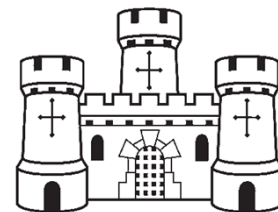


Public Document Pack

Date of meeting Monday, 3rd July, 2017
Time 7.00 pm
Venue Training 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 Standards 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 **TERMS OF REFERENCE** (Pages 7 - 8)
- 5 **WORK PLAN 2017/18** (Pages 9 - 10)
- 6 **CORPORATE RISK MANAGEMENT REPORT FOR THE PERIOD JANUARY-MARCH, 2017** (Pages 11 - 18)
- 7 **HEALTH AND SAFETY ANNUAL REPORT 2016/17** (Pages 19 - 26)
- 8 **TREASURY MANAGEMENT ANNUAL REPORT 2016/17** (Pages 27 - 34)
- 9 **DRAFT STATEMENT OF ACCOUNTS 2016/17** (Pages 35 - 128)
- 10 **INTERNAL AUDIT SECTION ANNUAL REPORT 2016/17** (Pages 129 - 142)
- 11 **REVIEW OF THE EFFECTIVENESS OF THE AUDIT COMMITTEE** (Pages 143 - 152)
- 12 **REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT** (Pages 153 - 242)
- 13 **ANNUAL GOVERNANCE STATEMENT 2016/17**

To follow

14 PLANNED AUDIT FEE FOR 2017/18

(Pages 243 - 248)

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, White, S Hambleton and Wing

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

Wednesday, 19th April, 2017
Time of Commencement: 7.00 pm

Present:- Councillor Ms Sarah Pickup – in the Chair

Councillors Dymond, Waring and Cooper

Officers Executive Director (Resources and Support Services) - Kelvin Turner,
Liz Dodd - Head of Audit and Elections (and Monitoring Officer)
Geoff Durham and
Annette Vacquier

Also in Mr John Gregory – Grant Thornton
Attendance Mr Paul Harvey – Grant Thornton

Apologies Mr P Butters – Keele University

1. **APOLOGIES**

Apologies were received from Mr P Butters – Keele University.

2. **DECLARATIONS OF INTEREST**

There were no declarations of interest stated.

3. **MINUTES OF PREVIOUS MEETINGS**

Resolved: That, subject to the inclusion of the Head of Audit and Elections (and Monitoring Officer) - Mrs Liz Dodd as being in attendance and, under Apologies, Mr R Butters being amended to Mr P Butters, the minutes of the meeting held on 13 February, 2017 be agreed as a correct record.

4. **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 2017/18 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.

5. CERTIFICATION WORK 2015/16

Consideration was given to the Annual Report by Grant Thornton on the Certification Work Report 2015/16 for the Borough Council.

Mr Paul Harvey gave a summary of work done and drew Members attention to the letter appended to the report.

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

6. AUDIT PLAN 2016/17

Consideration was given to a report regarding the Audit Plan for the year ending 31 March, 2017. John Gregory of Grant Thornton presented the report bringing Members' attention to the section on Materiality. Members were advised that the overall materiality had been calculated at just over £1.2 million.

There was nothing particularly unusual in the identified risks. A risk had been identified at page 9 of the agenda report regarding changes to the presentation of local authority financial statements.

Resolved: That the Audit Plan report be received

7. CODE OF CORPORATE GOVERNANCE

Consideration was given to a report in respect of the Code of Corporate Governance. The Council's Head of Audit and Elections (and Monitoring Officer), Mrs Liz Dodd advised Members that this was a standard report which is brought to Committee on an annual basis. It had been re-written this year because of changes to the CIPFA Regulations and was presently in draft form. Page 82 of the agenda report summarised the 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 electronic format.

8. COUNTER FRAUD ARRANGEMENTS

Consideration was given to a report regarding Counter Fraud Arrangements:

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

The above documents are regularly reviewed and Members were advised that the only changes made to the documents were in respect of job titles.

The Council iws continuing to work 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. Service level agreements had now been agreed and during 2017/18 the joint venture would see the set up of a data hub allowing the organisations to share information

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

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

9. **EXTERNAL QUALITY ASSESSMENT OF NEWCASTLE BOROUGH COUNCIL'S INTERNAL AUDIT SERVICE**

The Council's Executive Director for Resource and Support Services, Mr Kelvin Turner briefed Members on an External Quality Assessment that had been carried out on Newcastle's Internal Audit Standards to the Public Sector Internal Audit Standards.

It was the assessors opinion that "...Newcastle-under-Lyme Borough council's Internal Audit Service generally conforms to the requirements of the Public Sector Internal audit standards. It is also our opinion that they generally conform to the requirements of the Local Government Application Note".

Members attention was drawn to the Summary findings and recommendations commencing on page 104 of the agenda.

Mr Turner congratulated Mrs Dodd and her team on this result.

Resolved: That the information be received.

10. **URGENT BUSINESS**

There was no Urgent Business.

COUNCILLOR MS SARAH PICKUP
Chair

Meeting concluded at 7.20 pm

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Newcastle-under-Lyme Borough Council

Audit & Standards Committee

Terms of Reference (Approved at full Council on 17 May 2017)

Audit Activity

- To receive, review and approve, but not direct the annual internal audit plan, and audit charter.
- 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 Council's 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 approve, monitor, review and amend from time to time the Council's Code of Corporate Governance to ensure that it is adequate and effective.
- To monitor the effectiveness of the Council's 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, Whistleblowing, 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 Council's Constitution in respect of Contract Procedure Rules, Financial Regulations and Codes of Conduct and make recommendations to Council in consultation with the Monitoring Officer and Section 151 Officer for any amendments.

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.

Standards

- To promote and maintain high standards of conduct by Members
- To oversee the Register of Members Interests
- To monitor compliance with the Members' Code of Conduct;
- To advise the Council on the adoption or revision of the Members' Code of Conduct
- To oversee the effectiveness of the Council's procedures for investigating and responding to complaints of breaches of the Members' Code of Conduct
- To interview and make recommendations to Council on the appointment of Independent Person(s) in accordance with the requirements of the Localism Act 2011
- To deal with complaints of alleged breaches of the Code of Conduct which the Monitoring Officer, in consultation with the Independent Person(s), considers warrant detailed consideration and to make final recommendations thereon
- To advise, train or arrange to train Members and Independent Person(s) on matters relating to the Members' Code of Conduct;
- To consider requests from Members to grant dispensations from being precluded from participation in a meeting
- To oversee, review and make any recommendations on the effectiveness and operation of the Constitution and any of the provisions of it
- To have an overview of the complaints submitted to and being investigated by the Local Government Ombudsman.
- To oversee the maintenance of the List of Politically Restricted Posts within the Borough Council

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 monitor the effectiveness of the Councils information governance arrangements
- To receive reports in respect of the Councils Treasury Management arrangements.

Agenda Item 5

Audit and Standards Committee

Work Plan 2017/18

| Committee Date | Reports |
|-----------------------|--|
| 3 July 2017 | <ol style="list-style-type: none">1. Terms of Reference2. Work Plan 2017/183. Corporate Risk Management Report Quarter 4 2016/174. Health and Safety Annual Report 2016/175. Treasury Management Annual Report 2016/176. Draft Statement of Accounts 2016/177. Internal Audit Section Annual Report 2016/178. Review of the Effectiveness of the Audit Committee9. Review of the Effectiveness of the System of Internal Audit10. Annual Governance Statement 2016/1711. Planned Audit Fee for 2017/18 |
| 25 September 2017 | <ol style="list-style-type: none">1. Corporate Risk Management Report Quarter 12. Internal Audit Progress Report Quarter 13. Outstanding Recommendations and Assurance Report Quarter 14. Audited Statement of Accounts 2016/175. External Auditors Audit Findings Report |
| 13 November 2017 | <ol style="list-style-type: none">1. Corporate Risk Management Report Quarter 22. Health and Safety Half-Year Report April-September 20173. Treasury Management Half-Yearly Report 2016/174. Internal Audit Progress Report Quarter 25. Outstanding Recommendations and Assurance Report Quarter 26. External Audit - Annual Audit Letter |
| 12 February 2018 | <ol style="list-style-type: none">1. Corporate Risk Management Report Quarter 32. Internal Audit Progress Report Quarter 33. Outstanding Recommendations and Assurance Report Quarter 34. Internal Audit Plan 2018/195. Internal Audit Charter 2018/19 |
| 16 April 2018 | <ol style="list-style-type: none">1. Risk Management Policy and Strategy 2018/192. External Audit – Certification Work3. Code of Corporate Governance4. Corporate Fraud Arrangements |

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

03 July 2017

**CORPORATE RISK MANAGEMENT REPORT FOR THE PERIOD January to
March 2017 (Quarter 4)**

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 - March 2017 (Q4), 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 the risk level increases.**
- (d) Note the point 2.2.2 regarding the new risks identified between January to March 2017.**
- (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 (Q3 2016) was reported to the Council's Audit & Risk Committee in February 2017.
- 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 17 overdue reviews. These risks are from 4 different profiles: Environmental Protection; Development Management; Planning and Development; and Building Control.
- 2.2 Following a previous meeting a brief point is now produced to show any risks where the risk level has increased to a Medium 7, 8 or High 9.
 - 2.2.1 Your officer can report that there has been 1 (one) risk level increase under the profile of ICT Business Impact Assessment in relation to the loss of specialist equipment - servers.
 - 2.2.2 There have been no new risks added to profiles during January to March 2017.
 - 2.2.3 Should there be any increase during April to June 2017 these will be reported to the next meeting of the Committee.

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

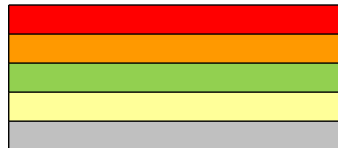
8.1 None where actions are to be taken in order to mitigate the risks as these will be met from within existing budgets. Where this is not possible, further reports will be submitted to Members.

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 12/06/2017 | as at Sept 16 | as at Dec 16 | as at Mar 17 | |
| 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 12/06/2017 | Status as at Sept 16 | Status as at Dec 16 | Current Rating as at Mar 17 |
|---|------------------------------|---|--|--|--|-----------------------------|----------------------------|------------------------------------|
| 2 Financial consequences of adverse 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 | Feb-17 | Strategic | Completion of this action has been delayed because of the priority given to undertaking key aspects of the Local Plan. Report to go to Planning Committee June 2017. | I = 3 L = 3 High 9 | I = 3 L = 3 High 9 | I = 3 L = 3 High 9 |
| 3 Failure to engage or consult with key stakeholders | Communication Strategy | | | Project | Following review of the risk this quarter (Q1 2017) the risk has reduced to a Medium 5 as the likelihood rating has changed for an occurrence in the past 2-5 years | I = 2 L = 3 Medium 8 | I = 2 L = 3 Medium 8 | I = 2 L = 3 Medium 8 |

| Risks and Action Plan Risk Identified | Risk Owner | Action Required to Address Risk | Target Date | Risk Category | Current position / progress | Status as at Sept 16 | Status as at Dec 16 | Current Rating as at Mar 17 |
|--|-------------------|--|-----------------------|---------------------------------|--|----------------------------|----------------------------|--------------------------------|
| | | in order to reduce the risk | for action completion | Strategic, Operational, Project | as at 12/06/2017 | | | |
| 4 | 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 | All actions completed - risk will be removed from next report | I = 2 L = 3 Medium 8 | I = 2 L = 3 Medium 8 | I = 2 L = 3 Medium 8 |
| 5 | ICT | With the move to Castle House, the council's business continuity plan needs to be fully reviewed, taking in to account the interim period before re-location | Dec-17 | Business Impact Assessment | 22/06/17 - Update - The designs for the Council's data centre operations have been completed with principal services now being provided from the Kidsgrove Customer Service Centre. A further backup location is also under preparation at the Council's depot site. ICT have built in a greater level of resilience to our infrastructure design. As a minimum standard, two data links will exist between each networked site, storage and backup will remain replicated and far greater internet capacity to support agile/home working has also been introduced across both data centre sites. Services will be contacted within the coming weeks to discuss their Service Continuity arrangements to ensure that ICT's service priority list is ordered appropriately. Decisions regarding the Civic Hub have | | | I = 1 L = 3 Medium 7 |

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HEALTH AND SAFETY 12 MONTH REPORT

Submitted by: Head of Environmental Health Services

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 31st March 2017

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 2016 – MARCH 2017.

1. INTRODUCTION

- 1.1 This report outlines the current state of health and safety matters during the year from 1st April 2016 to 31st March 2017.
- 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 2016.
- 2.2 A review of the workplace smoking policy has been undertaken to reflect current guidance from Public Health England regarding electronic cigarettes and vaping.
- 2.3 The above policies, once agreed have been communicated to staff and made available on the intranet.
- 2.4 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.
- 2.5 Work on the review of the Drug and Alcohol policy has commenced, it is anticipated that this will be completed over the summer months.

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 was implemented in summer 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
 - Evac Chair

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- Controlling Officer
- Elected Members Induction
- Dosimeter Training
- IOSH Managing Safely
- Apprentice Inductions
- Health and Safety Training for Porters
- Health and Safety for Museum Staff
- Target 100 Version 6

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 |
| 2016/17 | 34 | 7 | 105*** | 0.17 |

* 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.

*** The higher number of days lost are mainly due to 3 specific absence periods, one period of 33 days, one period of 29 days and one of 17 days.

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5.2 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 |
| October 2016 | 0 | 12 | 2 | 0 |
| November 2016 | 2 | 17 | 7 | 0 |
| December 2016 | 0 | 9 | 2 | 0 |
| January 2017 | 0 | 9 | 1 | 0 |
| February 2017 | 0 | 17 | 8 | 0 |
| March 2017 | 0 | 20 | 8 | 0 |

| | | | | |
|--------------|----------|------------|-----------|----------|
| TOTAL | 7 | 159 | 37 | 0 |
|--------------|----------|------------|-----------|----------|

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

5.3 RIDDOR Summary

| Month | Injured Person | Location | Incident Type | Remedial Action |
|-------|----------------|----------------------|------------------------|--|
| 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. |

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| | | | | |
|------|-------|---------------|-------------------------|--|
| | | | | |
| 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. |
| Nov | MOP | Jubilee 2 | Hit by Moving Object | Equipment checked for defaults. Member induction training reviewed. |
| Nov | Staff | Streetscene | Slip, Trip or Fall | The area was checked for defaults and any remedial action undertaken. Inspections undertaken of area during icy conditions. |

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
- Former Knutton Recreation Centre
- Guildhall
- Jubilee 2

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

- 16th June 2016
- 12th September 2016
- 29th November 2016
- 27th Feb 2017

7.2 Matters arising from the meetings included:-

- Accidents, Incidents and Near Misses

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- 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

- 14th April 2016
- 30th June 2016
- 6th October 2016
- 15th December 2016
- 9th March 2017

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
- Accident and incident guidance and reporting procedures
- Accident & Insurance claims
- Target 100
- Fire – Risk Assessments, Evacuation, Training
- Health and Safety Training & record management
- Dealing with aggressive members of the Public Procedures
- Communication of Health and Safety Procedures

10. FIRE

10.1 A number of evacuations have taken place in the last 12 months including

- 6 month programmed Fire Drills across the majority of sites.
- Evening evacuation for Elected Members and Officers took place on Wednesday 7th September 2016.

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 Lymelight
- Food, Folk and Real Ale
- Jazz and Blues Festival
- Global Groove
- Homecoming
- Carnival & Party in the Park
- Lyme Light Festival.

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 2015 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.

Business Managers have then been 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.

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.

A working party of lone working officers has been set up to review the lone working products available in the market place, they have received demonstrations from suppliers and have undertaken a trial of two different lone worker devices. Following the trial the working group have met to evaluate the products, to determine the need for devices and they have chosen a preferred device.

Business managers are now determining the number of devices required for their lone workers, so that a procurement process can be commenced.

13. Accident / Incident Procedures

Guidance documentation for employees who would respond to incidents has been developed and implemented. 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.

NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

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

3 July 2017

1. TREASURY MANAGEMENT ANNUAL REPORT 2016/17

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 2016/17 and to review the Treasury Management activity for this period.

Recommendations

- (a) That the Treasury Management Annual Report for 2016/17 be received and be reported to Full Council on 7 September 2017.

Reasons

The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management recommends that Members should be informed on Treasury Management activities at least twice a year. Full Council resolved that the Audit and Standards 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 Standards Committee the Treasury Management Annual Report will be reported to Full Council on 7 September 2017.

1. **Background**

- 1.1 The CIPFA Code of Practice on Treasury Management recommends that Members should be informed on Treasury Management activities at least twice a year. It was resolved that the Audit and Standards 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 2016/17 approved by Council on 24 February 2016.

1.4 The Council undertook a tendering exercise in January 2017 for the provision of Treasury Management Advisory services for the period 1st April 2017 to 31st March 2020. The contract for this period was awarded to Arlingclose Ltd.

2. **Issues**

2.1 The Treasury Management Annual 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, Arlingclose Ltd.

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 2016/17.

7. **Background Papers**

- CIPFA Treasury Management Code of Practice,
- 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),
- Arlingclose Ltd. Treasury Management Outturn Report template (21 April 2017)

TREASURY MANAGEMENT ANNUAL REPORT 2016/17

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 2016/17. 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 Standards 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 2016/17.

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 Standards Committee prior to it being reported to Full Council.

2. THIS ANNUAL TREASURY REPORT COVERS

- ❖ The Council's treasury position as at 31 March 2017;
- ❖ The strategy for 2016/17;
- ❖ The economy in 2016/17;

- ❖ Investment rates in 2016/17;
- ❖ Compliance with treasury limits and Prudential Indicators;
- ❖ Investment outturn for 2016/17;
- ❖ Involvement of Elected Members;
- ❖ Other issues.

3. TREASURY POSITION AS AT 31 MARCH 2017

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

| | At 31/03/17 | Return | Average Life (Days) | At 31/03/16 | Return | Average Life (Days) |
|-------------------|-------------|--------|---------------------|-------------|--------|---------------------|
| Total Debt | £0m | N/A | N/A | £0m | N/A | N/A |
| Total Investments | £3.4m | 0.60% | 8 | £7.5m | 0.68% | 11 |

It should be noted that the above table is only a snapshot of the total Investments as at 31 March 2017. Large fluctuations in cash inflows and outflows that occur throughout the month can have an impact on the figure reported.

4. THE STRATEGY FOR 2016/17

The strategy agreed by Council on 24 February 2016 was that:

- The Council's had no Borrowing Need (a negative Capital Financing Requirement of £0.654m) for 2016/17, due to the Council expecting to have funds available and no borrowing requirement, this was estimated to rise to £4m 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

At the Council meeting on 7th September 2016, it was reported that, ‘the delay in receiving the capital receipt from HDD (in respect of the Ryecroft redevelopment scheme), together with the Council’s overall capital financial position, will mean that the Council will have to borrow, at least in the short term, to finance its interest in the Public Sector Hub project.’

As approved by Council on 24 February 2016 the Council used the creditworthiness service provided by the Council’s previous 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 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 suggested maximum investment duration.

5. THE ECONOMY AND INTEREST RATES - narrative supplied by the Council’s Treasury Management Advisors – Arlingclose Limited

UK inflation had been subdued in the first half of 2016 as a consequence of weak global price pressures, past movements in Sterling and restrained domestic price growth. However the sharp fall in the Sterling exchange rate following the European Union referendum had an impact on import prices which, together with rising energy prices, resulted in Consumer Price Index (CPI) inflation rising from 0.3% in April 2016 to 2.3% in March 2017.

In addition to the political fallout, the referendum’s outcome also prompted a decline in household, business and investor sentiment. The repercussions on economic growth were judged by the Bank of England to be sufficiently severe to prompt its Monetary Policy Committee (MPC) to cut the Bank Rate to 0.25% in August 2016 and embark on further gilt and corporate bond purchases as well as provide cheap funding for banks via the Term Funding Scheme to maintain the supply of credit to the economy.

Despite growth forecasts being downgraded, economic activity was fairly buoyant and Gross Domestic Product (GDP) grew 0.6%, 0.5% and 0.7% in the second, third and fourth calendar quarters of 2016. The labour market also proved resilient, with the unemployment rate dropping to 4.7% in February, its lowest level in 11 years.

6. INVESTMENT RATES IN 2016/17 – narrative supplied by the Council’s Treasury Management Advisors – Arlingclose Limited

Following the European Union referendum result, gilt yields fell sharply across the maturity spectrum on the view that Bank Rate would remain extremely low for the foreseeable future. After September there was a reversal in longer dated gilt yields which moved higher, largely due to the MPC revising its earlier forecast that the Bank Rate would be dropping to near 0% by the end of 2016. The yield on the 10 year gilt rose from 0.75% at the end of September to 1.24% at the end of December, almost back at pre European Union referendum levels of 1.37% on 23 June 2016. 20 year and 50 year gilt yields also increased in quarter 3 2017 to 1.76% and 1.70% respectively, however in quarter 4 yields remained flat at around 1.62% and 1.58% respectively.

