

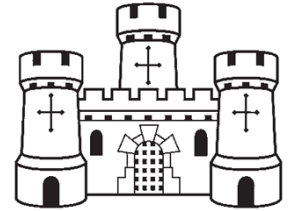
Public Document Pack

Date of meeting Monday, 14th November, 2016

Time 7.00 pm

Venue Committee Room
1, Civic Offices,
Merrial Street,
Newcastle-under-Lyme,
Staffordshire,
ST5 2AG

Contact Geoff Durham



**NEWCASTLE
UNDER LYME**
BOROUGH COUNCIL

Civic Offices
Merrial Street
Newcastle-under-Lyme
Staffordshire
ST5 2AG

Audit and Risk Committee

AGENDA

PART 1 – OPEN AGENDA

- 1 Apologies
- 2 **MINUTES OF PREVIOUS MEETINGS** (Pages 3 - 6)
To consider the minutes of the previous meeting(s).
- 3 **DECLARATIONS OF INTEREST**
To receive Declarations of Interest from Members on items included in the agenda
- 4 **Health and Safety six month report.** (Pages 7 - 12)
- 5 **Corporate Risk Management Report -July - September, 2016** (Pages 13 - 20)
- 6 **Treasury Management Half-Yearly Report 2016/17** (Pages 21 - 28)
- 7 **Annual Audit Letter** (Pages 29 - 40)
- 8 **INTERNAL AUDIT PROGRESS REPORT**
A verbal update will be given on this item.
- 9 **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, Reddish and Snell

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

Monday, 26th September, 2016
Time of Commencement: 7.00 pm

Present:- Councillor Ms Sarah Pickup – in the Chair

Councillors Dymond, Stubbs and Reddish

Officers Kelvin Turner, Liz Dodd, Geoff Durham, Dave Roberts and Annette Vacquier

Apologies Councillor(s) White

1. APOLOGIES

Apologies were received from Councillor Simon White and Mr Phil Butters from Keele University.

2. MINUTES OF PREVIOUS MEETINGS

Resolved: That the minutes of the meeting held on 4 July, 2016 be agreed as a correct record subject to the following amendments:

Item 8 – second paragraph should read ‘The Executive Director of Resources and Support Services.

Item 14- Add the following sentence: ‘ A discussion was held regarding the use of private external auditors. The Executive Director for Resources and Support Services informed members that Government rules were currently being changed and this could be discussed further after the changes’ have taken place.

3. DECLARATIONS OF INTEREST

There were no declarations of interest stated.

4. CORPORATE RISK MANAGEMENT REPORT FOR THE PERIOD APRIL - JUNE 2016 (QUARTER 1)

Consideration was given to a report regarding Corporate Risk Management for April to June, 2016 – Quarter One.

Members attention was brought to Appendix one which outlined the notable high and medium risks and were notified of two risk level increases that had occurred in respect of Dog and Pest Control. However, with regard to the vehicles, these would now be purchased the risk rating should go back down. The second risk increase in relation to income generation had occurred due to the loss of some staff members.

Members were advised that Staffordshire Moorlands District Council were currently providing temporary staff.

- Resolved:**
- (i) That the progress that has been made in managing the risks identified within the Strategic, Operational, Project and Partnership Risk Registers be noted.
 - (ii) That the number of overdue risks be noted.
 - (iii) That the two risk level increases be noted.
 - (iv) That the two new risks be noted.

5. STATEMENT OF ACCOUNTS 2015/16 AND EXTERNAL AUDITOR'S AUDIT FINDINGS REPORT

Consideration was given to a report asking Members to approve the statement of accounts, receive the external auditor's Audit Findings Report for 2015/16 and to agree the letter of Representation to the Auditor.

The Chair referred to the finance training session that had been arranged last week for Members of the Audit and Risk Committee and stated that only two Members had actually attended.

Members were advised that the actual statement had only had changes made to fonts any layouts so there was nothing different in the content from when it was seen at the previous meeting.

John Gregory and Paul Harvey of Grant Thornton were then invited to present their Findings Report for the year ending 31 March, 2016. They advised Members that the accounts provided to them were of a good standard.

