sufficiently independent of the other key Committees of the Council?	✓			All 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.	<b>11,12,13</b>
4.5	Can the Committee access other Committees as necessary?	✓				
<b>5.0</b>	<b>Meetings</b>					
5.1	Does the Committee meet regularly?	✓			Yes the Committee meets 5 times per year.	<b>14</b>
5.2	Are separate, private meetings held with the external auditor and the internal auditor?	✓			Regular meetings are held between Chair, Vice Chair and the Audit Manager to discuss monthly assurance statements and outstanding audit recommendations.	
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 Senior Officers attend in relation to Risk Management Reports Corporate Health & Safety Reports.	
<b>Ref.</b>	<b>Issue</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>	<b>Comment</b>	<b>Evidence Ref</b>
<b>6.0</b>	<b>Training</b>					
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	11
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.	12,13
<b>7.0</b>	<b>Administration</b>					
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	
7.2	Are the key officers available to support the Committee?	✓				

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**NEWCASTLE-UNDER-LYME BOROUGH COUNCIL**

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

**Date 4 July 2016**

**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 2015/16.

**Recommendations**

**That the report outlining the findings from the review of the effectiveness of the system of Internal Audit for 2015/16, 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 full assessment is referenced as Appendix A and can be viewed by clicking on the link at the end of this report. A copy of the list of evidence that has been produced has been provided at Appendix B.
- 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 2015/16 has been undertaken and this can be found at Appendix C. 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 2016/17. The revised action plan for 2016/17 can be found at Appendix D.
- 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 was approved by SCFOG at their September 2015 meeting. A procurement exercise was undertaken during May 2016 and is now in the final stages of completion. Once the process has been finalised 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 2015/16. 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 - [Self Assessment](#) – (please press on the link for this appendix). A hard copy is also available in the Member's Room

Appendix B Key to Evidence for Self Assessment

Appendix C – Progress against Action plan for 2015/16

Appendix D- Action Plan for 2016/17.

14. **Background Papers**

File of evidence compiled against the PSIAS

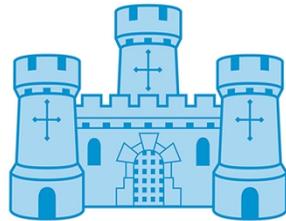
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**Internal Audit – Self Assessment against  
Public Sector Internal Audit Standards and the Local Government Application Note for 2015-16**

**Contents Page**

1.	Internal Audit Charter
2.	Risk Based Audit Plan
3.	Risk Assessment Methodology
4.	Employees Code of Conduct
5 a - j	Information Security Policies
6 a - e	Fraud Policies
7.	Financial Regulations
8.	Standing Orders in relation to contracts
9.	Audit Declaration of Independence and Confidentiality
11.	Nolan Principles
12.	Report to Audit & Risk committee – Internal Audit Charter
13.	Role of the Head of Internal Audit
14.	Annual Report of the Internal Audit Service 516
15.	Copy AGS required
16.	Covering report to Audit and Risk Committee – Annual Report of the Internal Audit Service 2015-16
17.	Progress Report to Audit and Risk Committee – Qtr 2 2015-16
18.	Example Email to Chair & Vice Chair of Audit & Risk Committee
19.	Gifts and Hospitality Policy
20.	Internal Audit Protocol
21.	CIPFA – Excellent Internal Auditor
23 a –b	Examples of Audit Satisfaction Surveys used by Internal Audit
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 2015-16 Action Plan: Compliance with the Public Sector Internal Audit Standards and the Local Government Application Note Self-Assessment 2015-16**

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	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	<b>Completed</b>
	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>One training course was completed in April 2016 – a skills matrix is in the process of being formulated so work can be developed further 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><b>March 2017</b></p>

Ref	Conformance with the Standard	Y	P	N	Action Required	Target 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		<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. One training course was completed in April 2016 – a skills matrix is in the process of being formulated so work can be developed further in this area.</p> <p>In addition to the work of the SCAG IT group we are currently exploring these methods internally with some assistance from ICT Services</p>	<b>March 2017</b>
	<p>Do internal assessments include on-going monitoring of the internal audit activity, such as:-</p> <ul style="list-style-type: none"> <li>a) Routine quality monitoring processes?</li> <li>b) Periodic assessments for evaluating conformance with the PSIAS?</li> </ul>	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>	<b>December 2016</b>
	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	<b>Completed</b>