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 2016/17

Internally Managed Investments

The Council manages its investments in-house and during 2016/17 invested with institutions in compliance with the credit worthiness service of the Council's previous treasury management advisors, Sector Treasury Services. The Council invested for a range of periods from overnight to up to six months during 2016/17, dependent on the Council's cash flows, its interest rate view and the interest rates on offer. Four of the eight fixed investments (excluding use of the Government's Debt Management Office Debt Management Account Deposit Facility) made in 2016/17 were for a period of three months or less. Two fixed investments were for six months. The remaining two investments were six month investments that were carried over from 2015/16.

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

Aside from fixed investments and use of the DMO DMADF, the Council used its various deposit accounts. This included four deposits in a 95 day notice account and five deposits in a 180 day notice account, one of which was carried forward from 2015/16. On thirteen 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 earn interest on a daily basis.

Investment Outturn for 2016/17

During 2016/17 an average rate of return of 0.60% was achieved on an average individual investment of £3.627m. 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 2016/17 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.

ANNEX 1: PRUDENTIAL INDICATORS

| Position/Prudential Indicator | | 2015/16 Actual | 2016/17 Indicator | 2016/17 Actual |
|-------------------------------|--|----------------|-------------------|----------------|
| 1 | Capital Expenditure | £2.543m | N/A | £8.729m |
| 2 | Capital Financing Requirement at 31 st March * | (£0.895m) | (£0.654m) | £0.828m |
| 3 | Treasury Position at 31 st March: | | | |
| | Borrowing | £0 | N/A | £0 |
| | Other long term liabilities | £0m | N/A | £0m |
| | Total Debt | £0m | N/A | £0m |
| | Investments | (£7.549m) | N/A | (£3.460m) |
| | Net Borrowing | (£7.549m) | N/A | (£3.460m) |
| 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 | (1.74%) | (0.71%) | (0.81%) |
| 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 |

* The Capital Financing Requirement has changed from a negative position as at 31st March 2016 to a positive position as at 31st March 2017 to reflect the need for the Council to borrow during 2017/18.

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.

GDP – Gross Domestic Product

A monetary measure of the market value of all final goods and services produced in a period (quarterly or yearly). Nominal GDP estimates are commonly used to determine the economic performance of a whole country or region, and to make international comparisons.

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.

DRAFT STATEMENT OF ACCOUNTS 2016/17.

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 2016/17 and the financial position as at 31 March 2017 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.

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 2017 be noted.

Reasons

The completion of the draft statement of accounts provides an opportunity to report upon the outturn position and key issues.

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 the Council to produce a statement of accounts for the financial year detailing its financial transactions for the year and its position at the year end and that this Statement be scrutinised and approved by an appropriate committee, in this case the Audit and Standards Committee, by 30 September. The Statement is produced in a standardised form in line with CIPFA (the Chartered Institute of Public Finance and Accountancy) guidelines. 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 require the draft Statement of Accounts to be certified by the responsible financial officer, who is the Executive Director (Resources and Support Services), as presenting a true and fair view of the Council's financial position by 1 July and this was done on 25 May. On presentation to the committee for approval the final audited version of the Statement will be recertified by him. The period during which the public have the right to inspect the accounts commences on 3 July 2017.
- 1.3 The audit of the 2016/17 statement of accounts will commence on 17 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 25 September 2017, following which the statement can be published to meet the 30 September deadline.
- 1.4 The full statement of accounts will be submitted to the Committee for formal approval at the 25 September meeting, when members can concentrate on reviewing an audited rather than draft statement. Should members wish to view the draft statement at this stage, it can be accessed via the Council's website and in addition a copy has been placed in the members' room. This report, therefore, concentrates on reporting upon the outturn position and the key elements of the Council's financial position as at 31 March.

- 1.5 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 3.3.7 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. It should be noted that the 2016/17 CIPFA Accounting Code of Practice has made some changes to the format of the Statement of Accounts and the way that some of the information is presented. This is particularly relevant in relation to the income and expenditure account and the changes are outlined in the appendix.
- 1.6 As outlined in the report to your Committee on 4 July 2016 in relation to the 2015/16 accounts, the Regulations provide for earlier approval and publication of the Statement of Accounts, commencing with the 2017/18 Statement. This means that, in practical terms, these and future 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 the earlier date of 1 June. The approval of the Statement by the Audit and Standards Committee will be required prior to 31 July to enable it to be published by the revised deadline of 31 July. This will mean that the Statement of Accounts and outturn details will be reported to the Committee once only, rather than in July for information and later in September for formal approval.
- 1.7 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 weeks prior to the 25 September meeting to approve the statement.
- 1.8 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 2016/17 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 2016/17 was originally set in February 2016 and amounted to a net total of £14,138,550. The eventual outturn for the year was a positive variance against this figure, of £6,037.

3. The General Fund Outturn

- 3.1 As mentioned above, the outturn in respect of the General Fund Revenue Account was £6,037 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 | 230 | 214 | 16 |

| | | | |
|----------------------------------|--------------|--------------|------------|
| Commercial Portfolio Rents | 1,150 | 1,014 | 136 |
| Waste Services | 1,730 | 1,575 | 155 |
| Newcastle Open Market Stall Fees | 198 | 159 | 39 |
| Car Parking Income | 1,228 | 1,037 | 191 |
| Jubilee 2 Income | 1,459 | 1,370 | 89 |
| Kidsgrove Sports Centre Income | 393 | 298 | 95 |
| Cemeteries Income | 350 | 322 | 28 |
| Council Tax Court Costs | 680 | 470 | 210 |
| Total | 7,418 | 6,459 | 959 |

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

| Item | Additional expenditure |
|-------------------------------|------------------------|
| | £000s |
| New Waste Service costs | 220 |
| Kidsgrove Sports Centre costs | 54 |
| Total | 274 |

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

| Item | Saving or additional income |
|---|-----------------------------|
| | £000s |
| Additional Income: | |
| Bereavement Service Income | 49 |
| Planning Applications Fees | 255 |
| Street Naming and Numbering Income | 16 |
| Income from Business Improvement District levy collection | 19 |
| Procurement Savings | |
| Vehicle Fuel | 68 |
| Good Housekeeping Efficiencies: | |
| Jubilee 2 Expenditure | 60 |
| Parks and Open Spaces expenditure | 65 |
| Corporate Training expenditure | 10 |
| CCTV expenditure | 16 |
| Staffing Efficiencies: | |
| Overall employee costs savings | 337 |
| Corporate: | |
| New Homes Bonus | 210 |
| Miscellaneous additional government grant income | 38 |
| Minimum Revenue Provision not required | 100 |
| Other Variances | -4 |
| Total | 1,239 |

3.2 An amount of £6,037 has been transferred into the Budget Support Fund in respect of the positive variance. As can be seen in Note 3.3.7 to the Accounts, the balance on the Budget Support Fund now stands at £0.269m, a decrease of £0.072m from the 1 April 2016 balance, which apart from the above transfer is accounted for by payments out of the reserve in respect of commitments brought forward and to finance invest to save projects.

3.3 Some income streams continue to suffer adverse variances 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 2018/19.

3.4 Business Rates Retention

- 3.4.1 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. Excess income above the amount budgeted for in 2016/17 amounted to £0.072m.
- 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 2017 which forecast the estimated business rates income for 2017/18 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. Looking forward, a 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.
- 3.4.4 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, most likely from 2021/22, 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 2016/17 was £0.052m. 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 2016/17 was £0.510m. Of this £0.204m (40%) has been retained by the Borough Council, with the balance of £0.306m being paid over to the Pool, £0.102m (20%) to be held as a reserve to meet any future business rates income shortfalls experienced by Pool members, and £0.204m (40%) in a reserve to fund economic development projects in Staffordshire.

- 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 deficit of £0.179m for the year, leaving a balance of an accumulated surplus of £0.233m 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) | | 1.143 | | (0.731) | 0.412 |
| Contribution to previous years (surplus)/deficit (A) | (0.968) | | 0.690 | | |
| Surplus/(deficit) relating to 2016/17 (B) | 0.189 | | (0.090) | | |
| Overall surplus/(deficit) for year (A + B) | | (0.779) | | 0.600 | (0.179) |
| Balance Carried Forward – surplus/(deficit) | | 0.364 | | (0.131) | 0.233 |

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 £0.189m for the year, which compares to an in-year surplus of £1.149m in 2015/16. 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. The main reason for the reduced surplus is a revision to the method of calculating the council tax base, first applied to the 2016/17 year, which more accurately reflects underlying changes in the tax base data and as a result makes large surplus or deficit amounts less likely.
- 4.4 The Business Rates element of the Fund experienced an in-year deficit of £0.090m. 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 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 2016/17. 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 2016/17 were as follows:

| | £m |
|---|--------------|
| Balance Brought Forward at 1 April 2016 | 1.932 |
| Used in 2016/17 | (1.731) |
| Contribution to Provision | 1.611 |
| Balance at 31 March 2017 | <u>1.812</u> |

The balance of £1.812m 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. £0.725m. The amount has increased due to the high level of appeals currently being experienced, reflecting the volatility referred to in paragraph 3.4.

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 £65.246m (£57.304m at 31 March 2015) which consist of Plant, Property and Equipment, Surplus Assets, Investment Properties and Heritage Assets. The main reasons for the increase are increases in Plant, Property and Equipment (£3.576m) which includes the purchases of new vehicles for the waste recycling service and an increase in investment properties (£4.366m) primarily due to revaluations.
- Investments (all short term at 31 March 2017 - i.e. with less than 1 year to run from that date) show a decrease, amounting to £3.460m compared to £7.549m at 31 March 2016. The amount invested at any one time reflects the prevailing cash flow situation but as reserves and capital receipts balances are reducing the sums available for investment correspondingly reduce.
- 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 £8.000m. Short Term Debtors have decreased by £1.306m compared with 31 March 2016. The main reasons for this are a decrease in amounts owed by central government to the Council of £1.383m, this primarily relates to the reduced share of the business rates deficit owed. Additionally, the level of sundry debtors relating to other entities and individuals (including NHS bodies) has decreased by £0.441m at 31 March 2016. Offsetting this, the amounts owed by other local authorities has increased (£0.518m) this is due to an increase in the cash amount owed by precepting authorities in respect of council tax due to arrears remaining relatively constant but the collection fund surplus decreasing.
- The amount the Council owes to its creditors is £5.738m. Creditors have increased by £0.045m compared to 31 March 2016.
- Provisions are £1.270m compared with £1.290m at 31 March 2016. This overall total comprises four provisions (31 March 2016 balance in brackets): NNDR Appeals £0.725m (£0.773m); Insurance Claims Provision £0.148m (£0.072m); Municipal Mutual Insurance (MMI) Provision £0.025m (£0.079m); Employee Benefits Provision £0.372m (£0.366m).
- The Net Liability relating to Defined Benefit Pension Schemes (i.e. the difference between liabilities and assets of the pension scheme) increased from £68.428m to £71.709m. The variance between the two years comprises a £1.200m decrease in the liability arising from the final year's payment in respect of the "prepayment" agreement whereby the Council received a discount on payments into the Pension Fund in return for paying the amounts due in advance and a £4.481m increase in the liability arising from changes in demographic and financial assumptions. The balance on the Pensions Liability is mirrored by a corresponding balance on the Pensions Reserve included in the balance sheet under unusable reserves. The £4.481m change mainly arises as a result of a significant decrease in the net discount rate applied to pension fund assets over this period (3.4% down to 2.5%), the negative impact of which has outweighed the much higher 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 £5.812m. The note included in Appendix 1 shows a full analysis of all these reserves. The main items, with their balances at 31 March 2017, are:

- General Fund Balance (£1.200m)
- Capital Receipts Reserve (£1.611m)
- Capital Grants Unapplied (£1.126m)
- Budget Support Fund (£0.269m)
- Contingency Reserve Fund (£0.135m)

- ICT Development Fund (£0.068m)
- Renewal and Repairs Fund (£0.002m)
- Equipment Replacement Fund (£0.481m)
- Revenue Investment Fund (£0.105m)
- Business Rates Reserve (£0.442m)

The majority of these balances are committed to various projects and initiatives and are not available for other use.

- 6.2 The General Fund Balance remains the same (£1.200m) as at 31 March 2017. 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 almost entirely committed to financing the currently approved capital programme plus slippage from 2016/17, the year-end balance reflecting underspending in relation to the 2016/17 capital programme, as discussed at paragraphs 7.2 and 7.3, and will almost all need to be spent in 2017/18. 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.

7. Capital Expenditure

- 7.1 Capital expenditure totalled £8.729m in 2016/17.
- 7.2 The capital programme approved by Full Council on 24 February 2016 provided for an amount of £14.249m to be spent in 2016/17. However, the budget report to Full Council on 23 February 2017 revised the estimated spend for 2016/17 to £11.744m. This was largely due to the need to curtail the capital programme by putting around £2.400m of projects on hold because of a lack of capital receipts to finance them.
- 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 this are: some vehicle replacements were deferred until 2017/18 (£0.646m) and £2.248m of payments in relation to the construction of Castle House did not become due until 2017/18.
- 7.4 Projects in progress or committed will be completed or commenced in 2017/18. 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 continuing 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 2017/18 programme will also need to be reviewed for the same reason.
- 7.5 The expenditure of £8.729m was financed as shown below:

| | £m |
|--|--------------|
| Capital Receipts | 5.519 |
| New Homes Bonus | 0.165 |
| BetterCare Funding (re Disabled Facilities Grants) | 0.988 |
| Contributions from Other Bodies | 0.015 |
| Section 106 payments | 0.087 |
| Reserves - ICT Development Fund | 0.216 |
| Sport England Grant (Clayton Sports Centre) | 0.016 |
| Internal Borrowing | 1.723 |
| Total Financing | <u>8.729</u> |

8. List of Appendices

Appendix 1: Extracts from Draft Statement of Accounts

9. Link to Draft Statement of Accounts

9.1 An electronic copy of the 2016/17 Statement of Accounts is available as one of the agenda documents on the Council's website.

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost of providing services in accordance with accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in both the Movement in Reserves Statement and the Expenditure and Funding Analysis.

| 2015/16 | | | | 2016/17 | | |
|---------------------------|----------------------|-------------------------|---|---------------------------|----------------------|-------------------------|
| Gross Expenditure £000 | Gross Income £000 | Net Expenditure £000 | | Gross Expenditure £000 | Gross Income £000 | Net Expenditure £000 |
| 3,987 | 959 | 3,028 | Chief Executive | 3,791 | 948 | 2,843 |
| 36,024 | 32,461 | 3,563 | Resources & Support Services | 35,123 | 31,441 | 3,682 |
| 7,482 | 4,189 | 3,293 | Regeneration & Development | 9,656 | 4,346 | 5,310 |
| 13,521 | 6,010 | 7,511 | Operational Services | 12,720 | 6,153 | 6,567 |
| 646 | 180 | 466 | Corporate | 870 | 226 | 644 |
| 61,660 | 43,799 | 17,861 | Cost of Services | 62,160 | 43,114 | 19,046 |
| 460 | 541 | (81) | Other Operating Expenditure (Note 3.2.1-p26) | 395 | 312 | 83 |
| 4,616 | 4,782 | (166) | Financing & Investment Income/Expenditure (Note 3.2.2-p26) | 2,176 | 4,901 | (2,725) |
| 9,469 | 24,575 | (15,106) | Taxation & Non-Specific Grant Income (Note 3.2.3-p27) | 9,951 | 25,436 | (15,485) |
| | | 2,508 | (Surplus)/Deficit on Service Provision | | | 919 |
| | | (253) | (Surplus)/Deficit on Revaluation of Assets | | | (144) |
| | | (8,680) | Remeasurement of the Defined Benefit Liability/Asset (Note 4.4-p42-p45) | | | 312 |
| | | (8,933) | Other Income & Expenditure | | | 168 |
| | | (6,425) | Total Income & Expenditure | | | 1,087 |

Note

Resources and Support Services includes housing benefits expenditure and housing benefits grant income of circa £30m.

Restatement

As a result of the application of changes in the 2016/17 Accounting Code of Practice, the format of the Comprehensive Income and Expenditure Statement has changed compared with that for 2015/16. Accordingly, the amounts for 2015/16 have been restated where necessary. The changes concern:

- The segmental information in the top section of the Statement has changed from a service based analysis to an analysis based on the way in which expenditure and income is reported to those charged with governance, i.e. the Council's management structure.
- The above analysis does not include recharges between accounts, showing instead expenditure and income directly attributable to the headings shown before any recharges are made.

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other unusable reserves. The movements in the year are broken down between gains and losses incurred in accordance with accounting practices and statutory adjustments required to return to the amounts chargeable to council tax for the year. The Net Increase/Decrease line shows the statutory General Fund Balance movements in the year following those adjustments.

| | General Fund Balance | Capital Receipts Reserve | Capital Grants Unapplied | Total Usable Reserves | Unusable Reserves | Total Council Reserves |
|---|----------------------|--------------------------|--------------------------|-----------------------|-------------------|------------------------|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| 2016/17 | | | | | | |
| Balance at 31 March 2016 B/Fwd | (3,507) | (6,586) | (889) | (10,982) | 11,139 | 157 |
| Movement in Reserves 2016/17 | | | | | | |
| Total Comprehensive Income & Expenditure | 919 | | | 919 | 168 | 1,087 |
| Adjustments Between Accounting & Funding Basis (Note 3.1.1-p24-p25) | (487) | 4,975 | (237) | 4,251 | (4,251) | - |
| Increase/Decrease in Year | 432 | 4,975 | (237) | 5,170 | (4,083) | 1,087 |
| Balance at 31 March 2017 C/Fwd | (3,075) | (1,611) | (1,126) | (5,812) | 7,056 | 1,244 |
| 2015/16 | | | | | | |
| Balance at 31 March 2016 B/Fwd | (4,284) | (6,365) | (868) | (11,517) | 18,099 | 6,582 |
| Movement in Reserves 2015/16 | | | | | | |
| Total Comprehensive Income & Expenditure | 2,508 | - | - | 2,508 | (8,933) | (6,425) |
| Adjustments Between Accounting & Funding Basis (Note 3.1.1-p24-p25) | (1,731) | (221) | (21) | (1,973) | 1,973 | - |
| Increase/Decrease in Year | 777 | (221) | (21) | 535 | (6,960) | (6,425) |
| Balance at 31 March 2016 C/Fwd | (3,507) | (6,586) | (889) | (10,982) | 11,139 | 157 |

Note

The General Fund Balance includes £1.875m of Earmarked Reserves (2015/16 £2.307m), therefore leaving a general balance of £1.200m.

Restatement

As a result of the changes in the 2016/17 Accounting Code of Practice, the format of the Movement in Reserves Statement has changed compared with that for 2015/16. Accordingly, the amounts for 2015/16 have been restated where necessary. The changes concern:

- The inclusion of earmarked reserves in the General Fund Balance which means that there is no longer a requirement to show movements in relation to these reserves in the Statement;
- One line showing the balance on the Comprehensive Income and Expenditure Statement is now shown rather than splitting this between the Surplus or Deficit on Provision of Services and Other Comprehensive Income and Expenditure.