Councillor Stubbs said that it was good to have a 'clean bill of health' and asked that The Executive Director for Resources and Support Services, Kelvin Turner pass on thanks to all officers involved in the preparation of the accounts. Councillor Stubbs was also pleased to see that the Council's valuations for property, plant and equipment had been approved by Grant Thornton.

Councillor Stubbs also requested a copy of The Audit Practices Board of Ethical Standards. Mr Turner advised that he would provide a copy.

Members agreed that the Letter of Representation to the Auditor be signed.

- Resolved:**
- (i) That the Statement of Accounts 2015/16 be approved and signed by the Chair.
 - (ii) That the Audit Findings Report for 2015/16 be received.
 - (iii) That the Letter of Representation be Approved for signature by the Council's Section 151 Officer.

6. INTERNAL AUDIT PROGRESS REPORT

The Council's Audit Manager, Mrs Liz Dodd updated Members on the internal Audit Progress for Quarters one and two of 2016/17.

An information sheet was handed to Members at the meeting summarising the works undertaken to date.

The implementation of a new computer system had impacted upon completion of the audit plan. However, Mrs Dodd advised Members that by the end of the year the audit plan should be back on track.

Resolved: That the report be received.

7. **URGENT BUSINESS**

There was no Urgent Business.

COUNCILLOR MS SARAH PICKUP
Chair

Meeting concluded at 7.25 pm

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AUDIT AND RISK COMMITTEE – 14th November 2016

HEALTH AND SAFETY 6 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 1st April 2016 to 30th September 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 The new version of Target 100 has now been implemented and work continues to support employees on using the system.

6.2 Trials of 2 Lone Working Devices are underway a decision on the preferred device will be made. An exercise to determine how many devices are required will then be undertaken.

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Audit and Risk Committee

Health and Safety 6 Monthly Report (April 2016 to September 2016).

1. INTRODUCTION

This report outlines the work undertaken in regard to health and safety matters during the year from 1st April 2016 to 30th September 2016.

Work has been progressing in regard to lone working, the introduction of the new version of Target 100. Other completed work streams include delivery of training and the completion of 6 monthly Fire Drills.

2. POLICIES AND GUIDANCE

A Health and Safety Booklet for young persons has been completed, these are issued to work experience students and apprentices to assist in them understanding the health and safety risks they may come across and how they can reduce the risk of harm to themselves and others.

3. TARGET 100

Target 100 is the safety management system which the Council uses to manage and record accidents, incidents and near misses, risk assessments, training records and safe systems of work.

Version 6 has been rolled out and is now live, there have been some significant changes to the system which will make the system more user friendly. Work will continue to assist users to familiarise themselves with the system.

Reports to DMT's on risk assessments are being provided to ensure that they remain suitable and sufficient (regularly reviewed and monitored).

4. HEALTH AND SAFETY TRAINING

The following Health and Safety Training has been completed –

- First Aid
- Evac Chair
- Fire Marshall
- Apprentice Inductions
- Health and Safety Training for Porters
- Health and Safety for Museum Staff
- Target 100 Version 6

5. ACCIDENT REPORTS

Please see overleaf 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
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
2016/17 (6 months)	30	5	63	0.14

* 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.

All accidents (staff & members of public)

Month	RIDDOR	Non-Reportable	Near Miss	Dangerous Occurrence
April 2016	2	18	3	0
May 2016	0	12	0	0
June 2016	2	18	0	0
July 2016	1	12	4	0
August 2016	0	8	2	0
September 2016	0	7	0	0
TOTAL	5	75	9	0

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

RIDDOR Summary

Month	Injured Person	Location	Incident Type	Remedial Action
April	Staff	Museum & Art Gallery	Fall from Height	Review of risk assessment was undertaken, a safe system of work was re-drafted. Staff have been retrained.
April	Staff	Markets	Injured while Handling	A review of the work practise has been undertaken.
July	Staff	Recycling	Hit by Moving Object	Doors on vehicles have been checked and remedial work has been undertaken.

				Bump caps are available for staff.
June	Staff	Neighbourhood	Injured whilst Handling	A risk assessment of the activity will be undertaken
June	Staff	Neighbourhood	Slip, Trip or Fall	Area was checked for defaults. Injured Person was wearing allocated footwear.