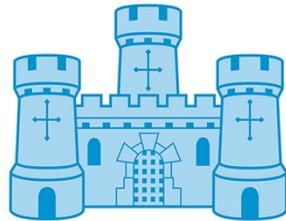
Ref	Conformance with the Standard	Y	P	N	Action Required	Target Date
LGAN	Has the CAE agreed the scope of the external assessment with an appropriate sponsor, such as the chair of the audit committee, the CFO or the chief executive?			N	The scope of the assessment will be discussed and agreed with S151 officer who attends SCFOG.  A specification for the assessment will be presented to SCFOG for approval in September 2015	<b>Completed – procurement exercise completed and an external assessor appointed.</b>
	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.	<b>Completed – procurement exercise completed and an external assessor appointed.</b>
	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"> <li>a) experience gained in an organisation of similar size</li> <li>b) complexity</li> <li>c) sector (i.e. the public sector)</li> <li>d) industry (i.e. local government), and</li> <li>e) technical experience</li> </ul> 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.	<b>March 2017</b>

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"> <li>a) the results of both external and periodic internal assessment must be communicated upon completion</li> <li>b) the results of the on-going monitoring must be completed annually</li> </ul> <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><b>Action carried forward to 2016/17 Action Plan</b></p>
	<ul style="list-style-type: none"> <li>c) Has the CAE developed and put into place policies and procedures to guide the internal audit activity?</li> </ul>		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><b>March 2017</b></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 &amp; 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>	<b>March 2017</b>

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 &amp; 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>.</p> <p><b>March 2017</b></p>
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	<b>March 2017</b>
	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	<b>March 2017</b>
	For significant consulting engagements, has this understanding been documented?			N	Evidence of the assurance mapping process will be documented.	<b>March 2017</b>

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>	<b>March 2017</b>
	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>	<b>March 2017</b>
				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>	<b>March 2017</b>



**NEWCASTLE·UNDER·LYME**  
**BOROUGH COUNCIL**

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

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	Target Date
	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>One training course was completed in April 2016 – a skills matrix is in the process of being formulated so work can be developed further 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><b>March 2017</b></p>
	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		<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. One training course was completed in April 2016 – a skills matrix is in the process of being formulated so work can be developed further in this area.</p> <p>In addition to the work of the SCAG IT group we are currently exploring these methods internally with some assistance from ICT Services</p>	<p><b>March 2017</b></p>

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"> <li>a) Routine quality monitoring processes?</li> <li>b) Periodic assessments for evaluating conformance with the PSIAS?</li> </ul>	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>	<b>December 2016</b>
	<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"> <li>a) experience gained in an organisation of similar size</li> <li>b) complexity</li> <li>c) sector (i.e. the public sector)</li> <li>d) industry (i.e. local government), and</li> <li>e) technical experience</li> </ul> <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	<p>Assessment has not yet been undertaken. These issues will be incorporated into the scope of the external assessment.</p> <p>It is proposed that the assessment will be completed in the 2016/17 financial year.</p>	<b>March 2017</b>

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"> <li>a) the results of both external and periodic internal assessment must be communicated upon completion</li> <li>b) the results of the on-going monitoring must be completed annually</li> </ul> <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>	<b>March 2017</b>
	<ul style="list-style-type: none"> <li>c) Has the CAE developed and put into place policies and procedures to guide the internal audit activity?</li> </ul>		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>	<b>March 2017</b>

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**NEWCASTLE-UNDER-LYME BOROUGH COUNCIL**

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

**Date 4 July 2016**

**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 2015/16 be approved for inclusion in the financial statements.

**Recommendations**

**That Members approve the Annual Governance Statement 2015/16(AGS)**

**Reasons**

To seek members approval of the Annual Governance Statement 2015/16 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 2015/16 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 2015/16 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 2015/16.

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 2015/16

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**

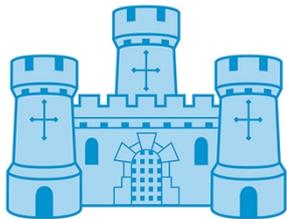
Each of the designated boxes need to be signed off and dated before going to Executive Director/Corporate Service Manager for sign off.