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses, where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

| 31/03/2016 £000 | | 31/03/2017 £000 |
|--------------------|---|--------------------|
| 40,323 | Property, Plant & Equipment (Note 3.3.1-p29) | 43,899 |
| 1,025 | Surplus Assets (Note 3.3.1-p29) | 1,025 |
| 14,527 | Investment Property (Note 3.3.2-p32) | 18,893 |
| 1,429 | Heritage Assets (Note 3.3.3-p33) | 1,429 |
| 158 | Intangible Assets | 81 |
| 591 | Long Term Debtors (Note 3.3.4-p33) | 545 |
| 58,053 | Long Term Assets | 65,872 |
| 7,549 | Short Term Investments (Note 4.6.1-p46-p47) | 3,460 |
| 206 | Inventories | 236 |
| 9,306 | Short Term Debtors (Note 3.3.4-p33-p34) | 8,000 |
| 595 | Cash/Cash Equivalents (Note 4.6.1-p46-p47) | 376 |
| 17,656 | Current Assets | 12,072 |
| (5,693) | Short Term Creditors (Note 3.3.5-p34) | (5,738) |
| (59) | Short Term Borrowing (Note 4.6.1-p46-p47) | (70) |
| (5,752) | Current Liabilities | (5,808) |
| (1,290) | Provisions (Note 3.3.6-p34) | (1,270) |
| (68,428) | Net Pensions Liability (Note 4.4-p42-p45) | (71,709) |
| (396) | Capital Grants Receipts in Advance | (401) |
| (70,114) | Long Term Liabilities | (73,380) |
| (157) | Net Assets | (1,244) |
| | Usable Reserves (Note 3.3.7-p35-p36) | |
| 1,200 | General Fund Balance | 1,200 |
| 2,307 | Other Usable Reserves | 1,875 |
| 6,586 | Capital Receipts Reserve | 1,611 |
| 889 | Capital Grants Unapplied Account | 1,126 |
| 10,982 | Total Usable Reserves | 5,812 |
| | Unusable Reserves (Note 3.3.8-p36-p39) | |
| 14,711 | Revaluation Reserve | 14,855 |
| 43,634 | Capital Adjustment Account | 49,632 |
| 620 | Deferred Capital Receipts Reserve | 545 |
| (69,628) | Pensions Reserve | (71,709) |
| (110) | Collection Fund Adjustment Account | (7) |
| (366) | Accumulated Absences Account | (372) |
| (11,139) | Total Unusable Reserves | (7,056) |
| (157) | Total Reserves | (1,244) |

Usable Reserves

| | 31/03/2015 | Transfers | Transfers | 31/03/2016 | Transfers | Transfers | 31/03/2017 |
|----------------------------------|---------------|----------------|--------------|---------------|----------------|--------------|--------------|
| | £000 | Out | In | £000 | Out | In | £000 |
| | | £000 | £000 | | £000 | £000 | |
| Capital: | | | | | | | |
| Capital Receipts Reserve | 6,365 | (1,047) | 1,268 | 6,586 | (6,112) | 1,137 | 1,611 |
| Capital Grants Unapplied | 868 | (221) | 242 | 889 | (443) | 680 | 1,126 |
| Both Revenue and Capital: | | | | | | | |
| Equipment Replacement Fund | 376 | (141) | 141 | 376 | (107) | 212 | 481 |
| Renewals and Repairs Fund | 3 | (431) | 430 | 2 | (390) | 390 | 2 |
| ICT Development Fund | 253 | (118) | 90 | 225 | (247) | 90 | 68 |
| New Homes Bonus Reserve | - | (186) | 186 | - | (165) | 165 | - |
| New Initiatives Fund | 57 | (57) | - | - | - | - | - |
| Revenue: | | | | | | | |
| General Fund Balance | 1,200 | - | - | 1,200 | - | - | 1,200 |
| Contingency Reserve Fund | 276 | (50) | - | 226 | (91) | - | 135 |
| Budget Support Fund | 297 | (28) | 72 | 341 | (80) | 8 | 269 |
| Conservation and Heritage Fund | 37 | (12) | 10 | 35 | - | 10 | 45 |
| Museum Purchases Fund | 68 | (8) | - | 60 | - | 4 | 64 |
| Maintenance Contributions | 76 | (50) | 35 | 61 | (30) | 44 | 75 |
| Mayors Charities Reserve | 12 | (1) | - | 11 | (3) | - | 8 |
| Standards Fund | 6 | - | - | 6 | - | - | 6 |
| Deposit Guarantee Scheme Reserve | 36 | - | - | 36 | - | - | 36 |
| Revenue Investment Fund | 112 | (76) | 35 | 71 | (1) | 35 | 105 |
| Keele Master Plan Reserve | - | - | 139 | 139 | - | - | 139 |
| Business Rates Reserve | 1,475 | (800) | 43 | 718 | (276) | - | 442 |
| Total | 11,517 | (3,226) | 2,691 | 10,982 | (7,945) | 2,775 | 5,812 |

Note 3.1.2 (page 26) shows the movements on Usable Reserves involving transactions with the General Fund Revenue Account. The nature and purpose of these reserves is as set out below:

- The Capital Receipts Reserve contains the balance of unapplied capital receipts arising from the disposal of fixed assets.
- The Capital Grants Unapplied Reserve contains the balance of unused grants and contributions available for use, i.e. they have no conditions or conditions have been met;
- The Equipment Replacement Fund is maintained to provide for the replacement of certain items of equipment, such as the crematorium cremators and gym equipment;
- The Renewals and Repairs Fund is used for the repair and maintenance of Council-owned buildings, structures and fixed plant. It is funded through a contribution from the General Fund revenue account, based on the estimated frequency and amount of future expenditure on repairs and maintenance.
- The ICT Development Fund is to be used to meet the costs of new IT requirements and the replacement of IT equipment;
- The New Homes Bonus Reserve was created to hold unused balances in relation to New Homes Bonus grant.
- The New Initiatives Fund was established to fund new initiatives, both capital and revenue, not currently provided for in the Council's budgets;
- The General Fund Balance exists to meet the cost of any unexpected occurrences affecting the General Fund revenue budget or any of the occurrences materialising which are identified in the risk assessment relating to that budget;
- The Contingency Reserve Fund is used to finance expenditure in respect of contingencies that may arise in the future, for example redundancy payments consequent upon service reviews;

- The Budget Support Fund was created by crediting to it surpluses arising on the General Fund Revenue Account. It is to be used to support the revenue budget and Invest to Save initiatives. It is also used to enable budget provision to be carried forward to future years by appropriating to it unspent balances where a commitment exists;
- The Conservation and Heritage Fund exists to provide grants to the owners of buildings of historical significance to enable them to be maintained properly;
- The Museum Purchases Fund was established by a small bequest which has been added to by contributions and proceeds from the sale of exhibits. It is used to purchase exhibits for the museum and to conserve and enhance the display of existing exhibits;
- Maintenance Contributions are received from developers of housing and other schemes and are to be used to fund the maintenance of open spaces taken over from those developers;
- The Mayors Charities Reserve represents the balance on the Mayors Charities activity;
- The Standards Fund is used to ensure that the Council meets its responsibilities under the Ethical and other standards frameworks;
- The Deposit Guarantee Reserve was created to hold the unspent balances relating to the Guarantee Scheme for landlord deposits in respect of homeless persons;
- The Revenue Investment Fund is used to fund projects in support of corporate priorities;
- The Keele Master Plan reserve was created to hold funds for expenditure incurred with the sale or development of land owned by various stakeholders including the land of the former Keele Golf Course site;
- The Business Rates Reserve was created as a consequence of the new rates retention arrangements. It will receive excess rates income above the budgeted amount. It may be used for any purpose but particularly to meet Business Rates Collection Fund deficits and future rate income shortfalls.

| 2015/16 Council Tax £'000 | 2015/16 Business Rates £'000 | 2015/16 Total £'000 | | 2016/17 Council Tax £'000 | 2016/17 Business Rates £'000 | 2016/17 Total £'000 |
|------------------------------------|---------------------------------------|---------------------------|--|------------------------------------|---------------------------------------|---------------------------|
| (53,488) | - | (53,488) | Income | | | |
| - | (33,588) | (33,588) | Council Tax Payers | (55,571) | | (55,571) |
| | | | Business Rates Payers | | (34,678) | (34,678) |
| | | | Transfer of Previous Years Deficit | | | |
| - | (800) | (800) | - Newcastle-under-Lyme Borough Council | - | (276) | (276) |
| - | (180) | (180) | - Staffordshire County Council | - | (62) | (62) |
| - | - | - | - Office of Police & Crime Commissioner | - | - | - |
| - | (20) | (20) | - Staffordshire Fire and Rescue Authority | - | (7) | (7) |
| - | (1,000) | (1,000) | - Central Government | - | (345) | (345) |
| (53,488) | (35,588) | (89,076) | Total Income | (55,571) | (35,368) | (90,939) |
| | | | Expenditure | | | |
| | | | Council Tax Precepts | | | |
| 6,541 | - | 6,541 | - Newcastle-under-Lyme Borough Council | 6,906 | - | 6,906 |
| 36,907 | - | 36,907 | - Staffordshire County Council | 39,276 | - | 39,276 |
| 6,259 | - | 6,259 | - Office of Police & Crime Commissioner | 6,408 | - | 6,408 |
| 2,430 | - | 2,430 | - Staffordshire Fire and Rescue Authority | 2,537 | - | 2,537 |
| | | | Business Rates Apportionment | | | |
| - | 13,144 | 13,144 | - Newcastle-under-Lyme Borough Council | - | 13,571 | 13,571 |
| - | 2,958 | 2,958 | - Staffordshire County Council | - | 3,054 | 3,054 |
| - | 328 | 328 | - Staffordshire Fire and Rescue Authority | - | 339 | 339 |
| - | 16,430 | 16,430 | - Central Government | - | 16,964 | 16,964 |
| | | | Other Expenditure | | | |
| - | 141 | 141 | Cost of Collection | - | 139 | 139 |
| - | (230) | (230) | Transitional Protection | - | 373 | 373 |
| 202 | 359 | 561 | Provision for Bad Debts | 255 | 448 | 703 |
| - | 1,067 | 1,067 | Provision for Appeals | - | (120) | (120) |
| | | | Transfer of Previous Years Surplus | | | |
| 140 | - | 140 | - Newcastle-under-Lyme Borough Council | 116 | - | 116 |
| 809 | - | 809 | - Staffordshire County Council | 690 | - | 690 |
| 140 | - | 140 | - Office of Police & Crime Commissioner | 117 | - | 117 |
| 54 | - | 54 | - Staffordshire Fire and Rescue Authority | 45 | - | 45 |
| 53,482 | 34,197 | 87,679 | Total Expenditure | 56,350 | 34,768 | 91,118 |
| (6) | (1,391) | (1,397) | Deficit/(Surplus) for the Year | 779 | (600) | 179 |
| (1,137) | 2,122 | 985 | Balance Brought Forward at 1 April | (1,143) | 731 | (412) |
| (6) | (1,391) | (1,397) | Deficit/(Surplus) for the year | 779 | (600) | 179 |
| (1,143) | 731 | (412) | Balance Carried Forward at 31 March | (364) | 131 | (233) |
| | | | Allocation of Collection Fund Balance | | | |
| (144) | 292 | 148 | - Newcastle-under-Lyme Borough Council | (46) | 52 | 6 |
| (809) | 66 | (743) | - Staffordshire County Council | (259) | 12 | (247) |
| (53) | 7 | (46) | - Staffordshire Fire and Rescue Authority | (42) | 1 | (41) |
| - | 366 | 366 | - Central Government | - | 66 | 66 |
| (137) | - | (137) | - Office of Police & Crime Commissioner | (17) | - | (17) |
| (1,143) | 731 | (412) | | (364) | 131 | (233) |

Statement of Accounts

2016/17



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Guide to the Statement of Accounts

The Statement of Accounts contains a number of different elements which are shown in the following table, together with an explanation of the purpose of each item. Throughout the Statement, various unusual or technical terms are employed which may not be familiar to all readers. A Glossary of Terms (Appendix 4 - page 72) has therefore been provided which explains the meaning of such items.

| Page | Item | Purpose |
|------|---|--|
| 6 | Narrative Report by the Executive Director (Resources and Support Services) | Provides a guide to the main features of the accounts and a commentary on the Council's financial position and the factors affecting its finances. |
| 15 | Statement of Responsibilities | Sets out the respective responsibilities of the Council and the Executive Director (Resources and Support Services) in relation to financial administration and accounting. |
| 16 | Financial Statements | These are the Financial Statements which the Council must publish in its Statement of Accounts. |
| 16 | Comprehensive Income and Expenditure Statement | Shows the accounting cost of providing services in accordance with generally accepted accounting practice. This is not the same as the amount to be funded from taxation in accordance with regulations, which is shown in the Movement in Reserves Statement. |
| 17 | Movement in Reserves Statement | Shows movements in reserves split between usable and unusable reserves. It also reconciles the outturn on the Comprehensive Income and Expenditure Statement (CIES) to the General Fund Balance, by taking account of the adjustments necessary and made by transfers to or from reserves, either to remove accounting charges, such as for the depreciation of assets, which are not chargeable according to regulations or to meet the cost of items charged to the CIES which the Council has funded from reserves. |
| 18 | Balance Sheet | Sets out the Council's financial position on 31 March 2017. Provides details of the Council's balances, reserves and current assets employed in Council operations together with summarised information on the long term assets held and details of any current liabilities. |
| 19 | Cash Flow Statement | Summarises the total cash movement of the Council's Transactions. |
| 20 | Notes to the Financial Statements | These provide additional information and have been grouped into three categories as set out below. |
| 20 | Technical Issues | Outline technical issues such as the Council's accounting policies. Details are set out in Appendix 1. |
| 21 | Expenditure and Funding Analysis | Shows how expenditure is used and funded from resources in comparison with those resources consumed or earned in accordance with generally accepted accounting practices. |
| 24 | Further Analysis of items included in the Financial Statements | Provide a breakdown of figures included in the Financial Statements. |

| | | |
|-----------|--|---|
| 41 | Additional Information supplementing the Financial Statements | To provide additional information. |
| 52 | Collection Fund and Notes | Reflecting the statutory requirement for the Council to maintain a separate account recording details of receipts of council tax and business rates and the associated payments to precepting authorities/central government. |
| 55 | Audit Certificate | The external auditor's opinion on the accounts and of the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources. |
| 56 | Appendix 1 Accounting Policies, Standards, Judgements, Assumptions and Adjustments | Information in relation to technical issues in order to provide a fuller understanding of the accounts and how they have been compiled. |
| 70 | Appendix 2 Supplementary Accounts | Information relating to the North Staffs Building Control Partnership and Trust Funds, whose transactions are not included in the Council's accounts. |
| 71 | Appendix 3 Annual Governance Statement | Provides an account of the processes, systems and records which demonstrate assurance for the effectiveness of the framework of governance of the Council's discharge of its responsibilities. |
| 72 | Appendix 4 Glossary of Terms | Explanation of technical or unusual terms used in the Statement of Accounts. |

Narrative Report

Commentary by the Executive Director (Resources and Support Services)

a. Introduction

Welcome to Newcastle-under-Lyme Borough Council's Statement of Accounts for the financial year 2016/17. It sets out a summary of the money that the Council received and what it has been spent on and highlights specific issues regarding its financial position at 31 March 2017.

b. Regulations Governing the Production of the Statement of Accounts

The accounts have been prepared in accordance with the Accounts and Audit Regulations 2015, the requirements of the "Code of Practice on Local Authority Accounting in the United Kingdom 2016/17" and the "Service Reporting Code of Practice 2016/17" published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Under the provisions of Sections 25/26 of the Local Audit and Accountability Act 2014 and the Accounts and Audit Regulations 2015, the accounts were made available for inspection between 3 July and 11 August 2017, as advertised in the local press.

The accounts were approved by the Audit and Standards Committee on 25 September 2017 in accordance with paragraph 9 (2) of the Accounts and Audit Regulations 2015. The signature of the Committee Chair (who presided over the meeting) is included at the conclusion of this statement in line with these regulations as evidence of approval of the 2016/17 Statement of Accounts.

c. General Accounting Policies

The accounting policies (page 56) adopted by the Council comply with the relevant recommended accounting practice. The Council's service costs have been analysed in the Comprehensive Income and Expenditure Statement (page 16) according to the Council's management reporting structure. In addition, the analysis of capital expenditure (page 41) follows CIPFA's recommendations showing non-current and intangible assets separately. These recommended practices are all designed to meet the requirements of International Financial Reporting Standards.

There have been no changes in accounting policies during the year apart from those required to accommodate changes to the presentation of the statement of accounts outlined in the following section and changing the valuation date in relation to plant, property and equipment from 31 March (the year-end) to 1 April (the start of the year) in order to ensure a more timely closedown process. There have been no changes in the Council's statutory functions during the year.

d. Statement of Accounts

The information contained within these accounts is presented as simply and clearly as possible. However, the accounts of a local authority are both technical and complex, which does not always lead to a style which is easily understood. Accordingly a Guide to the Statement of Accounts (page 4) has been provided.

The 2016/17 Accounting Code of Practice requires a number of changes to the Statement of Accounts, some of them concerning the way that information is presented in existing statements and some requiring additional information to be provided, particularly the provision of a new Expenditure and Funding Analysis and associated Notes (page 21) which provide a reconciliation of the main adjustments to the Net Expenditure Chargeable to the General Fund Balance and the amounts in the Comprehensive Income and Expenditure Statement. Where the format of existing statements has been amended for 2016/17, the comparative figures for 2015/16 have been restated. The analysis of the cost of services has been changed from one based on functional services as prescribed by CIPFA to one based on the Council's own management reporting structure.

e. Accountability/Financial Reporting

Local authorities are governed by a rigorous structure of controls to provide stakeholders with confidence that public money has been properly accounted for. As part of the process of accountability, the Council is required to produce a Statement of Accounts, in order to inform stakeholders that it has properly accounted for all the public money received and spent, and that the financial standing of the Council is secure.

The Statement of Accounts concentrates on clear and accurate reporting of the financial position of the Council in relation to a particular year. It does not, however, aim to fulfil the role of an annual report of a company.

f. Economic Downturn and Public Expenditure Reductions

The national economic climate continues to have an adverse effect upon the Council's finances. In particular it has impacted upon the income received from leisure centre fees, market stalls, rental from commercial properties and from car parks. While there are signs that the situation continues to improve (e.g. planning fees income has experienced an increase) close monitoring and evaluation of these areas is needed in order to assess the risk to the Council's finances.



Funding from central government to support the revenue budget was again reduced in 2016/17. Efficiency savings were agreed when the budget for 2016/17 was set in February 2016 by the Full Council in order to allow for this reduction.

g. General Fund Revenue Budget Outturn

The outturn position in relation to the General Fund Revenue Budget was a positive variance of £6k, i.e. the net budget was £14.138m and the outturn was £14.132m. This amount has been transferred into the Budget Support Fund. The balance on the Fund, as at 31 March 2017 is £0.269m, as against its balance at 1 April 2016, which was £0.341m. In addition to the transfer into the Fund of £6,000, a net transfer of some £78,000 was made from the fund, largely comprising payments in respect of 2016/17 commitments carried forward and to finance invest to save projects.

This was in line with budget monitoring predictions of a final outturn close to the original budget for the year. The difficult operational conditions arising from the factors outlined previously and those incurred during the establishment of the new Waste and Recycling service meant that 2016/17 would be another challenging year financially for the Council. Members and officers have therefore continued to operate within an environment of tight budget management to, wherever possible, mitigate any adverse impact. The table below shows how the surplus arose:

| | £m |
|---|------------|
| Expenditure (Comprehensive Income & Expenditure -p16) | 62,160 |
| Income (Comprehensive Income & Expenditure -p16) | (43,114) |
| Net Service Expenditure | 19,046 |
| Non-Service Specific Income & Expenditure | |
| Interest Receivable | (115) |
| Investment Properties Net Expenditure | (4,947) |
| Council Tax Income | (6,886) |
| Non-Domestic Rates Net Income | (4,220) |
| Non-Ringfenced Government Grants | (4,051) |
| Pensions Net interest Cost | 2,336 |
| Other Items | (245) |
| Reversal of Pensions Net Interest Cost & other Pensions Transactions via Pensions Reserve | (1,769) |
| Reversal of Capital Charges included in Service Costs | 1,185 |
| Transactions with Other Unusable Reserves (Collection Fund Adjustment & Accumulated Absences) | 98 |
| Transactions with Earmarked Reserves | (438) |
| Outturn | (6) |

h. Financial Summary 2016/17

The financial activities of the Council can be categorised as either Revenue or Capital. Revenue spending represents the cost of providing services delivered by the Council in its day to day business during the year. Capital spending relates to items which will provide benefit to the Borough over a number of years.

Revenue Expenditure and Income

Where does the money come from?

Local authorities receive income from a variety of sources, from the Government in the form of grants, from households in the form of Council Tax (a property based charge payable by local residents dependent upon the Valuation Office's valuation band for their property), from consumers in respect of fees and charges and rents and from a share of business rates from occupiers of commercial premises within the Borough (based upon the rateable value set by the Valuation Office in respect of the properties concerned).

In accordance with the Business Rates Retention Scheme, the Council retains a share of the business rates collected after paying part over to the Government, Staffordshire County Council and the Staffordshire Fire and Rescue Authority.

Alongside business rates arrangements, the Council receives Revenue Support Grant (£1.814m in 2016/17) from the government, based on an assessment of the relative needs of local authorities, derived from factors such as population, deprivation levels, number of commuters and visitors to the area.

The gross income attributable to management reporting areas is shown in the Comprehensive Income and Expenditure Statement (page 16).

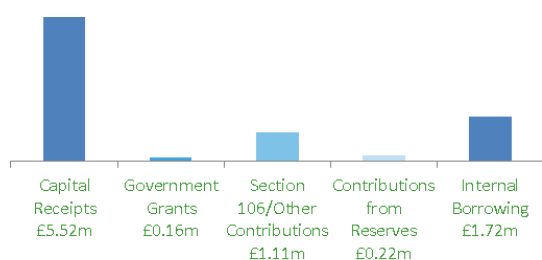
How the money was spent

The Comprehensive Income and Expenditure Statement (page 16) shows that Gross Expenditure for the year was £62.160m across the management reporting areas.

Capital Expenditure

Capital expenditure includes expenditure such as the acquisition, construction, repair and maintenance of fixed assets. As capital spending contributes to the Council's aims and objectives over more than one year, the Council plans and budgets for expenditure by means of a rolling programme. This programme was last updated in February 2017.