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

6. HEALTH AND SAFETY AUDITS & INSPECTIONS

The Corporate Health and Safety Committee members undertook inspections of Council premises listed below to identify any Health and Safety issues, in order to remedy or alter the matters identified.

- Guildhall
- Knutton Lane Depot – Recycling Facility

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.

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

7. KNUTTON DEPOT

The Knutton Lane Health and Safety Committee held meetings on

- 16th June 2016
- 12th September 2016

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

There has been some significant work that has been undertaken in the implementation of the new site rules and reversal of the one way system.

8. CORPORATE HEALTH AND SAFETY COMMITTEE

The Corporate Health and Safety Committee held the following meetings during the period

- 14th April 2016
- 30th June 2016

The committee discussed the following items, over the past six months:

- Lone Working
- Fire Evacuation
- Accidents, Incidents and Near Misses
- Target 100
- Health and Safety Training
- Corporate Health and Safety Policy
- Employee Handbook
- Communication of Health and Safety Procedures

9. FIRE

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

- 6 month programmed Fire Drills across the majority of sites.
- Evening evacuation for Elected Members and Officers took place on Wednesday 7th September.

10. EVENT SAFETY

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

- Lymelight
- Food, Folk and Real Ale
- Jazz and Blues Festival
- Global Groove
- Midsummer Mayhem
- Homecoming

11. Lone Working Review

We invited 4 companies in, to demonstrate their lone working solutions. The lone working group consisted of representatives from a number of services areas, including environmental health, revenues and benefits, streetscene, recycling, parks, housing and landscape and community.

The group concluded that they required a device that was linked to an alarm receiving centre whose sole purpose was to monitor lone workers. With this in mind, a trial of devices from Sky guard and Alertcom is in place. Once the trial has been completed, an exercise will take place to determine how many lone working devices will be required and the costs associated with this.

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

14 November 2016

**CORPORATE RISK MANAGEMENT REPORT FOR THE PERIOD July -
September 2016 (Quarter 2)**

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 July to September 2016 (Q2), 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 2 (two) risk level increases.**
- (d) Note the point 2.2.2 regarding no new risks identified between July to September 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 (Q1 2016) was reported to the Council's Audit & Risk Committee in September 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 no overdue reviews.
- 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 2 (two) risk level increases during the period July to September 2016. These can be seen in Appendix A.
 - 2.2.2 There have been no new risks added to any profiles during July to September 2016.
 - 2.2.3 Should there be any increase during October to December 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.

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/Increased rating risks

Appendix A								
Risks and Action Plan Risk Identified	Risk Owner	Action Required to Address Risk	Target Date	Risk Category	Current position / progress	Status	Status	Current Rating
		in order to reduce the risk	for action completion	Strategic, Operational, Project	as at 03/11/2016	as at March 16	as at June 16	as at Sept 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

Appendix A Risks and Action Plan Risk Identified		Risk Owner	Action Required to Address Risk in order to reduce the risk	Target Date for action completion	Risk Category Strategic, Operational, Project	Current position / progress as at 03/11/2016	Status as at March 16	Status as at June 16	Current Rating as at Sept 16
2	Financial consequences of making unreasonable planning decisions	Regeneration and Development	Housing Clarification Statement preparation to assist members and officers in dealing with housing development proposals in advance of the Local Plan being adopted	Nov-16	Strategic	Completion of this action is delayed because of the priority now being given to undertaking the Local Plan Strategic Issues consultation and updating of the Strategic Housing Land Availability Assessment. Report to go to Planning Committee November 2016 - Member decisions at Planning Committee 24 May included 5 which were contrary to officer advice, at least one of which has been escalated to appeal resulting in costs being incurred to present the Council's case and a risk of further costs being awarded against the Council if the Inspector considers that the Council has behaved unreasonably. Total costs could be circa £75k.		I = 3 L = 2 Medium 6	I = 3 L = 3 High 9
	Other work priorities taking over completion of the audit plan	Audit			Operational	Due to a number of commitments including the implementation of a new audit system, recommendation follow-ups, issues within the licensing section and a change in manager and staff responsibilities, the delivery of the audit plan has been delayed, however the service should revert to normal with adjustments being made to deliver the current plan for 2016/17		I = 3 L = 2 Medium 6	I = 3 L = 3 High 9