	Signed	Dated
Financial Implications Discussed and Agreed		
Risk Implications Discussed and Agreed		

<b>Legal Implications Discussed and Agreed</b>		
<b>H.R. Implications Discussed and Agreed</b>		
<b>ICT Implications Discussed and Agreed</b>		
<b>Report Agreed by: Executive Director/ Head of Service</b>		



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## ANNUAL GOVERNANCE STATEMENT 2015/16

### 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 2016 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:

<b>Core Principle 1</b>	<b>Focusing on the purpose of the Authority and on the outcomes for the community and implementing a vision for the local area.</b>
	<ul style="list-style-type: none"> <li>• Identifying and communicating the authority’s vision of its purpose and intended outcomes for citizens and service users</li> <li>• Reviewing the authority’s vision and its implications for the authority’s governance arrangements</li> <li>• 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</li> </ul> <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 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, corporate social media channels, posters, leaflets 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</p>

<b>Core Principle 1</b>	<b>Focusing on the purpose of the Authority and on the outcomes for the community and implementing a vision for the local area.</b>
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communities is at the heart of how the Council and its partners work and is a key factor in the 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.

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.

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 and 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.

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.

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. The Council has undertaken a major review of its online service provision and its website has been replaced and rebuilt to provide a greater focus on customer needs and service provision for the future.

The Council has achieved the Customer Service Excellence standard in Customer Services for the fifth consecutive year. This year has also seen the start of a programme of mentoring to enable other main front line delivery service areas to achieve the standard, which has resulted in Planning and Leisure services attaining excellence.

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.

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.

There are five 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.

<b>Core Principle 2</b>	<b>Members and Officers working together to achieve a common purpose with clearly defined functions and roles.</b>
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<b>Core Principle 2</b>	<b>Members and Officers working together to achieve a common purpose with clearly defined functions and roles.</b>
<ul style="list-style-type: none"> <li>• 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.</li> </ul> <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 new Recycling and Waste Service 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 Housing Strategy and Homelessness 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 the use of iPads in order to access to agenda items and other information for use in their constituencies and at meetings. The Council has a Member Development Panel in place to support their needs.</p>	

<b>Core Principle 3</b>	<b>Promoting values for the Authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour</b>
<ul style="list-style-type: none"> <li>• Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff</li> <li>• 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</li> </ul> <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. .</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</p>	

<b>Core Principle 3</b>	<b>Promoting values for the Authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour</b>
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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.

Risk Management continues to be embedded throughout the organisation. Risk Champions work 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 2015/16 to raise the awareness and profile of Information Security, this has included the bi annual Information Security sessions, 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. .

<b>Core Principle 4</b>	<b>Taking informed and transparent decisions which are subject to effective scrutiny and managing risk</b>
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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. 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 have been trained to Level 1 Introduction to Safeguarding Children.

The Authority continues to review and monitor its arrangements in respect of Information Security

<b>Core Principle 4</b>	<b>Taking informed and transparent decisions which are subject to effective scrutiny and managing risk</b>
<p>to ensure continued compliance to the Government security standards and continues to comply with the Government’s Public Sector Network Code of Connection.</p> <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 bi- annually to ensure that they remain fit purpose. During the course of 2015/16 training in relation to Whistleblowing was rolled out across the organisation, this was via the use of an e-learning toolkit which had been developed by the CIPFA Counter Fraud Centre.</p> <p>The council continues to work with Stoke-on-Trent City Council to develop the North West Staffordshire Corporate Fraud Team. This 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 2015-16 the Council has received and dealt with a number of whistleblowing allegations.</p>	

<b>Core Principle 5</b>	<b>Developing capacity and capability of members and officers to be effective</b>
<ul style="list-style-type: none"> <li>• Identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training</li> </ul> <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>	

<b>Core Principle 6</b>	<b>Engaging with local people and other stakeholders to ensure robust public accountability</b>
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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, corporate social media channels including Facebook and Twitter, posters, leaflets and the Reporter newspaper which is produced four times each year and distributed free with the aim of being delivered to all homes in the Borough. 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 social media, 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

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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 senior officers in instances of non-compliance; it can therefore be relied upon when considering the Annual Governance Statement for 2015/16.

- 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 2015/16. 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 2015/16. The internal review showed that the system of internal control can be relied upon when considering the Governance Statement for 2015/16. 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.

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- 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.
- 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 2014/15 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 achieve Level 1 Introduction to Safeguarding Children through the Staffordshire e-learning portal.
- To ensure that funding required for the Councils Capital Programme is delivered through the sale of assets identified for disposal as part of the Asset Management Strategy.

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 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 \_\_\_\_\_



## Grant Thornton

An instinct for growth™

BOROUGH OF NEWCASTLE U LYME DIRECTORATE - RESOURCES		
18 APR 2016		
PASSED TO	CONFER WITH	CIRC TO

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14 April 2016

Dear Kelvin

### Planned audit fee for 2016/17

The Local Audit and Accountability Act 2014 provides for the introduction of a new framework for local public audit. Under these provisions, the Audit Commission closed in March 2015 and the Secretary of State for Communities and Local Government delegated some statutory functions from the Audit Commission Act 1998 to Public Sector Audit Appointments Limited (PSAA) on a transitional basis.