2016/17 Sources of Capital Funding £8.73m



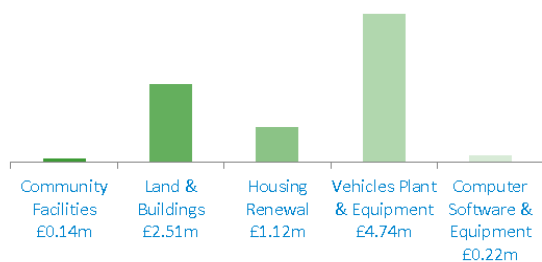
There are a number of sources of funding which may be available to finance the Council's capital expenditure. In 2016/17 and previous years the major sources of finance have been capital receipts (from sales of land, property and other assets) and contributions from external parties towards the cost of capital projects.

Some of the funds which the Council holds in reserves may be used to finance capital expenditure. These include the ICT Development Fund and the New Homes Bonus Reserve. The balances on the Council's reserves are shown in note 3.3.7 (page 35).

External Borrowing can also be used to finance capital expenditure. This has not recently been employed by the Council and has not been incurred in 2016/17. The Council has used internal balances (internal borrowing) to fund the £1.72m of the expenditure incurred in 2016/17 in respect of its new shared administrative building, Castle House, currently being constructed. This is reflected in a change to its Capital Financing Requirement (note 4.1 page 41).

Whether it is employed in the future (other than to fund the Council's contribution towards the costs of Castle House in 2017/18) will depend upon its cost relative to other means of capital financing and the availability of other sources of capital financing.

2016/17 Capital Investment £8.73m



In 2016/17 the Council planned to spend £14.25m, including expenditure on projects brought forward from 2015/16 where under spending had occurred in that year. £6.10m of this was in respect of Castle House expenditure. As it became apparent there would be delays in receiving the majority of the capital receipts needed to fully fund the 2016/17 capital programme, a number of schemes, amounting to around £2.50m in total, were put on hold and expenditure was restricted to defined priority areas only. This resulted in a revised planned expenditure amount of £11.74m (£8.73m was spent, leaving the balance to be carried forward to 2017/18).

The shortfall in spending occurred because some projects were not commenced or completed in 2016/17, for example some of the replacement vehicles for the waste collection service were not delivered and paid for until 2017/18 and contributions towards the cost of Castle House did not need to be made as early as anticipated.

i. Financial Prospects

Revenue

The Council is committed to the delivery of high quality services. Integral to this is the need to effectively target financial resources in line with stated aims and objectives working against the background of an adverse economic situation.

The Council's Medium Term Financial Strategy (MTFS) - which forecasts future years' budgets taking into account national and local financial situations together with the Council's priorities – has identified shortfalls for each year from 2017/18 to 2021/22.

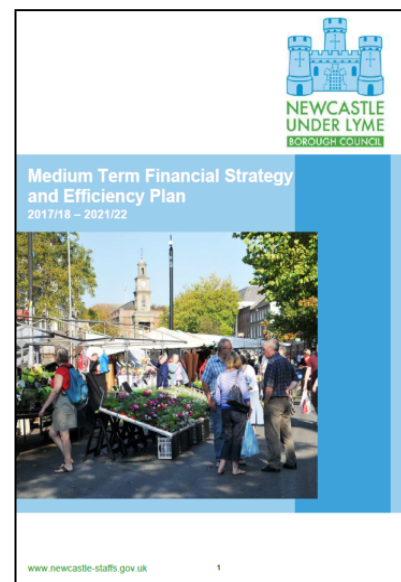
The forecast shortfall for 2017/18 was £2.728m. On 22 February 2017 the Council set a balanced budget. This was achieved by increasing council tax, efficiency savings and the identification of additional sources of income sufficient to meet the shortfall. The majority of these savings were identified through a review of the Council's services focussing on particular areas where it was felt that savings could be achieved.

The government's continuing desire to achieve reductions in public expenditure will impact upon the Council's finances. 2016/17 saw a significant reduction in central government support by way of the formula grant which is repeated in 2017/18 (a reduction of £0.684m (13.1%) from the 2016/17 level).

The Council has accepted and had confirmed a four year funding settlement, up to and including 2019/20. This includes further significant reductions in government funding.

In view of the MTFS forecasts work continues in looking at how the Council's decreasing resources can be best used to meet the needs of the Borough's residents and businesses and to define the likely service and budgetary characteristics of the Borough Council. This includes:

- Predictive modelling of future tax base levels in relation to council tax, business rates and new homes bonus.
- Reducing the Burden - aiming to stop or reduce low value tasks which do not enhance outcomes or experiences of customers or prevent staff from focussing on more important work.
- Looking at alternative service delivery models, such as demand management, sharing costs with other organisations and self-service for customers.
- Maximising income from fees and charges and exploring new means of income generation.
- Procurement savings - commissioning and procuring services and supplies as cost-effectively as possible.
- Staffing efficiencies – a review of all vacant posts, restructures and flexible early retirements.



- Good housekeeping - reviewing all service expenditure.
- These plans are considered by a member led Budget Review Group which endorses the savings plans before they are submitted to Cabinet and Council for approval. The plans are also scrutinised by members through the scrutiny committee process. The Budget Review Group has also carried out work to prioritise services to enable resources to be directed to those which meet corporate priorities and represent the optimum use of resources.

Capital

The capital programme approved on 22 February 2017 provides for total capital spending of £14.791m over two financial years, this capital spending includes Castle House and a large part of the capital cost of the new Recycling and Waste Service.

Only £0.500m is included in the programme for new capital investment funded by the Council in 2017/18, due to the forecast shortage of capital receipts for financing of schemes. A number of sites in the Council's ownership have been approved for sale and these are being actively marketed with a view to achieving disposal and consequent capital receipts, largely towards the end of 2017/18 and beyond.

There will be a continuing need for capital investment to maintain service continuity, particularly in replacement plant and equipment and to maintain operational buildings in a fit state. Should further land sales not be made or any of the projected land sales do not proceed or are delayed, it will be necessary to either curtail capital spending or to borrow to fund it, which will incur a revenue cost.

The Budget Review Group and the Capital Programme Review Group reviews and monitors the overall Capital Strategy within the context of the Medium Term Financial Strategy; ensures that projects are delivered against priorities; monitors the programme monthly and ensures value for money is achieved i.e. outcomes are fit for purpose and investment is targeted to maximise the needs and outcomes for local people. It also reviews the Council's assets and the need for investment to keep them fit for use and compiles the draft capital investment programme for submission to Cabinet for approval.



Reserves

The Council holds a number of reserves which have been established either to meet specific categories of expenditure or of a general nature. These reserves are listed in note 3.3.7 (page 35). Levels of reserves are reviewed to determine their adequacy to meet the Council's commitments and future plans. A review of their adequacy will be an important consideration when preparing the 2018/19 budget.

The un-earmarked portion of the General Fund Balance, originally built up out of past surpluses, can be used to contribute to the revenue account. The required level is determined by a risk assessment of factors which might adversely impact upon the revenue budget on a worst case basis. The current level, as at 31 March 2017 is £1.200m. The Budget Support Fund is also available for supporting future years' revenue budgets.

Partnerships

The Council participates in a wide range of partnership arrangements. Some are formal partnerships regulated by an agreement between the partners and some are informal in nature, many of them designed to facilitate community cohesion or to ensure awareness of community needs or to enable more efficient working practices.

Examples of formal partnerships are a shared apprenticeship scheme in conjunction with Newcastle College and the administration of the Business Improvement District (BID) scheme for Newcastle town centre. Businesses within the BID area pay a supplementary business rate, collected by the Borough Council and used by the BID Board to promote the economic wellbeing and development of the town centre.

The Council works closely with other public sector organisations to obtain value for money in relation to supplies and services and to provide the public with easy access to all of the partners' services from its facilities. Examples of this are the Staffordshire Connects Partnership intended to standardise ICT software use across Staffordshire authorities for customer facing services and the Locality Commissioning Partnership which co-ordinates contributions to third sector organisations. There are also reciprocal arrangements between neighbouring authorities for providing assistance, such as the secondment of staff, to provide continuity of service.



The regeneration of the Ryecroft area of Newcastle town centre is being carried out in partnership with Staffordshire County Council and the relocation of the Council's offices will be to Castle House where facilities will be shared with Staffordshire County Council and Staffordshire Police.

j. Economy, Efficiency and Effectiveness in the Use of Resources

Local Authorities are obliged to achieve economy, efficiency and effectiveness in their use of resources. Arrangements are in place to ensure that value for money is obtained when Council resources are expended, that there is proper stewardship and governance in relation to these matters and the arrangements are kept under review to ensure they are adequate and effective.

Financial Regulations, Contract Procedural Rules, Standing Orders and the Council's Constitution set out the basic framework and internal controls by which Council business and administration must be conducted and are binding on all employees and members of the Council. Financial Regulations and the Contract Rules lay down procedures which must be followed when obtaining supplies and services for use by the Council to ensure that transparent and effective processes are in place.

The arrangements and their effectiveness are continually kept under review as part of the ongoing management of the Council's services, medium term financial planning, continuous budgetary control procedures and regular internal audit reviews and reports.

The Executive Management Team receive and review monthly budget monitoring reports and initiate action to deal with any significant variances revealed. Members are kept up to date regarding the budgetary position via quarterly performance monitoring reports to Cabinet, which also include non-financial performance indicators showing how services are delivering on their key targets. There is also a formal member led scrutiny process, with five service area focussed Scrutiny Committees and an overarching Scrutiny Chairs/Vice Chairs Committee to enable service delivery to be monitored.

Formal review takes place via the Annual Governance Statement considered and approved by Council members, which is published within the Statement of Accounts (page 71). This is informed by Executive Directors and senior managers to provide assurance that governance arrangements are established and identifying required improvements.

The Capital Strategy and Asset Management Strategy sets out the framework within which the capital programme is managed and resources made available to finance the programme. Approval to proceed with capital investment is only given provided the necessary resources are available to finance it. An important element providing assurance regarding resource availability is an approved realistic programme of asset disposals. Capital investment and resources are assessed and monitored by the Budget Review Group and the Capital Programme Review Group. The group aims to ensure that the capital investment programme meets the Council's priorities, is affordable and that projects are carried out on time and within budget.

The Council has an ongoing programme of utilising new information technology to streamline service delivery, to redesign services to remove manual intervention wherever possible and to encourage customers to contact and transact with the Council online. Progress to date in these areas has enabled flexible, efficient and cost effective working and made it easier for customers to deal with the Council and further efficiencies and improvements in customer service are planned for the future.



For 2016/17 the external auditor concluded that the Council's arrangements for securing economy, efficiency and effectiveness were proper and significant.

k. Assets and Liabilities Acquired

No significant assets or liabilities have been acquired during 2016/17. Whilst vehicles required for the operation of the new in house waste recycling service were acquired, these replaced vehicles operated by the former contractor which were included in the Council's balance sheet as required by regulations relating to finance leases. Castle House, which is currently under construction, will not be owned by the Council so will not be included in the balance sheet.

l. Pensions Scheme Liability

The Liability relating to Defined Benefit Pension Schemes increased from £68.428m at 31 March 2016 to £71.709m at 31 March 2017. These amounts are required to be included in the Borough Council's accounts as a result of the application of International Accounting Standard 19 (IAS19) and the CIPFA Code of Accounting Practice. They relate to transactions of the Staffordshire County Council Pension Fund of which the Council is a member and represent the Council's share of net scheme liabilities. 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.

m. Specific Events in 2017/18 and Beyond

The government has published its response to the consultation on the future of the New Homes Bonus scheme, which rewards authorities and communities for the numbers of new homes which are built or become occupied after standing empty. There will be a number of changes which, from 2017/18 will adversely affect local authorities. It is intended to reduce the amount paid as New Homes Bonus and re-direct this saving towards social care. Specific changes can be summarised as follows:

- New Homes Bonus amounts earned will be payable for five years in 2017/18 and then for four years in subsequent years rather than the current six.
- New payments will only be made for housing that is built over a nationally established baseline of 0.4% as it is thought by the Government that building would occur up to this level whether or not an incentive was given.
- Payments may be reduced where new developments take place only after successful appeals against an original decision to refuse permission (this will be implemented from 2018/19).



There will be a negative impact on the Council's finances arising from these changes in 2017/18 of £0.777m.

Longer term, the government is in the process of enacting legislation to permit local authorities to retain all of the business rates which are collected. This would enable the government to cease to pay revenue support grant and a number of other grants to authorities who would become dependent upon the income from business rates and council tax as the main source of their funding. This represents a fundamental change to the way authorities are funded.

Consultation and discussion of the precise ways in which this change can be effected are ongoing between local authority bodies and the government. Until this process is complete, it is difficult to predict the extent to which the Council's finances will be affected. The timescale for implementation of these changes has not yet been firmly established, although it is intended that they should be in place by 2020.

As well as the above legislative changes affecting all local authorities, there are a number of other specific developments which affect the Council in 2017/18 and beyond.

The most significant of these will be the move from the current administrative headquarters at the Civic Offices to the purpose built Castle House situated adjacent to the Queen's Gardens in the town centre. This building will accommodate Borough Council staff and services together with locally focussed ones of Staffordshire County Council and Staffordshire Police. The cost of construction of the new building and subsequent running costs will be shared between the three partners, according to the accommodation they will occupy. The construction of the new building is well advanced and the move is scheduled to take place in September 2017. The site of the present Civic Offices will become part of a redevelopment of the Ryecroft area to provide a mixture of retail and residential property.



Revenue budget savings will be made owing to moving to a more modern and efficient building which will also facilitate more agile working practices to be introduced and provide improved facilities for customers. Once Castle House is operational, the customer facilities at the Guildhall will no longer be required and an alternative use is being sought for the building.

Following the closure of the former municipal golf course situated at Keele Road, the Council has embarked upon a master-planning exercise in order to determine the most appropriate long term strategic solution for this land and other sites in the western and southern fringes of urban Newcastle, working with other strategic landowners in the locality and taking into account the current local plan process. The results of the master-planning exercise are due to be received in the near future.

2017/18 will be the first full year of operation for the new waste recycling arrangements which commenced in July 2016, whereby the service transferred from an external contractor to in house provision and new ways of working were introduced, with the intention of providing a more efficient service and significant long term savings to the revenue budget. Altogether around £2.800m will have been invested in new vehicles and equipment and alterations to facilities at the Knutton Lane depot. Despite problems experienced when the new service started, it is anticipated to achieve planned savings of around £0.500m per annum.

n. Audit of the Accounts

The Borough Council's appointed auditors, Grant Thornton UK LLP, currently undertake the annual audit of the accounts. Their contact details are:

John Gregory

Grant Thornton UK LLP

20 Colmore Circus

Birmingham

B4 6AT

o. Further Information

Further information about the accounts is available from:

Kelvin Turner

Executive Director (Resources and Support Services)

Civic Offices

Merial Street

Newcastle,

Staffs ST5 2AG

p. Comments

If you have any comments about the way that the information is presented in this Statement of Accounts, or about possible alternative ways of making the information available, we would be pleased to receive them, at the above address.

q. Approval of Statement of Accounts

The Accounts and Audit Regulations 2015 require the Statement of Accounts to be considered by and approved by a Council Committee or the Full Council and for the Statement to be signed at the meeting by the person presiding. This statement has been approved by the Audit and Standards Committee and this is evidenced by the signature of that Committee's Chair, who presided at the meeting, which is shown below.

The Statement of Accounts was approved at a meeting of the Audit and Standards Committee on 25 September 2017

Signed: (Chair of the Audit and Standards Committee) Dated

Statement of Responsibilities

The Authority's Responsibilities

The Authority is required:

- To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director (Resources and Support Services);
- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- To approve the Statement of Accounts.

The Executive Director (Resources and Support Services) - Responsibilities

The Executive Director (Resources and Support Services) is responsible for the preparation of the authority's statement of accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code) is required to present a true and fair view of the financial position of the authority at the accounting date and its income and expenditure for the year ended 31 March 2017.

In preparing the statement of accounts the Executive Director (Resources and Support Services) has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Code.
- Kept proper accounting records which were up-to-date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

The Executive Director (Resources and Support Services) Certificate

I certify that the Statement of Accounts presents a true and fair view of the financial position of the Borough Council as at 31 March 2017 and its income and expenditure for the year ended 31 March 2017.

Kelvin Turner

Dated:

Executive Director (Resources and Support Services)

Financial Statements

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost of providing services in accordance with accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in both the Movement in Reserves Statement (page 17) and the Expenditure and Funding Analysis (page 21).

| 2015/16 | | | | 2016/17 | | |
|---------------------------|----------------------|-------------------------|---|---------------------------|----------------------|-------------------------|
| Gross Expenditure £000 | Gross Income £000 | Net Expenditure £000 | | Gross Expenditure £000 | Gross Income £000 | Net Expenditure £000 |
| 3,987 | 959 | 3,028 | Chief Executive | 3,791 | 948 | 2,843 |
| 36,024 | 32,461 | 3,563 | Resources & Support Services | 35,123 | 31,441 | 3,682 |
| 7,482 | 4,189 | 3,293 | Regeneration & Development | 9,656 | 4,346 | 5,310 |
| 13,521 | 6,010 | 7,511 | Operational Services | 12,720 | 6,153 | 6,567 |
| 646 | 180 | 466 | Corporate | 870 | 226 | 644 |
| 61,660 | 43,799 | 17,861 | Cost of Services | 62,160 | 43,114 | 19,046 |
| 460 | 541 | (81) | Other Operating Expenditure (Note 3.2.1-p26) | 395 | 312 | 83 |
| 4,616 | 4,782 | (166) | Financing & Investment Income/Expenditure (Note 3.2.2-p26) | 2,176 | 4,901 | (2,725) |
| 9,469 | 24,575 | (15,106) | Taxation & Non-Specific Grant Income (Note 3.2.3-p27) | 9,951 | 25,436 | (15,485) |
| | | 2,508 | (Surplus)/Deficit on Service Provision | | | 919 |
| | | (253) | (Surplus)/Deficit on Revaluation of Assets | | | (144) |
| | | (8,680) | Remeasurement of the Defined Benefit Liability/Asset (Note 4.4-p42-p45) | | | 312 |
| | | (8,933) | Other Income & Expenditure | | | 168 |
| | | (6,425) | Total Income & Expenditure | | | 1,087 |

Note

Resources and Support Services includes housing benefits expenditure and housing benefits grant income of circa £30m.

Restatement

As a result of the application of changes in the 2016/17 Accounting Code of Practice, the format of the Comprehensive Income and Expenditure Statement has changed compared with that for 2015/16. Accordingly, the amounts for 2015/16 have been restated where necessary. The changes concern:

- The segmental information in the top section of the Statement has changed from a service based analysis to an analysis based on the way in which expenditure and income is reported to those charged with governance, i.e. the Council's management structure.
- The above analysis does not include recharges between accounts, showing instead expenditure and income directly attributable to the headings shown before any recharges are made.

See Note 4.8 (page 50) for details of the restatement.

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other unusable reserves. The movements in the year are broken down between gains and losses incurred in accordance with accounting practices and statutory adjustments required to return to the amounts chargeable to council tax for the year. The Net Increase/Decrease line shows the statutory General Fund Balance movements in the year following those adjustments.

| | General Fund Balance | Capital Receipts Reserve | Capital Grants Unapplied | Total Usable Reserves | Unusable Reserves | Total Council Reserves |
|---|----------------------|--------------------------|--------------------------|-----------------------|-------------------|------------------------|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| 2016/17 | | | | | | |
| Balance at 31 March 2016 B/Fwd | (3,507) | (6,586) | (889) | (10,982) | 11,139 | 157 |
| Movement in Reserves 2016/17 | | | | | | |
| Total Comprehensive Income & Expenditure | 919 | | | 919 | 168 | 1,087 |
| Adjustments Between Accounting & Funding Basis (Note 3.1.1-p24-p25) | (487) | 4,975 | (237) | 4,251 | (4,251) | - |
| Increase/Decrease in Year | 432 | 4,975 | (237) | 5,170 | (4,083) | 1,087 |
| Balance at 31 March 2017 C/Fwd | (3,075) | (1,611) | (1,126) | (5,812) | 7,056 | 1,244 |
| 2015/16 | | | | | | |
| Balance at 31 March 2016 B/Fwd | (4,284) | (6,365) | (868) | (11,517) | 18,099 | 6,582 |
| Movement in Reserves 2015/16 | | | | | | |
| Total Comprehensive Income & Expenditure | 2,508 | - | - | 2,508 | (8,933) | (6,425) |
| Adjustments Between Accounting & Funding Basis (Note 3.1.1-p24-p25) | (1,731) | (221) | (21) | (1,973) | 1,973 | - |
| Increase/Decrease in Year | 777 | (221) | (21) | 535 | (6,960) | (6,425) |
| Balance at 31 March 2016 C/Fwd | (3,507) | (6,586) | (889) | (10,982) | 11,139 | 157 |

Note

The General Fund Balance includes £1.875m of Earmarked Reserves (2015/16 £2.307m), therefore leaving a general balance of £1.200m.