Risks and Action Plan Risk Identified	Risk Owner	Action Required to Address Risk	Target Date	Risk Category	Current position / progress	Status as at March 16	Status as at June 16	Current Rating as at Sept 16	
		in order to reduce the risk	for action completion	Strategic, Operational, Project	as at 03/11/2016				
4	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	
5	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
6	Access to appropriate vehicles	Dog and Pest Control	Decision required to either replace vehicles or lease vehicles	Sep-16	Operational	At the Executive Management Team meeting on 13 September 2016 a decision was made to acquire the vehicles from the leasing company.	I = 3 L = 2 Medium 6	I = 3 L = 3 High 9	I = 2 L = 2 Medium 5
7	Income generation	Dog and Pest Control	Fees and charges review needed during 2016/17 for 2017/18 Agree future services and tariff with major client Agree future summer staffing needs and beyond to deliver maximum service, protect income and deal with demand in peak times	Sept - 16 to March 17	Operational	Reviewed likelihood that income would fall short of target and reduced likelihood from 3 to 2. Whilst income stream from Aspire Housing has reduced, staffing levels have also been reduced. Income compared to controllable (direct) costs is healthy.	I = 2 L = 2 Medium 5	I = 2 L = 3 Medium 8	I = 2 L = 2 Medium 5

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Agenda Item 6

NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

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

14 November 2016

1. TREASURY MANAGEMENT HALF YEARLY REPORT 2016/17

Submitted by: Head of Finance

Portfolio: Finance, IT and Customer

Ward(s) affected: All Indirectly

Purpose of the Report

To receive the Treasury Management Half Yearly Report for 2016/17 and to review the Treasury Management activity for this period.

Recommendations

(a) That the Treasury Management Half Yearly Report for 2016/17 be received.

Reasons

The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management (revised in November 2011) recommends that Members should be informed on Treasury Management activities at least twice a year.

It was resolved that the Audit and Risk Committee would monitor and oversee the delivery of the Treasury Management Strategy through the receipt of half yearly and year end Treasury Management Reports.

1. **Background**

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

1.2 This report therefore ensures that this Council is embracing Best Practice in accordance with CIPFA's recommendations in the CIPFA Code of Practice.

1.3 Treasury Management operations are carried out in accordance with policies laid down in the currently approved Treasury Management Policy Statement, backed up by approved Treasury Management Practices and Schedules thereto, and the Annual Treasury Management Strategy Report approved by Council on 24 February 2016.

2. **Issues**

2.1 The Treasury Management Half Yearly Report for 2016/17 is attached at Appendix 1. The economic background and economic forecast included in the report has been provided by the Council's Treasury Management Advisors, Sector.

2.2 Investments outstanding as at 30th September 2016 are detailed in Annex A to the Report.

2.3 **Heritable Bank**

The original investment with Heritable Bank was £2.5m. Fifteen dividends have been received so far from administrators Ernst and Young representing a return of 98%, with the most recent payment of £99,932 being made in August 2015.

The bank's administrators have confirmed the execution of a settled de-minimis payment from the parent company of Heritable Bank which will be paid to the Council in the event that the remaining 2% of the original investment is no longer contingent.

The de-minimis payment would be the equivalent amount EUR 11,913.10, which as at 8 February 2016 (the date of the published selling rate of the EUR as registered by the Central Bank of Iceland) equates to £9,411.35.

3. **Legal and Statutory Implications**

3.1 See Background for details.

4. **Financial and Resource Implications**

4.1 There are no specific financial implications arising from the report.

5. **Major Risks**

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

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

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

6. **List of Appendices**

6.1 Appendix 1, Treasury Management Half Yearly Report 2016/17.

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),
- Bevan Brittan notice to creditors of Heritable Bank (October 2015),
- Ernst and Young creditors of Heritable Bank report (April 2015),
- Ernst and Young creditors of Heritable Bank report (March 2016).