PSAA will oversee the Commission's audit contracts for local government bodies until they end in 2018, following the announcement by the Department for Communities and Local Government (DCLG) that it will extend transitional arrangements until 2017/18. PSAA's responsibilities include setting fees, appointing auditors and monitoring the quality of auditors' work. Further information on PSAA and its responsibilities are available on the [PSAA website](#).

### Scale fee

PSAA prescribes that 'scale fees are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timescales'.

There are no planned changes to the overall work programme for local government audited bodies for 2016/17, bar the adoption of new measurement requirements for the Highways Network Asset.

PSAA have proposed that 2016/17 scale audit fees are set at the same level as the scale fees applicable for 2015/16. The Council's scale fee for 2016/17 has been set by PSAA at £55,002.

The audit planning process for 2016/17, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.



### **Scope of the audit fee**

Under the provisions of the Local Audit and Accountability Act 2014, the National Audit Office (NAO) is responsible for publishing the statutory Code of Audit Practice and guidance for auditors from April 2015. Audits of the accounts for 2016/17 will be undertaken under this Code, on the basis of the work programme and scale fees set out on the [PSAA website](#). Further information on the NAO Code and guidance is available on the [NAO website](#).

The scale fee covers:

- our audit of your financial statements
- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money conclusion)
- our work on your whole of government accounts return (if applicable).

PSAA will agree fees for considering objections from the point at which auditors accept an objection as valid, or any special investigations, as a variation to the scale fee.

### **Value for Money conclusion**

The Code requires us to consider whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The NAO issued its guidance for auditors on value for money work in November 2015. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

The NAO guidance identifies one single criterion for auditors to evaluate:

*In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.*

### **Certification of grant claims and returns**

The Council's indicative grant certification fee has been set by PSAA at £6,210. This fee covers the cost of certifying the housing benefit subsidy claim only and is based on final 2014/15 certification fees.

The indicative fee for certification work is based on the expectation that you provide the auditor with complete and materially accurate claims and returns, with supporting working papers, within agreed timeframes.

Assurance engagements for other schemes will be subject to separate arrangements and fees agreed between the grant-paying body, the Council and ourselves

### Billing schedule

Fees will be billed as follows:

<b>Main Audit fee</b>	<b>£</b>
September 2016	13,750
December 2016	13,750
March 2017	13,750
June 2017	13,752
<b>Total</b>	<b>55,002</b>

<b>Grant Certification</b>	
March 2017	6,210

### Outline audit timetable

We will undertake our audit planning and interim audit procedures in December 2016 to March 2017. Upon completion of this phase of our work we will issue a detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit and work on the VfM conclusion will be completed in March 2017 and work on the whole of government accounts return in August 2017.

<b>Phase of work</b>	<b>Timing</b>	<b>Outputs</b>	<b>Comments</b>
Audit planning and interim audit	December 2016 – March 2017	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of the Council's accounts and VfM.
Final accounts audit	July 2017 – August 2017	Audit Findings (Report to those charged with governance)	This report sets out the findings of our accounts audit and VfM work for the consideration of those charged with governance.
VfM conclusion	March 2017 – August 2017	Audit Findings (Report to those charged with governance)	As above
Whole of government accounts	August 2017	Opinion on the WGA return	This work will be completed alongside the accounts audit.
Annual audit letter	November 2017	Annual audit letter to the Council	The letter will summarise the findings of all aspects of our work.
Grant certification	November 2017	Grant certification report	A report summarising the findings of our grant certification work

**Our team**

The key members of the audit team for 2016/17 are:

	<b>Name</b>	<b>Phone Number</b>	<b>E-mail</b>
Engagement Lead	John Gregory	0121 212 5333	john.gregory@uk.gt.com
Engagement Manager	Paul Harvey	0121 212 5329	paul.m.harvey@uk.gt.com
In Charge Auditor	Naomi Povey	0121 212 5294	naomi.j.povey@uk.gt.com

**Additional work**

The scale fee excludes any work requested by the Council that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed and a detailed project specification and fee agreed with the Council.

**Quality assurance**

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact Mark Stocks, our Public Sector Assurance regional lead partner, via [mark.c.stocks@uk.gt.com](mailto:mark.c.stocks@uk.gt.com).

Yours sincerely



John Gregory  
Engagement Lead  
For Grant Thornton UK LLP