Restatement

As a result of the changes in the 2016/17 Accounting Code of Practice, the format of the Movement in Reserves Statement has changed compared with that for 2015/16. Accordingly, the amounts for 2015/16 have been restated where necessary. The changes concern:

- The inclusion of earmarked reserves in the General Fund Balance which means that there is no longer a requirement to show movements in relation to these reserves in the Statement;
- One line showing the balance on the Comprehensive Income and Expenditure Statement is now shown rather than splitting this between the Surplus or Deficit on Provision of Services and Other Comprehensive Income and Expenditure.

See Note 4.8 (page 50) for details of the restatement.

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses, where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations' (page 17).

| 31/03/2016 £000 | | 31/03/2017 £000 |
|--------------------|---|--------------------|
| 40,323 | Property, Plant & Equipment (Note 3.3.1-p29) | 43,899 |
| 1,025 | Surplus Assets (Note 3.3.1-p29) | 1,025 |
| 14,527 | Investment Property (Note 3.3.2-p32) | 18,893 |
| 1,429 | Heritage Assets (Note 3.3.3-p33) | 1,429 |
| 158 | Intangible Assets | 81 |
| 591 | Long Term Debtors (Note 3.3.4-p33) | 545 |
| 58,053 | Long Term Assets | 65,872 |
| 7,549 | Short Term Investments (Note 4.6.1-p46-p47) | 3,460 |
| 206 | Inventories | 236 |
| 9,306 | Short Term Debtors (Note 3.3.4-p33-p34) | 8,000 |
| 595 | Cash/Cash Equivalents (Note 4.6.1-p46-p47) | 376 |
| 17,656 | Current Assets | 12,072 |
| (5,693) | Short Term Creditors (Note 3.3.5-p34) | (5,738) |
| (59) | Short Term Borrowing (Note 4.6.1-p46-p47) | (70) |
| (5,752) | Current Liabilities | (5,808) |
| (1,290) | Provisions (Note 3.3.6-p34) | (1,270) |
| (68,428) | Net Pensions Liability (Note 4.4-p42-p45) | (71,709) |
| (396) | Capital Grants Receipts in Advance | (401) |
| (70,114) | Long Term Liabilities | (73,380) |
| (157) | Net Assets | (1,244) |
| | Usable Reserves (Note 3.3.7-p35-p36) | |
| 1,200 | General Fund Balance | 1,200 |
| 2,307 | Other Usable Reserves | 1,875 |
| 6,586 | Capital Receipts Reserve | 1,611 |
| 889 | Capital Grants Unapplied Account | 1,126 |
| 10,982 | Total Usable Reserves | 5,812 |
| | Unusable Reserves (Note 3.3.8-p36-p39) | |
| 14,711 | Revaluation Reserve | 14,855 |
| 43,634 | Capital Adjustment Account | 49,632 |
| 620 | Deferred Capital Receipts Reserve | 545 |
| (69,628) | Pensions Reserve | (71,709) |
| (110) | Collection Fund Adjustment Account | (7) |
| (366) | Accumulated Absences Account | (372) |
| (11,139) | Total Unusable Reserves | (7,056) |
| (157) | Total Reserves | (1,244) |

Cash-Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. It shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

| 2015/16 £000 | | 2016/17 £000 |
|-----------------|---|-----------------|
| 2,508 | Net (Surplus)/Deficit on the Provision of Services | 919 |
| | Adjustments (Note 3.4.1-p39) | |
| (264) | For non-cash movements | (760) |
| 1,299 | For items that are Investing/Financing Activities | 831 |
| 3,543 | Net Cash Flows from Operating Activities | 990 |
| (1,484) | Investing Activities (Note 3.4.3-p40) | 554 |
| (2,335) | Financing Activities (Note 3.4.4-p40) | (1,325) |
| (276) | Net Increase or Decrease in Cash & Equivalents | 219 |
| (319) | Cash & Equivalents brought forward | (595) |
| (595) | Cash & Equivalents carried forward | (376) |

Notes to the Financial Statements

These Notes are set out in the following Sections:

1. Technical Issues
2. Expenditure and Funding Analysis
3. Further Analysis of Items Included in the Financial Statements
4. Additional Information Supplementing the Financial Statements

1. Technical Issues

1.1. Accounting Policies, Standards, Judgements, Assumptions and Adjustments

The Financial Statements and the financial records maintained by the Council must be prepared and maintained in accordance with accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and the Service Reporting Code of Practice for Local Authorities 2016/17 supported by International Financial Reporting Standards (IFRS). Detailed information relating to Accounting Policies employed and other technical accounting issues are set out at Appendix 1 (page 56), as follows:

- Accounting Policies
- Accounting Standards that have been issued but have not yet been adopted
- Critical Judgements in applying accounting policies
- Assumptions made about the future and other major sources of estimation uncertainty
- Events after the balance sheet date

2. Expenditure and Funding Analysis

This analysis shows how expenditure is used and funded from resources (government grants, council tax and business rates) by the Council compared to resources consumed or earned in accordance with accounting practices. It also shows how expenditure is allocated for decision making purposes between the Council's Directorates. Income and expenditure accounted for under accounting practices is presented fully in the Comprehensive Income and Expenditure Statement.

| 2015/16 | | | | 2016/17 | | |
|--|--|---|---|--|--|---|
| Net Expenditure Chargeable to the General Fund £000 | Adjustments between Funding & Accounting Basis £000 | Net Expenditure - Comprehensive Inc & Exp Statement £000 | | Net Expenditure Chargeable to the General Fund £000 | Adjustments between Funding & Accounting Basis £000 | Net Expenditure - Comprehensive Inc & Exp Statement £000 |
| 2,965 | 63 | 3,028 | Chief Executive | 2,845 | (2) | 2,843 |
| 3,216 | 347 | 3,563 | Resources & Support Services | 3,545 | 137 | 3,682 |
| 1,949 | (886) | 1,063 | Regeneration & Development | 1,808 | (1,445) | 363 |
| 5,934 | 1,577 | 7,511 | Operational Services | 5,686 | 881 | 6,567 |
| (13,287) | 630 | (12,657) | Corporate | (13,452) | 916 | (12,536) |
| 777 | 1,731 | 2,508 | Surplus or Deficit | 432 | 487 | 919 |
| 4,284 | | | Opening General Fund Balance | 3,507 | | |
| (777) | | | Less/Plus Surplus or Deficit on General Fund Balance in Year | (432) | | |
| 3,507 | | | Closing General Fund Balance | 3,075 | | |

2.1. Notes to the Expenditure and Funding Analysis

2.1.1. Reconciliation to the Comprehensive Income and Expenditure Statement

This note provides a reconciliation of the main adjustments to Net Expenditure Chargeable to the General Fund to arrive at the amounts in the Comprehensive Income and Expenditure Statement.

2016/17

| Adjustments from General Fund to arrive at the Comprehensive Income & Expenditure Statement Amounts | Adjustments for Capital Purposes (Note 1) | Net Change for the Pensions Adjustments (Note 2) | Other Differences (Note 3) | Total Adjustments |
|--|--|---|-------------------------------|-------------------|
| | £000 | £000 | £000 | £000 |
| Chief Executive | 30 | (25) | (7) | (2) |
| Resources & Support Services | 220 | (66) | (17) | 137 |
| Regeneration & Development | (1,395) | (62) | 12 | (1,445) |
| Operational Services | 982 | (118) | 17 | 881 |
| Corporate | (1,021) | 2,040 | (103) | 916 |
| Difference between General Fund surplus or deficit & Comprehensive Income & Expenditure Statement Surplus or Deficit on the Provision of Services | (1,184) | 1,769 | (98) | 487 |

| Adjustments from General Fund to arrive at the Comprehensive Income & Expenditure Statement Amounts | Adjustments for Capital Purposes (Note 1) | Net Change for the Pensions Adjustments (Note 2) | Other Differences (Note 3) | Total Adjustments |
|--|---|--|----------------------------|-------------------|
| | £000 | £000 | £000 | £000 |
| Chief Executive | 33 | 12 | 18 | 63 |
| Resources & Support Services | 229 | 29 | 89 | 347 |
| Regeneration & Development | (957) | 28 | 30 | (899) |
| Operational Services | 1,499 | 48 | 42 | 1,589 |
| Corporate | (696) | 1,882 | (555) | 631 |
| Difference between General Fund surplus or deficit & Comprehensive Income & Expenditure Statement Surplus or Deficit on the Provision of Services | 108 | 1,999 | (376) | 1,731 |

Notes

1. Adjustments for Capital Purposes

This column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

- **Other operating expenditure** – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- **Financing and investment income and expenditure** – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under accounting practices.
- **Taxation and non-specific grant income and expenditure** – capital grants are adjusted for income not chargeable under accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable without conditions or for which conditions were satisfied.

2. Net Change for the Pensions Adjustments

This column shows the net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

- **For services** this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
- **For Financing and investment income and expenditure** - the net interest on the defined benefit liability is charged to the Comprehensive Income and Expenditure Statement.

3. Other Differences

This column shows other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable recognised under statute.

The charge under Taxation and non-specific grant income and expenditure represents the difference between what is chargeable under statutory regulations for council tax and Business Rates that was projected to be received at the start of

the year and the income recognised under accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

2.1.2. Segmental Income and Expenditure

The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 requires that where certain items of significant income and expenditure are included in the 'net expenditure chargeable to the general fund' as shown in the Expenditure and Funding Analysis, these must be disclosed in a separate note as shown below:

| 2015/16 £000 | Segment | 2016/17 £000 |
|-----------------|---|-----------------|
| | <i>Depreciation & Amortisation</i> | |
| 33 | Chief Executive | 30 |
| 223 | Resources & Support Services | 175 |
| 248 | Regeneration & Developmet | 317 |
| 1,143 | Operational Services | 906 |
| - | - Corporate | - |
| 1,647 | Total | 1,428 |
| | <i>Impairment</i> | |
| - | - Chief Executive | - |
| 7 | Resources & Support Services | 45 |
| 161 | Regeneration & Developmet | 264 |
| 511 | Operational Services | 77 |
| - | - Corporate | - |
| 679 | Total | 386 |
| | <i>External Income</i> | |
| 816 | Chief Executive | 840 |
| 1,007 | Resources & Support Services | 904 |
| 5,053 | Regeneration & Development | 5,579 |
| 5,915 | Operational Services | 6,028 |
| 273 | Corporate | 556 |
| 13,064 | Total | 13,907 |

3. Further Analysis of Items Contained in the Financial Statements

3.1. In Relation to the Movement in Reserves Statement

3.1.1. Adjustments Between Accounting Basis and Funding Basis

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

| 2016/17 | General Fund Balance | Capital Receipts Reserve | Capital Grants Unapplied | Unusable Reserves |
|---|----------------------|--------------------------|--------------------------|-------------------|
| | £000 | £000 | £000 | £000 |
| Adjustments Primarily Involving - Capital Adjustment Account | | | | |
| Reversal of Items Debited or Credited to the Comprehensive Income & Expenditure Statement | | | | |
| Charges for Depreciation & Impairment of Non-Current Assets | (1,730) | - | - | 1,730 |
| Revaluation Losses on Property, Plant & Equipment | - | - | - | - |
| Movements in Fair Value of Investment Properties | 4,303 | - | - | (4,303) |
| Amortisation of Intangible Assets | (84) | - | - | 84 |
| Reversal of Revenue Expenditure Funded from Capital Under Statutus (REFCUS) expenditure | (3,305) | - | - | 3,305 |
| Reversal of REFCUS income | 1,014 | - | - | (1,014) |
| Non-Current Assets Written-Off on Disposal or Sale as Part of the Gain/Loss on Disposal | (191) | - | - | 191 |
| Capital Element of Finance Leases Where Council is the Lessor | (34) | - | - | 34 |
| Insertion of Items Not Debited or Credited to the Comprehensive Income & Expenditure Statement | | | | |
| Statutory Provision for the Financing of Capital Investment | - | - | - | - |
| Capital Expenditure charged in year to the General Fund | 381 | - | - | (381) |
| Adjustments Primarily Involving - Capital Grants Unapplied Account | | | | |
| Capital Grants & Contributions Unapplied Credited to the Comprehensive Income & Expenditure Statement | 329 | - | (329) | - |
| Application of Grants to Capital Financing Transferred to the Capital Adjustment Account | - | - | 92 | (92) |
| Adjustments Primarily Involving - Capital Receipts Reserve | | | | |
| Transfer of Sales Proceeds Credited as Part of the Gain/Loss on Disposal to the Comprehensive Income & Expenditure Statement | 519 | (519) | - | - |
| Use of the Capital Receipts Reserve to Finance Capital | - | 5,518 | - | (5,518) |
| Transfer from Deferred Capital Receipts Reserve on Receipt of Cash | (17) | (24) | - | 41 |
| Adjustments Primarily Involving - Pensions Reserve | | | | |
| Reversal of Items Relating to Retirement Benefits Debited or Credited to the Comprehensive Income & Expenditure Statement | (5,496) | - | - | 5,496 |
| Employers pension contributions and direct payments to pensioners payable in the year | 3,727 | - | - | (3,727) |
| Adjustments Primarily Involving - Collection Fund Adjustment Account | | | | |
| Amount That Council Tax & Non-Domestic Rating Income Credited to the Comprehensive Income & Expenditure Statement Differs From Council Tax & Non-Domestic Rating Income Calculated for the Year | 103 | - | - | (103) |
| Adjustments Primarily Involving - Accumulated Absences Account | | | | |
| Amount by Which Officer Remuneration Charged to the Comprehensive Income & Expenditure Statement on an Accruals Basis Differs from Remuneration Chargeable Calculated for the Year | (6) | - | - | 6 |
| Total Adjustments | (487) | 4,975 | (237) | (4,251) |

| 2015/16 | General Fund Balance | Capital Receipts Reserve | Capital Grants Unapplied | Unusable Reserves |
|---|----------------------|--------------------------|--------------------------|-------------------|
| | £000 | £000 | £000 | £000 |
| Adjustments Primarily Involving - Capital Adjustment Account | | | | |
| Reversal of Items Debited or Credited to the Comprehensive Income & Expenditure Statement | | | | |
| Charges for Depreciation & Impairment of Non-Current Assets | (2,180) | - | - | 2,180 |
| Revaluation Losses on Property, Plant & Equipment | (34) | - | - | 34 |
| Movements in Fair Value of Investment Properties | 1,471 | - | - | (1,471) |
| Amortisation of Intangible Assets | (111) | - | - | 111 |
| Capital Grants & Contributions Applied | 62 | - | - | (62) |
| Non-Current Assets Written-Off on Disposal or Sale as Part of the Gain/Loss on Disposal | (881) | - | - | 881 |
| Capital Element of Finance Leases Where Council is the Lessor | (42) | - | - | 42 |
| Reversal of REFCUS expenditure | (1,272) | - | - | 1,272 |
| Reversal of REFCUS income | 1,208 | - | - | (1,208) |
| Insertion of Items Not Debited or Credited to the Comprehensive Income & Expenditure Statement | | | | |
| Statutory Provision for the Financing of Capital Investment | 155 | - | - | (155) |
| Capital Expenditure charged in year to the General Fund | 217 | - | - | (217) |
| Adjustments Primarily Involving - Capital Grants Unapplied Account | | | | |
| Capital Grants & Contributions Unapplied Credited to the Comprehensive Income & Expenditure Statement | 31 | - | (31) | - |
| Application of Grants to Capital Financing Transferred to the Capital Adjustment Account | - | - | 10 | (10) |
| Adjustments Primarily Involving - Capital Receipts Reserve | | | | |
| Transfer of Sales Proceeds Credited as Part of the Gain/Loss on Disposal to the Comprehensive Income & Expenditure Statement | 1,268 | (1,268) | - | - |
| Use of the Capital Receipts Reserve to Finance Capital | - | 1,047 | - | (1,047) |
| Contribution From the Capital Receipts Reserve to Finance | (1) | 1 | - | - |
| Payments to the Government Capital Receipts Pool | - | - | - | - |
| Transfer from Deferred Capital Receipts Reserve on Receipt of Cash | - | (1) | - | 1 |
| Adjustments Primarily Involving - Pensions Reserve | | | | |
| Reversal of Items Relating to Retirement Benefits Debited or Credited to the Comprehensive Income & Expenditure Statement | (5,063) | - | - | 5,063 |
| Employers pension contributions and direct payments to pensioners payable in the year | 3,064 | - | - | (3,064) |
| Adjustments Primarily Involving - Collection Fund Adjustment Account | | | | |
| Amount That Council Tax & Non-Domestic Rating Income Credited to the Comprehensive Income & Expenditure Statement Differs From Council Tax & Non-Domestic Rating Income Calculated for the Year | 556 | - | - | (556) |
| Adjustments Primarily Involving - Accumulated Absences Account | | | | |
| Amount by Which Officer Remuneration Charged to the Comprehensive Income & Expenditure Statement on an Accruals Basis Differs from Remuneration Chargeable Calculated for the Year | (179) | - | - | 179 |
| Total Adjustments | (1,731) | (221) | (21) | 1,973 |

3.1.2. Transfers to/from Earmarked Reserves

Amounts are set aside from the General Fund balances in earmarked reserves to provide financing for future plans. Amounts are posted back from earmarked reserves to meet General Fund revenue expenditure. The table below shows these transfers.

| 2016/17 | Transfers Out £000 | Transfers In £000 | Net Movement £000 |
|--------------------------------|-----------------------|----------------------|----------------------|
| Equipment Replacement Fund | (107) | 212 | 105 |
| Renewals and Repairs Fund | (390) | 390 | - |
| ICT Development Fund | (247) | 90 | (157) |
| New Homes Bonus Reserve | (165) | 165 | - |
| Contingency Reserve Fund | (91) | - | (91) |
| Budget Support Fund | (80) | 8 | (72) |
| Conservation and Heritage Fund | - | 10 | 10 |
| Museum Purchases Fund | - | 4 | 4 |
| Maintenance Contributions | (30) | 44 | 14 |
| Mayors Charities Reserve | (3) | - | (3) |
| Revenue Investment Fund | (1) | 35 | 34 |
| Business Rates Reserve | (276) | - | (276) |
| Total | (1,390) | 958 | (432) |

Details of all transfers to/from reserves, both usable and unusable, are shown in notes 3.3.7 and 3.3.8 (pages 35 and 36) together with a note of the nature and purpose of each reserve. The transfers shown above for both the ICT Development Fund and the New Homes Bonus Reserve exclude capital transfers.

3.2. In Relation to the Comprehensive Income and Expenditure Statement

3.2.1. Other Operating Expenditure

| 2015/16 £000 | | 2016/17 £000 |
|-----------------|--|-----------------|
| 306 | Parish Precepts | 395 |
| 1 | Payment to Housing Capital Receipts Pool | - |
| 112 | (Gains)/Losses on Disposal of Non-Current Assets | 191 |
| (500) | Capital Income not Arising from Asset Sales | (503) |
| (81) | Total | 83 |

3.2.2. Financing and Investment Income and Expenditure

| 2015/16 £000 | | 2016/17 £000 |
|-----------------|---|-----------------|
| 13 | Interest Payable & Similar Charges | 1 |
| 2,307 | Interest on the Net Defined Benefit Liability | 2,336 |
| (256) | Interest Receivable & Similar Income | (115) |
| (1,207) | Investment Properties - Rental Income | (1,240) |
| (1,471) | Investment Properties - Revaluations | (4,303) |
| 448 | Investment Properties - Expenses | 596 |
| (166) | Total | (2,725) |

3.2.3. Taxation and Non Specific Grant Income

| 2015/16 £000 | | 2016/17 £000 |
|-----------------|----------------------------------|-----------------|
| (6,679) | Council Tax Income | (6,886) |
| 9,508 | Non Domestic Rates Expenditure | 9,587 |
| (13,585) | Non Domestic Rates Income | (13,807) |
| (4,257) | Non-Ringfenced Government Grants | (4,050) |
| (93) | Capital Grants & Contributions | (329) |
| (15,106) | Total | (15,485) |

3.2.4. Expenditure and Income Analysed by Nature

The Council's expenditure and income is analysed as follows:

| 2015/16 £000 | | 2016/17 £000 |
|-----------------|--|-----------------|
| | Expenditure | |
| 16,338 | Employees | 17,447 |
| 3,235 | Premises | 2,552 |
| 1,064 | Transport | 1,171 |
| 4,603 | Supplies and Services | 6,786 |
| 1,103 | Grants | 1,374 |
| 725 | Contributions | 282 |
| 2,116 | Agency and Contracted Services | 1,229 |
| 30,751 | Housing Benefits Payments | 30,102 |
| 855 | Capital Financing | (2,489) |
| 12 | Capital Financing Costs | 1 |
| 1 | Direct Revenue Financing Expenditure | - |
| 9,776 | Sources of Finance Expenditure | 10,346 |
| 5,626 | Pensions Interest Cost less Return on Asset | 5,882 |
| 76,205 | Total Expenditure | 74,683 |
| | Income | |
| 387 | Direct revenue Financing Income | 312 |
| 19,255 | Sources of Finance Income | 20,477 |
| 37,210 | Government grants | 35,213 |
| 141 | Transfer from Collection Fund | 140 |
| 724 | Other Grants and Contributions | 1,402 |
| 3,037 | Reimbursements | 2,767 |
| 7,549 | Customer Receipts | 8,158 |
| 1,170 | Rents | 1,070 |
| 256 | Interest and Investment Income | 115 |
| 585 | Summons Costs | 510 |
| 3,319 | Pensions Return on Assets | 3,546 |
| 64 | Recharges to Other Services | 54 |
| 73,697 | Total Income | 73,764 |
| 2,508 | Surplus or Deficit on the Provision of Services | 919 |

3.2.5. External Audit Costs

The Council has incurred the following costs in relation to the audit of the Statement of Accounts and certification of grant claims by the Council's external auditors (Grant Thornton):

| 2015/16 £000 | | 2016/17 £000 |
|-----------------|---|-----------------|
| 55 | External audit services carried out | 55 |
| 6 | Certification of grant claims and returns | 6 |
| 61 | | 61 |

3.2.6. Members' Allowances

In 2016/17 a total of £319,048 was paid to members (including the Mayor and Deputy Mayor) in respect of allowances (£323,126 in 2015/16).