Treasury Management Half Yearly Report – 2016/17

1. Background

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

The second main function of a treasury management service is the funding of an authority's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasions any debt previously drawn may be restructured to meet Council risk or cost objectives. Currently, however, the Council has not chosen to finance its capital investment by way of borrowing, so these activities are not presently engaged in. However, as identified at the meeting of the Council that took place on 7 September 2016, due to the delay in capital receipts prudential borrowing will most likely be required towards the end of the 2016/17 financial year.

Accordingly Treasury Management is defined as:

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

2. Introduction

The treasury management function is carried out in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) current Code of Practice on Treasury Management (revised November 2011). The original Code was adopted by this Council on 24 February 2010.

The primary requirements of the Code are as follows:

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

7. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Finance, Resources and Partnership Scrutiny Committee.

This Mid-Year Review Report to members is intended to provide an update of the treasury management strategy and performance for the period April to September of this financial year. It has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the 2016/17 financial year to 30 September 2016
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy
- A review of the Council's investment portfolio for 2016/17

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

United Kingdom (UK) economic performance to date and outlook

UK Gross Domestic Product (GDP) growth rates in 2013 of 2.2% and 2.9% in 2014 were strong but 2015 was disappointing at 1.8%, though it still remained one of the leading rates among the G7 countries. Growth improved in quarter 4 of 2015 from +0.4% to 0.7% but fell back to +0.4% (2.0% y/y) in quarter 1 of 2016 before bouncing back again to +0.7% (2.1% y/y) in quarter 2. During most of 2015, the economy had faced headwinds for exporters from the appreciation during the year of sterling against the Euro, and weak growth in the European Union (EU), China and emerging markets, plus the dampening effect of the Government's continuing austerity programme.

The referendum vote for Brexit in June this year delivered an immediate shock fall in confidence indicators and business surveys, pointing to an impending sharp slowdown in the economy. However, subsequent surveys have shown a sharp recovery in confidence and business surveys, though it is generally expected that although the economy will now avoid flat lining, growth will be weak through the second half of 2016 and in 2017.

The Bank of England meeting on 4 August 2016 addressed this expected slowdown in growth by a package of measures including a cut in Bank Rate from 0.50% to 0.25%. The Inflation Report included an unchanged forecast for growth for 2016 of 2.0% but cut the forecast for 2017 from 2.3% to just 0.8%. The Governor of the Bank of England had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. He also warned that the Bank could not do all the heavy lifting and suggested that the Government will need to help growth by increasing investment expenditure and possibly by using fiscal policy tools (taxation). The new Chancellor Phillip Hammond announced after the referendum result, that the target of achieving a budget surplus in 2020 will be eased in the Autumn Statement on 23 November 2016.

The Inflation Report also included a sharp rise in the forecast for inflation to around 2.4% in 2018 and 2019. Consumer Price Index (CPI) has started rising during 2016 as the falls in the price of oil and food twelve months ago fall out of the calculation during the year and, in addition, the post referendum 10% fall in the value of sterling on a trade weighted basis is likely to result in a 3% increase in CPI over a time period of 3-4 years. However, the Monetary Policy Committee (MPC) is expected to look thorough a one off upward blip from this devaluation of sterling in order to support economic growth, especially if pay increases continue to

remain subdued and therefore pose little danger of stoking core inflationary price pressures within the UK economy.

Sector Interest Rate Forecast (as at 1st October 2016)

Dec 2016	Mar 2017	Jun 2017	Sep 2017	Dec 2017	Mar 2018	Jun 2018	Sep 2018	Dec 2018	Mar 2019	June 2019
0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.25%	0.25%	0.25%	0.25%	0.50%

Sector undertook a quarterly review of its interest rate forecasts after the MPC meeting of 4 August 2016 cut Bank Rate to 0.25% and gave forward guidance that it expected to cut Bank Rate again to near zero before the year end. The above forecast therefore includes a further cut to 0.10% in November this year and a first increase in May 2018, to 0.25%, but no further increase to 0.50% until a year later. The Governor of the Bank of England has repeatedly stated that increases in Bank Rate will be slow and gradual after they do start. The MPC is concerned about the impact of increases on many heavily indebted consumers, especially when the growth in average disposable income is still weak and could well turn negative when inflation rises during the next two years to exceed average pay increases.

4. Treasury Management Strategy Statement and Annual Investment Strategy Update

The Treasury Management Strategy Statement (TMSS) for 2016/17 was approved by Full Council on 24 February 2016. The Council's Annual Investment Strategy, which is incorporated in the TMSS, outlines the Council's investment priorities as follows:

- Security of Capital
- Liquidity

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

Investments during the first six months of the 2016/17 financial year have been in line with the strategy, and there have been no deviations from the strategy.

As outlined in Section 3 above, there is considerable uncertainty in the financial and banking market, both globally and in the UK. In this context, it is considered that the strategy approved on 24 February 2016 is still fit for purpose in the current economic climate.

5. Investment Portfolio 2016/17

In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As set out in Section 3, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the 0.25% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment, investment returns are likely to remain low.

The Council held £9.5m of investments as at 30 September 2016 (£7.5m at 31 March 2016). Funds available for investment purposes can vary between £7.5m and £12.5m due to the large fluctuations in cash inflows and outflows during each month. Large cash inflows include council tax & business rate direct debits and the Housing Benefit subsidy from the Department for Work and Pensions. Large cash outflows include payment of the precepts to Staffordshire County Council, the Fire Authority and the Police, payment of salaries and payment of business rates to Central Government and the Staffordshire Business Rate pool.

The investment portfolio yield for the first six months of the year is 0.68% against a target of 0.85%. The Council's budgeted investment return for 2016/17 is £83,000 (£41,500 for first 2 quarters). As at the end of the first 2 quarters of 2016/17 £43,000 of interest has been earned. Since the figure of 0.85% was estimated for the Medium Term Financial Strategy, the base rate has been significantly reduced by the Bank of England. However due to additional funds currently being available for investment it has been possible to bridge the gap against the budget.

A full list of investments held as at 30 September 2016 is shown in Annex A.

6. Borrowing Position 2016/17

The only borrowing envisaged by the 2016/17 Treasury Management Strategy is temporary borrowing to cover short-term cash flow deficits. In fact no borrowing has taken place for the first half of the financial year.

However, as resolved at the meeting of the Council that took place on 7 September 2016, due to the delay in capital receipts, prudential borrowing will most likely be required towards the end of the 2016/17 financial year.

7. Prudential Indicators 2016/17

Treasury management activity during the first half year has been carried out within the parameters set by the prudential indicators contained in the approved 2016/17 Treasury Management Strategy. Consequently, there is no intention to revise any of the indicators for the remainder of the year.

Annex A

INVESTMENTS OUTSTANDING As at 30/09/16						
ACK NO.	BROKER	INT. RATE	DATE INVESTED	NAME OF BORROWER	PRINCIPAL (£)	DATE MATURING
5243	LCB	0.71%	03/05/2016	NATIONWIDE BUILDING SOCIETY	1,000,000	03/11/2016
5245	LCB	0.71%	06/06/2016	NATIONWIDE BUILDING SOCIETY	1,000,000	06/12/2016
5250	LCB	0.29%	10/08/2016	NATIONWIDE BUILDING SOCIETY	1,000,000	10/11/2016
					3,000,000	
		0.65%		SANTANDER 95 DAY NOTICE ACCOUNT	3,500,000	
		0.90%		SANTANDER 180 DAY NOTICE ACCOUNT	3,000,000	
				TOTAL INVESTMENTS	9,500,000	
				HERITABLE BANK INVESTMENT		
5092	TRAD	6.10%	15/09/2008	HERITABLE BANK (<i>Landsbanki</i>)	50,184	14/09/2009

Payments of £403,250, £317,649, £155,396, £157,437, £103,815, £118,358, £156,863, £101,810, £104,919, £83,407, £95,089, £71,528, £68,207, £419,963 and £99,932 were received from the Heritable Bank administrators on 30 July 2009, 18 December 2009, 30 March 2010, 16 July 2010, 18 October 2010, 14 January 2011, 19 April 2011, 15 July 2011, 20 October 2011, 23 January 2012, 20 April 2012, 20 July 2012, 17 January 2013, 23 August 2013 and 27 August 2015 respectively.

The bank's administrators have confirmed the execution of a settled de-minimis payment from the parent company of Heritable Bank which will be paid to the Council in the event that the remaining 2% of the original investment is no longer contingent.