3.2.7. Termination Benefits

The Council terminated the contracts of a number of employees in 2016/17, incurring liabilities of £57,327 (£100,743 in 2015/16). The termination benefits consisted of £53,753 for loss of office and £3,574 in relation to long service awards.

3.2.8. Officers' Remuneration

Remuneration between £50,000 and £150,000 per annum was paid to the Council's senior employees as follows:

| 2016/17 - Post Holder | Salary (£) | Benefits in Kind (£) | Total exc. Employer Pension (£) | Employer Pension (£) | Total inc. Employer Pension (£) |
|----------------------------------|---------------|----------------------------|--|----------------------------|--|
| Chief Executive* | 114,489 | - | 114,489 | 18,702 | 133,191 |
| Executive Directors | | | | | |
| Regeneration & Development | 86,530 | 2,750 | 89,280 | 16,414 | 105,694 |
| Operational Services | 86,530 | 1,375 | 87,905 | 14,797 | 102,702 |
| Resources & Support Services | 86,530 | - | 86,530 | 14,797 | 101,327 |
| Heads of Service | | | | | |
| Operations | 58,532 | 1,650 | 60,182 | 10,053 | 70,235 |
| Planning | 56,736 | - | 56,736 | 9,702 | 66,438 |
| Leisure and Cultural Services | 56,736 | - | 56,736 | 9,702 | 66,438 |
| Recycling and Fleet Services | 55,316 | 1,650 | 56,966 | 9,503 | 66,469 |
| Housing, Regeneration and Assets | 53,894 | 1,650 | 55,544 | 9,216 | 64,760 |
| Communications | 51,023 | 1,650 | 52,673 | 8,725 | 61,398 |
| Finance | 51,023 | 1,651 | 52,674 | 2,908 | 55,582 |
| Environmental Health | 52,357 | - | 52,357 | 8,965 | 61,322 |

| 2015/16 - Post Holder | Salary (£) | Benefits in Kind (£) | Total exc. Employer Pension (£) | Employer Pension (£) | Total inc. Employer Pension (£) |
|----------------------------------|---------------|----------------------------|--|----------------------------|--|
| Chief Executive** | 113,139 | - | 113,139 | 19,368 | 132,507 |
| Executive Directors | | | | | |
| Regeneration & Development | 85,673 | 2,750 | 88,423 | 15,724 | 104,147 |
| Operational Services | 85,673 | 1,375 | 87,048 | 14,753 | 101,801 |
| Resources & Support Services | 85,673 | - | 85,673 | 14,759 | 100,432 |
| Heads of Service | | | | | |
| Operations | 56,174 | 1,650 | 57,824 | 9,852 | 67,676 |
| Planning | 56,174 | - | 56,174 | 9,606 | 65,780 |
| Leisure and Cultural Services | 56,174 | - | 56,174 | 9,606 | 65,780 |
| Recycling and Fleet Services | 53,360 | 1,650 | 55,010 | 9,222 | 64,232 |
| Housing, Regeneration and Assets | 51,236 | 1,650 | 52,886 | 8,843 | 61,729 |
| Communications | 50,518 | 1,650 | 52,168 | 8,645 | 60,813 |
| Finance | 50,518 | 1,650 | 52,168 | 8,639 | 60,807 |

* This includes salary of £100,733 plus Returning Officers fees for the Borough Council Elections.

** This includes salary of £99,736 plus Returning Officers fees for the Borough Council Elections.

3.2.9. Grant Income

The Council credited the following grants and contributions to the Comprehensive Income and Expenditure:

| 2015/16 £000 | | 2016/17 £000 |
|-----------------|--|-----------------|
| | Credited to Taxation/Non Specific Grant | |
| 93 | Planning Obligations Contributions | 329 |
| 213 | Other Government Grants | 53 |
| 85 | New Burdens Grant (Land Charges) | 14 |
| 846 | Section 31/Business Rates Relief Grant | 580 |
| 1,407 | New Homes Bonus Scheme | 2,170 |
| 2,682 | Revenue Support Grant | 1,814 |
| 5,326 | Total | 4,960 |
| | Credited to Services | |
| 30,581 | Housing Benefits Subsidy/Grants | 29,849 |
| 619 | Housing Benefit/Council Tax Benefit Admin | 547 |
| 654 | Disabled Facilities Grant | 998 |
| 265 | New Homes Bonus | - |
| 104 | Individual Electoral Registration Section 31 | 62 |
| 274 | Other Grants | 124 |
| 111 | Contributions towards Community Safety | 75 |
| 32,608 | Total | 31,655 |

3.3. In Relation to the Balance Sheet

3.3.1. Property Plant and Equipment

Movements on Balances

| 2016/17 | Land & Buildings £000 | Infrastructure Assets £000 | Vehicles, Plant, Furniture & Equipment £000 | Community Assets £000 | Surplus Assets £000 | Total £000 |
|--|--------------------------|-------------------------------|--|--------------------------|------------------------|-----------------|
| Cost or Valuation | | | | | | |
| At 1 April 2016 | 30,585 | 1,337 | 13,574 | 7,210 | 1,025 | 53,731 |
| Additions | 219 | 1 | 4,943 | 81 | - | 5,244 |
| Revaluation Increases/(Decreases) - Revaluation Reserve | 140 | - | - | 15 | - | 155 |
| Revaluation Increases/(Decreases) - Surplus/Deficit on Provision of Services | (219) | - | - | - | - | (219) |
| Derecognition - Disposals | (109) | - | (1,255) | (66) | - | (1,430) |
| Transfers Between Asset Categories | (145) | - | - | 62 | - | (83) |
| Other Movements in Cost or Valuation | - | - | - | - | - | - |
| At 31 March 2017 | 30,471 | 1,338 | 17,262 | 7,302 | 1,025 | 57,398 |
| Accumulated Depreciation & Impairment | | | | | | |
| At 1 April 2016 | (2,237) | (422) | (8,726) | (998) | - | (12,383) |
| Depreciation Charge | (595) | (26) | (633) | (91) | - | (1,345) |
| Derecognition - Disposals | 5 | - | 1,249 | - | - | 1,254 |
| At 31 March 2017 | (2,827) | (448) | (8,110) | (1,089) | - | (12,474) |
| Net Book Value | | | | | | |
| As at 31 March 2016 | 28,348 | 915 | 4,848 | 6,212 | 1,025 | 41,348 |
| As at 31 March 2017 | 27,644 | 890 | 9,152 | 6,213 | 1,025 | 44,924 |

| 2015/16 | Land & Buildings | Infrastructure Assets | Vehicles, Plant, Furniture & Equipment | Community Assets | Surplus Assets | Total |
|--|------------------|-----------------------|--|------------------|----------------|-----------------|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Cost or Valuation | | | | | | |
| At 1 April 2015 | 30,682 | 1,337 | 13,844 | 6,874 | 1,025 | 53,762 |
| Additions | 775 | - | 539 | (61) | - | 1,253 |
| Deletions | - | - | - | - | - | - |
| Revaluation Increases/(Decreases) - Revaluation Reserve | (425) | - | - | 31 | - | (394) |
| Revaluation Increases/(Decreases) - Surplus/Deficit on Provision of Services | (677) | - | - | 66 | - | (611) |
| Derecognition - Disposals | - | - | (809) | - | - | (809) |
| Transfers Between Asset Categories | 230 | - | - | (37) | - | 193 |
| Other Movements in Cost or Valuation | - | - | - | 337 | - | 337 |
| At 31 March 2016 | 30,585 | 1,337 | 13,574 | 7,210 | 1,025 | 53,731 |
| Accumulated Depreciation & Impairment | | | | | | |
| At 1 April 2015 | (2,264) | (396) | (8,451) | (871) | - | (11,982) |
| Depreciation Charge | (520) | (26) | (857) | (131) | - | (1,534) |
| Derecognition - Disposals | - | - | 582 | 4 | - | 586 |
| Derecognition - Other | 547 | - | - | - | - | 547 |
| At 31 March 2016 | (2,237) | (422) | (8,726) | (998) | - | (12,383) |
| Net Book Value | | | | | | |
| As at 31 March 2015 | 28,418 | 941 | 5,393 | 6,003 | 1,025 | 41,780 |
| As at 31 March 2016 | 28,348 | 915 | 4,848 | 6,212 | 1,025 | 41,348 |

Depreciation

Depreciation is applied on a straight line basis. No depreciation is applied to land. Where an asset includes land, the value of this element is excluded before applying depreciation. A 10% residual value is assumed in most cases, which is deducted from the depreciable amount before applying depreciation.

The following useful lives have been used:

- Land and Buildings - 60 years, unless the valuation basis is depreciated replacement cost, where individual lives apply to each asset;
- Vehicles, Plant, Furniture & Equipment - 5 years for most items, 15 years for wheeled bins;
- Infrastructure - no specific life. Depreciation is based on a historical composite calculation;
- Community Assets - 20 years.

Capital Commitments

At 31 March 2017, the Council has entered into one contract for the acquisition, construction or enhancement of Property, Plant and Equipment in 2017/18 and future years, budgeted to cost £0.339m. The commitment relates to vehicles for the new waste recycling service. Similar commitments at 31 March 2016 were £2.542m.

Asset Classes

For the purposes of valuation assets are grouped into classes. Assets within a class are all valued at the same time. The table below shows the different classes with the total valuation of assets within each as at 31 March 2017 and for the prior period.

| 31/03/2016 £'000 | | 31/03/2017 £'000 |
|---------------------|---------------------------------------|---------------------|
| 1,025 | Surplus Assets | 1,025 |
| | Land and Buildings | |
| 2,795 | Community Centres | 2,795 |
| 6,581 | Car Parks Charging | 6,580 |
| 1,655 | Car Parks Non-charging | 1,523 |
| 1,500 | Depot | 1,500 |
| 4,011 | Offices | 4,011 |
| 380 | Guildhall | 380 |
| 294 | Bus Station | 294 |
| 1,245 | Cemeteries | 1,245 |
| 498 | Crematorium | 498 |
| 9,057 | Leisure Centres | 8,936 |
| 1,487 | Parks and Sports Grounds | 1,487 |
| 520 | Museum | 520 |
| 113 | Public Toilets | 113 |
| 157 | Business Centre | 157 |
| 293 | Other Land and Buildings | 432 |
| 1,337 | Infrastructure Assets | 1,338 |
| 13,574 | Vehicles, Plant, Furniture, Equipment | 17,262 |
| 7,209 | Community Assets | 7,302 |
| 53,731 | Total | 57,398 |

Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is re-valued at least every five years. All valuations are carried out internally. Valuations of land and buildings are carried out in accordance with the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant, and equipment are based on historic cost. The significant assumptions applied in estimating the fair values are, whether a property asset is a specialised asset, which governs its valuation treatment, whether an asset is being used for operational purposes and whether there is any impairment applicable to the asset.

Valuations over the five year rolling period were as follows:

| | Land & Buildings £000 | Vehicles, Plant, Furniture & Equipment £000 | Community Assets £000 | Infrastructure Assets £000 | Surplus Assets £000 | Total £000 |
|--------------------------------|--------------------------|--|--------------------------|-------------------------------|------------------------|---------------|
| Carried at Historical Cost | 141 | 14,894 | 6,069 | 1,338 | - | 22,442 |
| Valued at Fair Value at: | | | | | | |
| 31 March 2013 | 19,246 | 1,906 | 582 | - | - | 21,734 |
| 31 March 2014 | 5,732 | 462 | - | - | 500 | 6,694 |
| 31 March 2015 | 1,228 | - | - | - | 525 | 1,753 |
| 31 March 2016 | 3,984 | - | 590 | - | - | 4,574 |
| 31 March 2017 | 140 | - | 61 | - | - | 201 |
| Total Cost or Valuation | 30,471 | 17,262 | 7,302 | 1,338 | 1,025 | 57,398 |

Fair Value Measurement of Surplus Assets

Surplus Assets are measured at fair value. Level 3 of the Fair Value Hierarchy applies in estimating the fair values and the valuation technique employed is the investment basis, using the rental value and yield as unobservable inputs. Significant changes in any of these inputs will result in a lower or higher fair value. There have been no changes in any of the valuation techniques employed during the year.

3.3.2. Investment Properties

There are no restrictions on the Council's ability to realise the value of its investment property or on the Council's right to the receipt of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of level 3 investment properties over the year:

| 2015/16 £000 | | 2016/17 £000 |
|-----------------|---|-----------------|
| 14,218 | Balance at 1 April | 14,527 |
| - | Additions - Purchases | - |
| 67 | Additions - Subsequent Expenditure | 254 |
| (660) | Disposals | (21) |
| 820 | Net Gains/(Losses) - Fair Value Adjustments | 4,133 |
| 612 | Termination of Finance Leases | - |
| (530) | Transfers (To)/From Property, Plant & Equipment | - |
| 14,527 | Balance at 31 March | 18,893 |

Gains or losses from changes in the fair value of investment property are recognised in the Surplus or Deficit on the Provision of Services - Financing and Investment Income and Expenditure line (page 16).

Valuation Techniques used to determine Level 3 Fair Values for Investment Properties

The fair value for development sites is based on the market approach using current market conditions, sales prices and other relevant information for similar assets in the area. Local market conditions are such that similar land is not extensively purchased and sold and the level of observable inputs are not significant leading to categorisation at Level 3 in the fair value hierarchy.

Other Investment Properties are valued using the investment approach, whereby actual or estimated rental income is capitalised to provide a capital value. The rental income is calculated by reference to actual or estimated values having regard to market evidence. The yield multiplier is based on comparable evidence. These properties are, therefore, categorised as Level 3 in the fair value hierarchy as the measurement technique uses significant unobservable inputs to determine the fair value measurements.

The following table shows quantitative information relating to fair value measurement of investment properties using significant unobservable inputs.

| Investment Property Type | 31/03/2017 £000 | Valuation technique used to measure fair value | Unobservable Inputs | Sensitivity |
|--------------------------|--------------------|--|---------------------|-------------|
| Shops | 3,617 | Investment Method | Rental Values Yield | (a) |
| Offices | 1,298 | Investment Method | Rental Values Yield | (a) |
| Industrial Units | 2,292 | Investment Method | Rental Values Yield | (a) |
| Other | 2,986 | Investment Method | Rental Values Yield | (a) |
| Development Sites | 8,700 | Comparable Method | Capital Value | (a) |
| | 18,893 | | | |

(a) Significant changes in rental value, yield or capital value will result in a varied fair value

There has been no change in the valuation techniques used during the year.

In estimating the fair value of investment properties, the highest and best use of the properties is their current use.

The fair value of Investment Property is measured annually at each reporting date. All valuations are carried out internally, in accordance with the professional standards of the Royal Institution of Chartered Surveyors.

3.3.3. Heritage Assets

Reconciliation of the Carrying Value of Heritage Assets held by the Council

The Council's collection of museum artefacts is reported in the Balance Sheet (page 18) at an insurance valuation of £1.429m, which is based on market values as assessed by an external valuer in October 2006.

These valuations are updated by the museum curator in respect of significant items and changes. New items are added at cost, if purchased and at valuation, if donated, where they are significant. Other Heritage assets, i.e. outdoor structures, are not recognised on the Balance Sheet because there is no reliable cost or valuation information to enable them to be valued. There have been no movements in the valuation of Heritage Assets during 2016/17.

Museum Exhibits

The museum holds a collection of around 20,000 objects, falling into the following categories:

| Subject | Description | % |
|----------------|---|-----|
| Social History | Domestic and working life, childhood, civic regalia, industry, crafts in the Borough | 28% |
| Decorative Art | Ceramics, glass, costume and textiles, furniture, furnishings | 8% |
| Militaria | Costume, medals, weapons, ephemera | 3% |
| Fine Art | Oils, watercolours, prints, drawings, sketches of local scenes, local artists | 3% |
| Archives | Documents, ephemera, prints, negatives, lantern slides, cine film, video, audio tapes connected to the local area | 55% |
| Archaeology | Local excavated finds, chance finds | 2% |
| Numismatics | A collection of local coinage/tokens, bank notes, commemorative medals | 1% |

In addition, the civic regalia and mayoral robes are kept in a secure location to be used on ceremonial occasions. Details of the policy for the acquisition, preservation, management and disposal of the Council's heritage assets are contained in the Acquisition and Disposal Policy and the Collection Management Plan.

Outdoor Structures

This category of heritage assets comprises of the Queen Victoria Statue and Sergeant Fred Kite Memorial, Queens Gardens; Fountains, Nelson Place; Castle Motte, Queen Elizabeth Park; Silverdale Cemetery Gazebo; Ice House, Chesterton Memorial Park; Mining Memorials at Bateswood and Silverdale; Lyme Valley Canal Basin.

3.3.4. Debtors

Long Term Debtors

| 31/03/2016 £000 | | 31/03/2017 £000 |
|--------------------|--|--------------------|
| 217 | Finance Lease Balances Outstanding | 178 |
| 1 | Right to Buy Mortgages | 1 |
| 373 | Kickstart Loans (re home improvements) | 366 |
| 591 | Total | 545 |

Short Term Debtors

| 31/03/2016 £000 | | 31/03/2017 £000 |
|--------------------|------------------------------|--------------------|
| 2,173 | Central Government Bodies | 790 |
| 1,088 | Other Local Authorities | 1,606 |
| 93 | NHS Bodies | - |
| 5,952 | Other Entities & Individuals | 5,604 |
| 9,306 | Total | 8,000 |

3.3.5. Creditors

| 31/03/2016 £000 | | 31/03/2017 £000 |
|--------------------|-------------------------------------|--------------------|
| 1,893 | Central Government Bodies | 1,955 |
| 1,463 | Other Local Authorities | 1,573 |
| 57 | Public Corporations & Trading Funds | 25 |
| 2,082 | Other Entities & Individuals | 2,185 |
| 5,495 | Total | 5,738 |

3.3.6. Provisions

| | NDR Appeals £000 | Insurance Claims £000 | Employee Benefits £000 | MMI £000 | Total £000 |
|---------------------------------|---------------------|--------------------------|---------------------------|-------------|---------------|
| Balance at 1 April 2015 | 346 | 104 | 188 | 79 | 717 |
| Additional Provisions Made | 773 | 4 | 366 | - | 1,143 |
| Amounts Used | (346) | (36) | (188) | - | (570) |
| Balance at 1 April 2016 | 773 | 72 | 366 | 79 | 1,290 |
| Additional Provisions Made | 644 | 97 | 372 | 14 | 1,127 |
| Amounts Used | (692) | (21) | (366) | (68) | (1,147) |
| Unused Amounts Reversed | - | - | - | - | - |
| Balance at 31 March 2017 | 725 | 148 | 372 | 25 | 1,270 |

The NNDR Appeals provision provides for the Councils element of refunds payable following successful appeals in relation to the rateable value of business rates payer's properties.

The Insurance Claims Provision has been created to meet the costs of claims which are likely to be settled but where the actual settlement date is uncertain.

The Employee Benefits Provision contains an amount equivalent to the accruals made in the Cost of Services within the Comprehensive Income and Expenditure Statement in respect of outstanding employee benefits (untaken leave, etc.) at the year end.

The MMI Provision has been created to provide for possible claw-back (levy) of sums paid out by the administrator of Municipal Mutual Insurance (MMI), in the event of MMI becoming insolvent.