The de-minimis payment would be the equivalent amount EUR 11,913.10, which as at 8 February 2016 (the date of the published selling rate of the EUR as registered by the Central Bank of Iceland) equates to £9,411.35.

Treasury Management – Glossary of Terms

- **CDS** – ‘Credit Default Swap’ is an additional assessment of credit worthiness by providing a risk analysis of changes in credit quality as perceived by the market.
- **CIPFA** – the Chartered Institute of Public Finance and Accountancy, is the professional body for accountants working in Local Government and other public sector organisations.
- **CPI** – a measure that examines the weighted average of prices of a basket of consumer goods and services. The Consumer Price Index is calculated by taking price changes for each item in the predetermined basket of goods/services and averaging them; the goods are weighted according to their importance. Changes in CPI are used to assess price changes associated with the cost of living.
- **GDP** – Gross Domestic Product is the market value of all officially recognised final goods and services produced within a country in a given period of time.
- **G7** – the Group of 7 (G7) is a group consisting of the finance ministers and central bank governors of seven major advanced economies, as reported by the International Monetary Fund, which meet to discuss primarily economic issues (Canada, France, Germany, Italy, Japan, United Kingdom, United States).
- **Liquidity** – relates to the amount of readily available or short term investment money which can be used for either day to day or unforeseen expenses. For example Call Accounts allow instant daily access to invested funds.
- **MPC** – interest rates are set by the Bank of England’s Monetary Policy Committee. The MPC sets an interest rate it judges will enable the inflation target to be met

The Annual Audit Letter for Newcastle Under Lyme Borough Council

Year ended 31 March 2016

October 2016

John Gregory

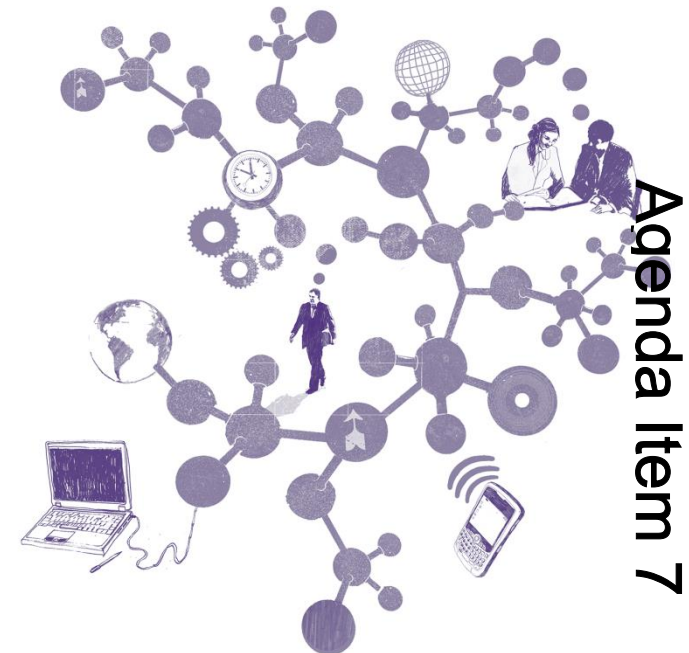
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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Newcastle Under Lyme Borough Council (the Council for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit and Risk Committee as those charged with governance in our Audit Findings Report on 26 September 2016.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 26 September 2016.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 26 September 2016

Certificate

We certified that we had completed the audit of the accounts of Newcastle Under Lyme Borough Council in accordance with the requirements of the Code on 26 September 2016.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2016. We will report the results of this work to the Audit and Risk Committee in our Annual Certification Letter.

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

Grant Thornton UK LLP
October 2016

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £1,176,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for certain areas such as senior officer remuneration, members allowances and auditor remuneration.