3.3.7. Usable Reserves

Movements in the Council's usable reserves, showing both capital and revenue reserves, are set out below:

| | 31/03/2015 | Transfers | Transfers | 31/03/2016 | Transfers | Transfers | 31/03/2017 |
|----------------------------------|---------------|----------------|--------------|---------------|----------------|--------------|--------------|
| | £000 | Out | In | £000 | Out | In | £000 |
| | | £000 | £000 | | £000 | £000 | |
| Capital: | | | | | | | |
| Capital Receipts Reserve | 6,365 | (1,047) | 1,268 | 6,586 | (6,112) | 1,137 | 1,611 |
| Capital Grants Unapplied | 868 | (221) | 242 | 889 | (443) | 680 | 1,126 |
| Both Revenue and Capital: | | | | | | | |
| Equipment Replacement Fund | 376 | (141) | 141 | 376 | (107) | 212 | 481 |
| Renewals and Repairs Fund | 3 | (431) | 430 | 2 | (390) | 390 | 2 |
| ICT Development Fund | 253 | (118) | 90 | 225 | (247) | 90 | 68 |
| New Homes Bonus Reserve | - | (186) | 186 | - | (165) | 165 | - |
| New Initiatives Fund | 57 | (57) | - | - | - | - | - |
| Revenue: | | | | | | | |
| General Fund Balance | 1,200 | - | - | 1,200 | - | - | 1,200 |
| Contingency Reserve Fund | 276 | (50) | - | 226 | (91) | - | 135 |
| Budget Support Fund | 297 | (28) | 72 | 341 | (80) | 8 | 269 |
| Conservation and Heritage Fund | 37 | (12) | 10 | 35 | - | 10 | 45 |
| Museum Purchases Fund | 68 | (8) | - | 60 | - | 4 | 64 |
| Maintenance Contributions | 76 | (50) | 35 | 61 | (30) | 44 | 75 |
| Mayors Charities Reserve | 12 | (1) | - | 11 | (3) | - | 8 |
| Standards Fund | 6 | - | - | 6 | - | - | 6 |
| Deposit Guarantee Scheme Reserve | 36 | - | - | 36 | - | - | 36 |
| Revenue Investment Fund | 112 | (76) | 35 | 71 | (1) | 35 | 105 |
| Keele Master Plan Reserve | - | - | 139 | 139 | - | - | 139 |
| Business Rates Reserve | 1,475 | (800) | 43 | 718 | (276) | - | 442 |
| Total | 11,517 | (3,226) | 2,691 | 10,982 | (7,945) | 2,775 | 5,812 |

Note 3.1.2 (page 26) shows the movements on Usable Reserves involving transactions with the General Fund Revenue Account. The nature and purpose of these reserves is as set out below:

- The Capital Receipts Reserve contains the balance of unapplied capital receipts arising from the disposal of fixed assets.
- The Capital Grants Unapplied Reserve contains the balance of unused grants and contributions available for use, i.e. they have no conditions or conditions have been met;
- The Equipment Replacement Fund is maintained to provide for the replacement of certain items of equipment, such as the crematorium cremators and gym equipment;
- The Renewals and Repairs Fund is used for the repair and maintenance of Council-owned buildings, structures and fixed plant. It is funded through a contribution from the General Fund revenue account, based on the estimated frequency and amount of future expenditure on repairs and maintenance.
- The ICT Development Fund is to be used to meet the costs of new IT requirements and the replacement of IT equipment;
- The New Homes Bonus Reserve was created to hold unused balances in relation to New Homes Bonus grant.
- The New Initiatives Fund was established to fund new initiatives, both capital and revenue, not currently provided for in the Council's budgets;
- The General Fund Balance exists to meet the cost of any unexpected occurrences affecting the General Fund revenue budget or any of the occurrences materialising which are identified in the risk assessment relating to that budget;

- The Contingency Reserve Fund is used to finance expenditure in respect of contingencies that may arise in the future, for example redundancy payments consequent upon service reviews;
- The Budget Support Fund was created by crediting to it surpluses arising on the General Fund Revenue Account. It is to be used to support the revenue budget and Invest to Save initiatives. It is also used to enable budget provision to be carried forward to future years by appropriating to it unspent balances where a commitment exists;
- The Conservation and Heritage Fund exists to provide grants to the owners of buildings of historical significance to enable them to be maintained properly;
- The Museum Purchases Fund was established by a small bequest which has been added to by contributions and proceeds from the sale of exhibits. It is used to purchase exhibits for the museum and to conserve and enhance the display of existing exhibits;
- Maintenance Contributions are received from developers of housing and other schemes and are to be used to fund the maintenance of open spaces taken over from those developers;
- The Mayors Charities Reserve represents the balance on the Mayors Charities activity;
- The Standards Fund is used to ensure that the Council meets its responsibilities under the Ethical and other standards frameworks;
- The Deposit Guarantee Reserve was created to hold the unspent balances relating to the Guarantee Scheme for landlord deposits in respect of homeless persons;
- The Revenue Investment Fund is used to fund projects in support of corporate priorities;
- The Keele Master Plan reserve was created to hold funds for expenditure incurred with the sale or development of land owned by various stakeholders including the land of the former Keele Golf Course site;
- The Business Rates Reserve was created as a consequence of the new rates retention arrangements. It will receive excess rates income above the budgeted amount. It may be used for any purpose but particularly to meet Business Rates Collection Fund deficits and future rate income shortfalls.

3.3.8. Unusable Reserves

Balances in relation to the Council's Unusable Reserves are shown below:

| 31/03/2016 £000 | | 31/03/2017 £000 |
|--------------------|------------------------------------|--------------------|
| | Capital: | |
| 14,711 | Revaluation Reserve | 14,855 |
| 43,634 | Capital Adjustment Account | 49,632 |
| 620 | Deferred Capital Receipts Reserve | 545 |
| | Revenue: | |
| (69,628) | Pensions Reserve | (71,709) |
| (110) | Collection Fund Adjustment Account | (7) |
| (366) | Accumulated Absences Account | (372) |
| (11,139) | Total Unusable Reserves | (7,056) |

The nature and purpose of these reserves and a summary of their transactions is as set out below.

Revaluation Reserve

The revaluation reserve records unrealised gains in the value of property, plant and equipment. The reserve increases when assets are revalued upwards, and decreases as assets are depreciated or assets are revalued downwards or disposed of. The reserve contains only revaluation gains accumulated since 1 April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

| 2015/16 £000 | | 2016/17 £000 |
|-----------------|--|-----------------|
| 14,458 | Balance at 1 April | 14,711 |
| 283 | Upward Revaluation of Assets not charged to the Surplus/Deficit on the Provision of Services | 144 |
| (30) | Downward Revaluation of Assets & impairment losses not charged to the Surplus/Deficit on the Provision of Services | - |
| 14,711 | Balance at 31 March | 14,855 |

Capital Adjustment Account

The Capital Adjustment Account is used to reconcile the different rates at which assets are depreciated under proper accounting practice and are financed through the capital controls system. Statute requires that the charge to the General Fund is determined by the capital controls system. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

| 2015/16 £000 | | 2016/17 £000 |
|-----------------|--|-----------------|
| 43,916 | Balance at 1 April | 43,634 |
| | <i>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income & Expenditure Statement:</i> | |
| (2,180) | Charges for depreciation/impairment of non-current assets | (1,730) |
| (34) | Revaluation losses on Property, Plant & Equipment | - |
| (111) | Amortisation of Intangible Assets | (84) |
| (64) | Revenue Expenditure Funded from Capital Under Statute | (2,291) |
| (881) | Amounts of non-current Assets written off on disposal or sale as part of the gain/loss on disposal | (191) |
| (3,270) | <i>Capital financing applied in the year:</i> | (4,296) |
| 1,047 | Use of the Capital Receipts Reserve to finance new capital expenditure | 5,518 |
| 62 | Capital grants & contributions credited to the Comprehensive Income & Expenditure Statement that have been applied to capital financing | - |
| 10 | Application of grants to capital financing from the Capital Grants Unapplied Account | 92 |
| 155 | Statutory Provision for the financing of capital investment charged against the General Fund | - |
| 217 | Capital expenditure charged against the General Fund | 381 |
| 1,491 | | 5,991 |
| 1,471 | Movements in the market value of Investment Properties debited or credited to the Comprehensive Income & Expenditure Statement | 4,303 |
| 26 | Reinstatement of Investment Properties at end of finance lease | - |
| - | Loan repayments | - |
| 43,634 | Balance at 31 March | 49,632 |

Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of noncurrent assets but for which cash settlement has yet to take place. Statute requires that the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement takes place, amounts are transferred to the Capital Receipts Reserve.

| 2015/16 £000 | | 2016/17 £000 |
|-----------------|--|-----------------|
| 690 | Balance at 1 April | 620 |
| (1) | Transfer to the Capital Receipts Reserve upon receipt of cash | (41) |
| (43) | Capital element of finance leases where Council is the lessor | (34) |
| (26) | Reinstatement of Investment Properties at end of finance lease | - |
| 620 | Balance at 31 March | 545 |

Pensions Reserve

The Pensions Reserve is used to reconcile payments made for the year to statutory pension schemes in accordance with the schemes requirements, and the net change in the authority's recognised liability under the Code's adoption of IAS 19 – *Employee Benefits*. A transfer is made to or from the pensions reserve to ensure that the charge to the General Fund reflects the amount required to be raised in taxation. For example, the debit balance on the Reserve shows that the authority has made commitments to fund pensions that the Government has permitted it to fund from contributions to be made in future years.

| 2015/16 £000 | | 2016/17 £000 |
|-----------------|--|-----------------|
| (76,309) | Balance at 1 April | (69,628) |
| 8,680 | Remeasurements of the net defined benefit liability/(asset) | (312) |
| (5,526) | Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services | (5,496) |
| 3,527 | Employers pensions contributions and direct payments to pensioners payable in the year | 3,727 |
| (69,628) | Balance at 31 March | (71,709) |

Collection Fund Adjustment Account

The Collection Fund Adjustment Account is used to reconcile differences arising from the recognition of council tax and non-domestic rates income in the Comprehensive Income and Expenditure Statement to those amounts required to be charged by statute to the General Fund. For example, the debit balance on the Account shows that less tax has been collected on behalf of the authority and the precepting bodies (and central government in England for non-domestic rates income) than an authority is permitted to transfer out of the Collection Fund by 31 March.

| 2015/16 £000 | | 2016/17 £000 |
|-----------------|--|-----------------|
| (666) | Balance at 1 April | (110) |
| - | Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year | (136) |
| 556 | Amount by which non domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from non domestic rates income calculated for the year | 239 |
| (110) | Balance at 31 March | (7) |

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March.

| 2015/16 £000 | | 2016/17 £000 |
|-----------------|---|-----------------|
| (188) | Balance at 1 April | (366) |
| 188 | Settlement or cancellation of accrual made at the end of the preceding year | 366 |
| (366) | Amounts accrued at the end of the current year | (372) |
| (366) | Balance at 31 March | (372) |

3.4. In Relation to the Cash Flow Statement

3.4.1. Cash Flow Statement – Analysis of Adjustments

Adjustments to Net Surplus/Deficit on the Provision of Services for Non Cash Movements

| 2015/16 £000 | | 2016/17 £000 |
|-----------------|---|-----------------|
| 4,022 | (Increase)/Decrease In Creditors | (477) |
| (125) | Increase/(Decrease) in Debtors | (828) |
| 44 | Increase/(Decrease) in Inventories | 30 |
| (491) | (Increase)/Decrease in Provisions | 20 |
| (2,180) | Charges for Depreciation/Impairment of Non-Current Assets | (1,730) |
| (34) | Revaluation Losses on Property, Plant & Equipment | - |
| 1,471 | Movements in fair value of Investment Properties | 4,303 |
| (111) | Amortisation of Intangible Assets | (84) |
| 62 | Capital Grants & Contributions applied | - |
| (42) | Capital Element of Finance Leases Where Council is Lessor | (34) |
| (1,999) | Movement in Pension Liability | (1,769) |
| (881) | Non-Current Assets Written Off on Disposal or Sale as Part of the Gain/Loss on Disposal to the Comprehensive Income & Expenditure Statement | (191) |
| (264) | | (760) |

Adjustments to Net Surplus/Deficit on the Provision of Services for Items that are Investing and Financing Activities

| £000 | | £000 |
|--------------|---|------------|
| 31 | Capital Grants & Contributions Unapplied Credited to Comprehensive Income & Expenditure Statement | 329 |
| 1,268 | Transfer of Cash Sales Proceeds Credited as Part of the Gain/Loss on Disposal to the Comprehensive Income & Expenditure Statement | 519 |
| - | Transfer from Deferred Capital Receipts Reserve on Receipt of Cash | (17) |
| 1,299 | | 831 |

3.4.2. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

| 2015/16 £000 | | 2016/17 £000 |
|-----------------|-------------------|-----------------|
| (232) | Interest Received | (135) |
| 13 | Interest Paid | 1 |

3.4.3. Cash Flow Statement – Investing Activities

The cash flows for investing activities include the following items:

| 2015/16 £000 | | 2016/17 £000 |
|-----------------|--|-----------------|
| 1,286 | Purchase of Property, Plant & Equipment, Investment Property & Intangible Assets | 5,472 |
| 60,477 | Purchase of Short & Long Term Investments | 50,183 |
| (1,376) | Proceeds from Sale of Property, Plant & Equipment, Investment Property & Intangible Assets | (460) |
| (61,750) | Proceeds from Short & Long Term Investments | (54,250) |
| (121) | Other Receipts From Investing Activities | (391) |
| (1,484) | Net Cash Flows from Investing Activities | 554 |

3.4.4. Cash Flow Statement – Financing Activities

The cash flows for financing activities include the following items:

| 2015/16 £000 | | 2016/17 £000 |
|-----------------|--|-----------------|
| (1,523) | Cash Receipts of Borrowing | (11) |
| (1,377) | Other Receipts from Financing Activities | (662) |
| 155 | Cash Payments for Liabilities re. Finance Leases | - |
| 1,500 | Repayments of Borrowing | - |
| (1,090) | Other Payments for Financing Activities | (652) |
| (2,335) | Net Cash Flows from Financing Activities | (1,325) |

4. Additional Information Supplementing the Core Financial Statements

4.1. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the table below.

| 2015/16 £000 | | 2016/17 £000 |
|-----------------|---|-----------------|
| (503) | Opening Capital Financing Requirement | (895) |
| (237) | Correction of opening CFR balance* | - |
| (740) | | (895) |
| | Capital Investment | |
| 1,172 | Property, Plant & Equipment | 5,245 |
| 67 | Investment Properties | 171 |
| 32 | Intangible Assets | 8 |
| 1,272 | REFCUS | 3,305 |
| | Sources of Finance | |
| (1,047) | Capital Receipts | (5,518) |
| (1,279) | Government Grants & Other Contributions | (1,107) |
| (217) | Sums Set Aside From Revenue | (381) |
| (155) | Minimum Revenue Provision | - |
| (895) | Closing Capital Financing Requirement | 828 |
| | Explanation of Movements in Year | |
| (155) | Minimum Revenue Provision | - |
| - | Capital expenditure financed from internal borrowing | 1,723 |
| (155) | Increase/(Decrease) in Capital Financing Requirement | 1,723 |

* This correction relates to the de-recognition of assets leased in under a finance lease which terminated in 2010/11. The de-recognition arising from the termination was recorded in the accounts and reflected in the balance sheet, but was not reflected in this note. The effect of the adjustment is to reduce the capital financing requirement by £0.237m.

4.2. Impairment Losses

During 2016/17 the Council has recognised the following impairment losses in relation to capital expenditure incurred on enhancing non-current assets that does not increase the value of the asset concerned. An amount equal to this is charged as an impairment loss to the service which uses the asset in the Comprehensive Income and Expenditure Statement.

The total amount of impairment losses for 2016/17 was £0.386m (2015/16 £0.645m). The whole of the impairment loss is reversed out via the Movement in Reserves Statement (page 17) in accordance with statutory provisions so that it is not a charge against council tax.

4.3. Related Parties

The Council is required to disclose material transactions with related parties - bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government

The UK government has effective control over the general operations of the Council - it is responsible for providing the statutory framework within which the Council operates, provides funding in the form of grants and prescribes the terms of

many of the transactions that the Council has (e.g. council tax bills, housing benefits). Grants received from government departments are set out in in note 3.2.9 (page 29).

Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances and expenses paid is shown in note 3.2.6 (page 28). During 2016/17, expenditure transactions with Keele University totalled £21,929. Four members are employed by Keele University, as lecturers / administrative staff and as such have no direct influence. One member is employed by J.C. Bamford Excavators Limited and transactions totalled £81,887, however they have no direct influence upon the transactions. One member is also a Non-Executive Director on the Board of Aspire Housing. Payments to Aspire Housing during 2016/17 amounted to £971,631. The majority of this is in relation to housing benefit rental payments.

Officers

No payments have been made to any entities that have a relationship with Council officers during 2016/17.

4.4. Defined Benefit Pension Schemes

Participation in Pension Schemes

As part of the terms and conditions of employment of its employees, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to disclose the payments at the time that employees earn their future entitlement.

The Council participates in:

- The Local Government Pension Scheme (LGPS), administered locally by Staffordshire County Council - this has a career average revalue earnings (CARE) benefit design, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets;
- Arrangements for the award of discretionary post-retirement benefits upon early retirement - this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pensions liabilities, and cash has to be generated to meet actual pensions payments as they fall due;
- The Staffordshire Pension Scheme is operated under the regulatory framework for the LGPS and the governance of the scheme is the responsibility of the Pensions Committee of Staffordshire County Council. Policy is determined in accordance with the Pension Fund Regulations;
- The principal risks to the Council of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund the amounts as described in the accounting policies note.

Transactions Relating to Post-employment Benefits

The cost of retirement benefits is recognised in the reported cost of services when they are earned by employees, rather than when the benefits are paid as pensions. However, the charge that is required to be made against council tax is based on the cash payable in the year, so the real cost of post-employment benefits is reversed out of the General Fund via the Movement in Reserves Statement (page 17). The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

| 2015/16 | | | 2016/17 | |
|----------------|------------------------------|---|----------------|------------------------------|
| LGPS £000 | Unfunded Benefits £000 | | LGPS £000 | Unfunded Benefits £000 |
| | | Comprehensive Income & Expenditure Statement | | |
| | | Cost of Services: | | |
| 3,186 | - | Current Service Cost | 2,991 | - |
| 33 | - | Past Service Costs/(Gains) | 169 | - |
| - | (463) | Unfunded Benefit Contributions | - | (451) |
| | | Financing and Investment Income & Expenditure | | |
| 2,307 | - | Net Interest Expense | 2,336 | - |
| 5,526 | (463) | Total Pension Benefit Charged to the Surplus/Deficit on Provision of Services | 5,496 | (451) |
| | | Remeasurement of the Net Defined Benefit Liability Comprising: | | |
| 2,215 | - | Return on Plan Assets | (17,855) | - |
| - | - | Changes in Demographic Assumptions | (773) | - |
| (8,533) | - | Changes in Financial Assumptions | 26,433 | - |
| (2,362) | - | Other Experience | (7,493) | - |
| (8,680) | - | Total Pension Benefit Charged to Comprehensive Income & Expenditure Statement | 312 | - |
| | | Movement in Reserves Statement | | |
| (5,526) | 463 | Reversal of Net Charges Made to the Surplus/Deficit on Provision of Services for Pension Benefits | (5,496) | 451 |
| | | Actual Amount Charged Against the General Fund Balance for Pensions | | |
| 3,527 | - | Employers' Contributions Payable to Scheme | 3,727 | - |
| - | (463) | Retirement Benefits Payable to Pensioners | - | (451) |
| (1,999) | - | | (1,769) | - |

Pensions Assets and Liabilities Recognised in the Balance Sheet

| 2015/16 £000 | | 2016/17 £000 |
|-----------------|--|-----------------|
| (174,601) | Present Value of Defined Benefit Obligation | (195,644) |
| 106,173 | Fair value of Plan Assets | 123,935 |
| (68,428) | Net Liability Arising From Defined Benefit Obligation | (71,709) |

Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

| 2015/16 | | | 2016/17 | |
|-------------------------------|---------------------------------|--------------------------------------|-------------------------------|---------------------------------|
| Funded Liabilities £000 | Unfunded Liabilities £000 | | Funded Liabilities £000 | Unfunded Liabilities £000 |
| 186,221 | (3,165) | Opening Balance | 178,229 | (3,628) |
| 3,186 | - | Current Service Cost | 2,991 | - |
| 5,626 | - | Interest Cost | 5,882 | - |
| 726 | - | Contributions by Scheme Participants | 721 | - |
| (10,895) | - | Actuarial (Gains)/Losses | 18,167 | - |
| (6,668) | (463) | Benefits Paid | (6,436) | (451) |
| 33 | - | Past Service Costs/(Gains) | 169 | - |
| 178,229 | (3,628) | Closing Balance | 199,723 | (4,079) |