We set a lower threshold of £58,000, below which we would not report errors to the Audit and Risk Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts on which we give our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
<p>Valuation of property, plant and equipment</p> <p>The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • Reviewed management's processes and assumptions for the calculation of the estimate. • Reviewed the competence, expertise and objectivity of any management experts used. • Reviewed the instructions issued to valuation experts and the scope of their work • Discussed with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions. • Reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding. • Tested revaluations made during the year to ensure they were input correctly into the Council's asset register • Evaluated of the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. <p>We did not identify any issues to report</p>
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.</p> <p>The values of the pension fund net liability is estimated by specialist actuaries.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • Documented the key controls that were put in place by management to ensure that the pension fund liability was not materially misstated. • Performed a walkthrough of the key controls to assess whether they were implemented as expected and mitigate the risk of material misstatement in the financial statements. • Reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. • Gained an understanding of the basis on which the IAS 19 valuation was carried out and undertook procedures to confirm the reasonableness of the actuarial assumptions made. • Reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. <p>We did not identify any issues to report</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 26 September 2016, in advance of the 30 September 2016 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Audit and Risk Committee on 26 September 2016.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts. We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the 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.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out in table 2 overleaf.

Overall VfM conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Working with Partners The Council has already developed working partnerships such as with Staffordshire County Council to develop a civic hub in Newcastle and Aspire Housing in relation to housing within Newcastle. We need to understand how these and other partnerships help the Council to achieve its strategic priorities.</p>	<p>We have held discussions with Key Officers (Executive Director of Resources and Support Services, Internal Audit Manager/Monitoring Officer) to obtain their views on Partnership working. We have reviewed Committee minutes, the MTFS and the Council plan to obtain evidence of partnership working.</p>	<p>The Council Plan makes direct reference to the Council's partnership arrangements. The Council is also a member of the Newcastle Partnership which is the strategic partnership for the borough and has the vision of bringing Newcastle communities together and securing a prosperous future.</p> <p>Examples of other partnership working include:</p> <p>The Council is working with other Local Authorities on the Stoke on Trent and Staffordshire Business Rates Pool ensuring that resources are retained locally and reinvested in Staffordshire and Stoke on Trent.</p> <p>The Council is also working with Kidsgrove Town Centre Partnership and the Newcastle Business Improvement District to support local businesses within the Borough.</p> <p>The Council has launched a communications project with the Sentinel (Newspaper group). This is the first project of its kind in the country involving the Council and a private sector partner to generate income from Council assets for advertising and marketing purposes. Partners from the local newspapers can get involved with each site to identify customers for advertising space, sales and income collection.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements</p>

Working with the Council

Our work with you in 2015/16

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered an effective audit.

An efficient audit – we delivered the accounts audit before the deadline and in line with the timescale we agreed with you. Our audit team are knowledgeable and experienced in your financial accounts and systems. Our relationship with your team provides you with a financial statements audit that continues to finish ahead of schedule releasing your finance team for other important work.

Improved financial processes – during the year we reviewed your financial systems and processes including employee remuneration, non- pay expenditure and property plant and equipment.

Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.

Sharing our insight – we shared with you our reports covering best practice. Areas we covered included Innovation in public financial management, Knowing the Ropes – Audit Committee; Effectiveness Review, Making devolution work and Reforging local government.

We have also shared with you our insights on advanced closure of local authority accounts, in our publication "Transforming the financial reporting of local authority accounts" and will continue to provide you with our insights as you bring forward your production of your year-end accounts.

Thought leadership – We have shared with you our publication on Building a successful joint venture and will continue to support you as you consider greater use of alternative delivery models for your services.

Working with the Council

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We will continue to liaise closely with the senior finance team during 2016/17 on this important accounting development, with timely feedback on any emerging issues.

The audit risks associated with this new development and the work we plan to carry out to address them will be reflected in our 2016/17 audit plan.

We will also continue to work with you and support you over the next financial year

Locally our focus will be on:

- An efficient audit – continuing to deliver an efficient audit.
- Understanding your operational health – through the value for money conclusion we will provide you with assurance on your operational effectiveness.
- Supporting development – we will attend the Audit and Risk Committee meetings during the year, offering our views on items under discussion.

Appendix A: Reports issued and fees

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

Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of Council	55,002	55,002	73,336
Housing Benefit Grant Certification	8,052	8,052	8,280
Total fees (excluding VAT)	63,054	63,054	81,616

Reports issued

Report	Date issued
Audit Plan	March 2016
Audit Findings Report	September 2016
Annual Audit Letter	October 2016



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