Local Government Pensions Scheme Assets comprised

| 2015/16 Fair Value of Scheme Assets | | | 2016/17 Fair Value of Scheme Assets | |
|---|------------------|----------------------------------|---|------------------|
| Quoted £000 | Unquoted £000 | | Quoted £000 | Unquoted £000 |
| | | Equities: | | |
| 7,566 | - | Consumer | 8,313 | - |
| 6,190 | - | Manufacturing | 7,167 | - |
| 2,421 | - | Energy & Utilities | 3,072 | - |
| 6,847 | - | Financial | 8,301 | - |
| 5,703 | - | Health & Care | 6,896 | - |
| 6,466 | - | Information Technology | 8,295 | - |
| 126 | - | Other | 123 | - |
| 35,319 | - | | 42,167 | - |
| | | Bonds | | |
| 5,343 | - | Corporate (Investment) | 9,204 | - |
| - | - | Corporate (Non-Investment Grade) | - | - |
| 5,343 | - | | 9,204 | - |
| | | Property | | |
| - | 9,425 | UK | - | 9,977 |
| - | 9,425 | | - | 9,977 |
| | | Investment funds | | |
| 36,087 | - | Equities | 41,367 | - |
| 5,422 | - | Bonds | 6,778 | - |
| - | 2,485 | Hedge Funds | - | 2,433 |
| - | 2,971 | Other | - | 1,849 |
| 41,509 | 5,456 | | 48,145 | 4,282 |
| - | 3,322 | Private Equity | - | 3,934 |
| 5,799 | - | Cash/Cash Equivalents | 6,226 | - |
| 87,970 | 18,203 | Total Assets | 105,742 | 18,193 |

Reconciliation of the Movements in the Fair Value of the Scheme Assets

| 2015/16 £000 | | 2016/17 £000 |
|-----------------|---------------------------------------|-----------------|
| 109,037 | Opening Value of Scheme Assets | 106,173 |
| | Remeasurement Gain/(Loss): | |
| 3,319 | Expected Rate of Return | 3,546 |
| (2,215) | Other | 17,855 |
| | Actuarial Gains/(Losses) | |
| 1,974 | Employer Contributions | 2,076 |
| 726 | Contributions by Scheme Participants | 721 |
| (6,668) | Benefits Paid | (6,436) |
| 106,173 | Closing Balance at 31 March | 123,935 |

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years, salary levels, etc. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Hymans Robertson, an independent firm of actuaries, estimates for the County Council Fund being based on the latest full valuation of the scheme as at 31 March 2016. The principal assumptions used by the actuary have been:

| 2015/16 | | | 2016/17 | |
|---------|----------|--|---------|----------|
| LGPS | Unfunded | | LGPS | Unfunded |
| 22.1 | | Longevity at 65 for current pensioners: | 22.1 | |
| 24.3 | | Men | 24.4 | |
| | | Women | | |
| 24.3 | | Longevity at 65 for future pensioners: | 24.1 | |
| 26.6 | | Men | 26.4 | |
| | | Women | | |
| 3.1% | 3.1% | Rate of Inflation | 3.4% | 3.4% |
| 4.1% | | Rate of Increase in Salaries | 2.8% | |
| 2.1% | 2.1% | Rate of Increase in Pensions | 2.4% | 2.4% |
| 3.4% | 3.4% | Rate for Discounting Scheme Liabilities | 2.5% | 3.4% |
| 50% | | Take up re Converting Annual Pension to Lump Sum | 50% | |

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analysis below is based on possible changes of the assumptions occurring and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme.

| | Impact on Defined Benefit Obligation £000 |
|--|--|
| 0.5% decrease in real discount rate | 16,408 |
| 0.5% increase in the salary increase rate | 2,706 |
| 0.5% increase in the pension increase rate | 13,432 |

Impact on the Council's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. Staffordshire County Council has agreed a strategy with the scheme's actuary to achieve a funding strategy to recoup the past deficit over the next 20 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed in 2018/19, to show the position as at 31 March 2019.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2018 is £3.384m. Expected contributions for the Discretionary Benefits scheme in the year to 31 March 2018 are £0.451m.

The weighted average duration of the defined benefit obligation for scheme members is 16.3 years.

4.5. Contingent Assets and Liabilities

The Council does not have any contingent assets. Contingent liabilities as at 31 March 2017 are:

(a) Municipal Mutual Insurance

In 1992/93 the Council's insurers, Municipal Mutual Insurance, ceased accepting new business. Under the Scheme of Arrangement that was established to ensure an orderly wind up of the company a levy could be made on the Council. The exact amount cannot be quantified at the current time, although the maximum is £721,000. A total of £193,824 has been set aside as a provision for these costs, of which £101,000 was paid to the administrator in 2014/15 and £67,829 was paid in 2016/17. This leaves a maximum contingent liability of £527,176.

(b) VAT

The computation of the Council's 2016/17 position in respect of exempt category Value Added Tax has yet to be agreed with Revenue and Customs. If the 5% allowance has been exceeded, up to £150,000 in VAT may become payable.

(c) Housing Stock Transfer Warranty

Liabilities in relation to a warranty given by the Council in respect of the transfer of its housing stock to a registered social landlord in February 2000 could arise. The amount of the potential liability cannot be quantified but could amount to several million pounds.

(d) Mandatory Relief from Business Rates – NHS Trusts

The Council has received requests for mandatory relief from NHS Trusts that if agreed would amount to a backdated refund of approximately £380,000. There is no certainty evident with the requests. A final adjudication would be required before the Council would make any kind of provision for this request.

4.6. Financial Instruments

4.6.1. Analysis and Values

Categories of Financial Instruments

The following categories of financial instruments are carried in the Balance Sheet (page 18):

| 31/03/2016 | | 31/03/2017 |
|-----------------|-------------------------------------|-----------------|
| Current £000 | | Current £000 |
| 7,549 | Investments (Loans and Receivables) | 3,460 |
| 9,897 | Debtors * | 8,545 |
| 59 | Borrowings | 70 |
| 5,495 | Creditors | 5,738 |
| 595 | Cash/Cash Equivalents | 376 |

Income, Expense, Gains and Losses

| 2015/16 | | | | 2016/17 | | |
|------------------------------|---------------------------|---------------|--|------------------------------|---------------------------|---------------|
| Expenses & Losses £000 | Income & Gains £000 | Total £000 | | Expenses & Losses £000 | Income & Gains £000 | Total £000 |
| 13 | - | 13 | Interest Expense Included in Provision of Services | 1 | - | 1 |
| 13 | - | 13 | Total Expense in Provision of Services | 1 | - | 1 |
| - | (256) | (256) | Interest Income | - | (115) | (115) |
| - | (256) | (256) | Total Income in Provision of Services | - | (115) | (115) |
| 13 | (256) | (243) | Net (Gain)/Loss for the Year | 1 | (115) | (114) |

Fair Values of Assets and Liabilities

Financial liabilities, financial assets represented by loans and receivables and long-term debtors and creditors are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value;
- No early repayment is recognised;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values are as follows:

| 31/03/2016 | | | 31/03/2017 | |
|-------------------------|--------------------|-----------------------|-------------------------|--------------------|
| Carrying Amount £000 | Fair Value £000 | | Carrying Amount £000 | Fair Value £000 |
| | | Liabilities | | |
| 59 | 59 | Financial Liabilities | 70 | 70 |
| 5,495 | 5,495 | Creditors | 5,738 | 5,738 |
| | | Assets | | |
| 7,549 | 7,549 | Loans & Receivables | 3,460 | 3,460 |
| 9,897 | 9,897 | Debtors * | 8,545 | 8,545 |
| 595 | 595 | Cash/Cash Equivalents | 376 | 376 |

* Debtors include Long Term Debtors of £0.545m (31/03/17) and £0.591m (31/03/16), relating to mortgagors and finance leases.

4.6.2. Nature and Extent of Risks Arising from Financial Instruments

The Council's activities expose it to a variety of financial risks:

- Credit risk - the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity risk - the possibility that the Council might not have funds available to meet its commitments to make payments;
- Market risk - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements.

The Council's overall risk management programme focuses on the unpredictability of financial markets and aims to minimise adverse effects on the resources available. Risk management is carried out under policies approved by the council in the annual treasury management strategy. The council provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash.

Credit Risk

Credit risks arise from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria.

The credit criteria in respect of financial assets held by the Council are as summarised below:

- Investment counterparties are assessed as to their suitability in relation to credit ratings supplied by the main ratings agencies, with the additional consideration of credit default swap data. A limit is placed on the amount which can in total be placed with individual counterparties and categories of counterparties;
- Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set where considered necessary. Credit references are obtained where contracts are entered into.

The Council's maximum exposure to credit risk in relation to its investments in banks and financial institutions of £0.043m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at the 31 March 2017 that this was likely to crystallise.

The following analysis summarises the Council's potential exposure to credit risk on other financial assets, based on historic experience of default and uncollectability adjusted to reflect current market conditions.

| | Amount at 31 March 2017 | Historic default | Historic default adjusted for market conditions | Estimated maximum exposure at 31 March 2017 | Estimated maximum exposure at 31 March 2016 |
|--|-------------------------------|---------------------|---|--|--|
| | £000 | % | % | £000 | £000 |
| | A | B | C | (A X C) | |
| Deposits with Banks/Financial Institutions | 3,460 | 0% | 1.25% | 43 | 94 |
| Customers (Trade Debtors) | 2,893 | - | 15% | 434 | 454 |
| | | | | 477 | 548 |

No credit limits were exceeded during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits.

The Council does not generally allow credit for customers, such that £2.135m of the £2.893m balance is past its due date for payment. The past due but not impaired amount can be analysed by age as follows:

| 31/03/2016 £000 | | 31/03/2017 £000 |
|--------------------|----------------|--------------------|
| 141 | 30 to 89 Days | 83 |
| 134 | 90 to 180 Days | 86 |
| 2,176 | Over 180 Days | 1,966 |
| 2,451 | | 2,135 |

Liquidity Risk

The Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the Council has access to borrowing from the money markets and the Public Works Loans Board. There is no significant risk that it will be unable to raise finance to meet its commitments. The maturity analysis of financial liabilities is as follows:

| 31/03/2016 £000 | | 31/03/2017 £000 |
|--------------------|--------------------|--------------------|
| 7,549 | Less Than One Year | 3,460 |
| 7,549 | | 3,460 |

Interest Rate Risk

The Council is exposed to risk in terms of its exposure to interest rate movements on its investments (no long term money market borrowing at present). Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates would increase interest income.

Changes in interest receivable on variable rate investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure. At 31 March 2017, if interest rates had been one per cent higher with all other variables held constant, the financial effect would be an increase of £0.109m.

Price Risk

The Council does not have any investment in equity shares, joint ventures or local industry. Consequently, it is not exposed to losses arising from movements in share prices.

Foreign Exchange Risk

The Council has no financial assets or a liability denominated in foreign currencies and has no exposure to loss arising from movements in exchange rates.

4.7. Leases

Council as Lessee

Finance Leases

As at 31 March 2017 the Council has no requirement to commit to making minimum payments under finance leases.

Operating Leases

The Council no longer has any items of vehicles and equipment acquired by entering into operating leases.

Council as Lessor

Finance Leases

The Council has leased out 5 properties on a finance lease basis, with terms remaining ranging from 15 to 75 years.

The Council has a gross investment in these leases, made up of the minimum lease payments expected to be received over the remaining term and the residual value anticipated for properties when the leases come to an end. The minimum lease payments comprise settlement of the long-term debtor for the interest in the properties acquired by the lessee and finance income that will be earned by the Council whilst the debtor remains outstanding. The gross investment is made up of:

| 31/03/2016 £000 | | 31/03/2017 £000 |
|--------------------|--|--------------------|
| | Finance Lease Debtor (Net Present Value of Minimum Lease Payments): | |
| 39 | Current | 17 |
| 155 | Non-current | 153 |
| 558 | Unearned Finance Income | 495 |
| 752 | Gross Investment in the Lease | 665 |

The gross investment in the lease and the minimum lease payments will be received over the following periods:

| 31/03/2016 | | | 31/03/2017 | |
|--------------------------------|-----------------------------------|---|--------------------------------|-----------------------------------|
| Minimum Lease Payments £000 | Finance Lease Liabilities £000 | | Minimum Lease Payments £000 | Finance Lease Liabilities £000 |
| 87 | 48 | Not Later Than One Year | 51 | 34 |
| 177 | 141 | Later Than One Year, Less Than Five Years | 168 | 122 |
| 488 | 368 | Later Than Five Years | 446 | 339 |
| 752 | 557 | | 665 | 495 |

Operating Leases

The Council leases out property and equipment under operating leases for the purposes of providing community services, such as sports facilities and community centres; to gain income from its investment properties; and for economic development purposes to provide accommodation for local businesses.

The future minimum lease payments receivable under non-cancellable leases in future years are:

| 31/03/2016 £000 | | 31/03/2017 £000 |
|--------------------|---|--------------------|
| 869 | Not Later Than One Year | 788 |
| 856 | Later Than One Year, Less Than Five Years | 646 |
| 1,392 | Later Than Five Years | 1,377 |
| 3,117 | | 2,811 |

4.8. Prior Period Restatements

Comprehensive Income and Expenditure Statement

Expenditure and income on services is classified in the Comprehensive Income and Expenditure Statement in accordance with the CIPFA Code of Local Authority Accounting in the UK. The Code requires that authorities present expenditure and income on services on the basis of its reportable segments per the Council's internal management reporting structure. The analysis does not include recharges between accounts, showing instead expenditure and income directly attributable to the headings. This is a change from the previous requirement to present expenditure and income in accordance with the Service Expenditure Code of Practice (SERCOP). The following table shows how the net expenditure and income has been restated:

| 2015/16 | Published Original £000 | Restated | | | | | | | Recharges | |
|--|----------------------------|-------------------------|------------------------------|-----------------------------|-----------------------------|-------------------|-----------------|--------------------|----------------------------|-----------------|
| | | Chief Executive £000 | Operational Services £000 | Regeneration & Dev. £000 | Resources & Support £000 | Corporate £000 | Other £000 | Total CIES £000 | Recharges Excluded £000 | Total £000 |
| Central Services | 2,515 | 736 | - | 21 | 526 | 121 | - | 1,404 | 1,111 | 2,515 |
| Cultural & Related | 7,152 | - | 4,775 | 399 | - | - | - | 5,174 | 1,978 | 7,152 |
| Environmental | 10,963 | 221 | 8,251 | 1,360 | - | - | - | 9,832 | 1,131 | 10,963 |
| Planning Services | 2,533 | - | 24 | 1,699 | - | - | - | 1,723 | 810 | 2,533 |
| Highways & Transport | 1,243 | - | 35 | 689 | - | - | - | 724 | 519 | 1,243 |
| Housing Services | 33,621 | 58 | - | 1,605 | 31,969 | - | - | 33,632 | (11) | 33,621 |
| Corporate | 2,246 | 899 | - | - | - | 58 | - | 957 | 1,289 | 2,246 |
| Non-Distributed Costs | 186 | - | - | - | - | 172 | - | 172 | 14 | 186 |
| Administration | - | 1,480 | - | 536 | 3,401 | 44 | - | 5,461 | (5,461) | - |
| Holding Accounts | - | 593 | 436 | 1,173 | 128 | 251 | - | 2,581 | (2,581) | - |
| Total Expenditure | 60,459 | 3,987 | 13,521 | 7,482 | 36,024 | 646 | - | 61,660 | (1,201) | 60,459 |
| Central Services | (1,413) | (490) | - | - | (923) | - | - | (1,413) | - | (1,413) |
| Cultural & Related | (2,736) | - | (2,472) | (267) | - | - | - | (2,739) | 3 | (2,736) |
| Environmental | (3,898) | (94) | (3,212) | (595) | - | - | - | (3,901) | 3 | (3,898) |
| Planning Services | (772) | - | - | (772) | - | - | - | (772) | - | (772) |
| Highways & Transport | (1,352) | - | (137) | (1,215) | - | - | - | (1,352) | - | (1,352) |
| Housing Services | (32,561) | - | - | (1,106) | (31,455) | - | - | (32,561) | - | (32,561) |
| Corporate | (267) | (267) | - | - | - | - | - | (267) | - | (267) |
| Non-Distributed Costs | - | - | - | - | - | - | - | - | - | - |
| Administration | - | (91) | (15) | (2) | (71) | (8) | - | (187) | 187 | - |
| Holding Accounts | - | (17) | (174) | (232) | (12) | (172) | - | (607) | 607 | - |
| Total Income | (42,999) | (959) | (6,010) | (4,189) | (32,461) | (180) | - | (43,799) | 800 | (42,999) |
| Other Operating Expenditure | (81) | | | | | | (81) | (81) | | (81) |
| Financing & Investment Income/Expenditure | 235 | | | | | | (166) | (166) | 401 | 235 |
| Taxation & Non-Specific Grant Income | (15,106) | | | | | | (15,106) | (15,106) | | (15,106) |
| (Surplus)/Deficit on Provision of Services | | | | | | | | | | |
| (Surplus)/Deficit on Revaluations | (253) | | | | | | (253) | (253) | | (253) |
| Remeasurement of the Defined Benefit Liability | (8,680) | | | | | | (8,680) | (8,680) | | (8,680) |
| Total | (6,425) | 3,028 | 7,511 | 3,293 | 3,563 | 466 | (24,286) | (6,425) | - | (6,425) |

Movement in Reserves Statement

The CIPFA Code of Local Authority Accounting requires the General Fund Balance to be presented. Previously Earmarked General fund Reserves have been separately presented. As a consequence of this change, it is necessary to restate the figure for “adjustments between accounting and funding basis” in order that transfers between reserves in relation to capital expenditure funded from revenue (£0.217m) are accounted for correctly. This also affects the Unusable Reserves column of the statement. The 2015/16 Movement in Reserves has been restated for these changes, as shown in the table below:

| | Published Original | | | Restated | |
|---|----------------------|---------------------------------|-------------------|----------------------|-------------------|
| | General Fund Balance | Earmarked General Fund Reserves | Unusable Reserves | General Fund Balance | Unusable Reserves |
| 2015/16 | £000 | £000 | £000 | £000 | £000 |
| Balance at 31 March 2015 B/Fwd | (1,200) | (3,084) | 18,099 | (4,284) | 18,099 |
| Movement in reserves 2015/16 | | | | | |
| Surplus/(Deficit) on Provision of Services | 2,508 | - | - | - | - |
| Other Comprehensive Income & Expenditure | - | - | (8,933) | - | - |
| Total Comprehensive Income and Expenditure | - | - | - | 2,508 | (8,933) |
| Adjustments between Accounting and Funding Basis | (1,948) | - | 2,190 | (1,731) | 1,973 |
| Net Increase/Decrease Before Transfers to earmarked Reserves | 560 | - | (6,743) | - | - |
| Transfers to/from Earmarked Reserves | (560) | 777 | (217) | - | - |
| Increase/Decrease in Year | - | 777 | (6,960) | 777 | (6,960) |
| Balance at 31 March 2016 C/Fwd | (1,200) | (2,307) | 11,139 | (3,507) | 11,139 |

Collection Fund

The Collection Fund reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the government of council tax and non-domestic rates.

| 2015/16 Council Tax £'000 | 2015/16 Business Rates £'000 | 2015/16 Total £'000 | | 2016/17 Council Tax £'000 | 2016/17 Business Rates £'000 | 2016/17 Total £'000 |
|------------------------------------|---------------------------------------|---------------------------|--|------------------------------------|---------------------------------------|---------------------------|
| (53,488) | - | (53,488) | Income | (55,571) | | (55,571) |
| - | (33,588) | (33,588) | Council Tax Payers | | (34,678) | (34,678) |
| | | | Business Rates Payers | | | |
| | | | Transfer of Previous Years Deficit | | | |
| - | (800) | (800) | - Newcastle-under-Lyme Borough Council | - | (276) | (276) |
| - | (180) | (180) | - Staffordshire County Council | - | (62) | (62) |
| - | - | - | - Office of Police & Crime Commissioner | - | - | - |
| - | (20) | (20) | - Staffordshire Fire and Rescue Authority | - | (7) | (7) |
| - | (1,000) | (1,000) | - Central Government | - | (345) | (345) |
| (53,488) | (35,588) | (89,076) | Total Income | (55,571) | (35,368) | (90,939) |
| | | | Expenditure | | | |
| | | | Council Tax Precepts | | | |
| 6,541 | - | 6,541 | - Newcastle-under-Lyme Borough Council | 6,906 | - | 6,906 |
| 36,907 | - | 36,907 | - Staffordshire County Council | 39,276 | - | 39,276 |
| 6,259 | - | 6,259 | - Office of Police & Crime Commissioner | 6,408 | - | 6,408 |
| 2,430 | - | 2,430 | - Staffordshire Fire and Rescue Authority | 2,537 | - | 2,537 |
| | | | Business Rates Apportionment | | | |
| - | 13,144 | 13,144 | - Newcastle-under-Lyme Borough Council | - | 13,571 | 13,571 |
| - | 2,958 | 2,958 | - Staffordshire County Council | - | 3,054 | 3,054 |
| - | 328 | 328 | - Staffordshire Fire and Rescue Authority | - | 339 | 339 |
| - | 16,430 | 16,430 | - Central Government | - | 16,964 | 16,964 |
| | | | Other Expenditure | | | |
| - | 141 | 141 | Cost of Collection | - | 139 | 139 |
| - | (230) | (230) | Transitional Protection | - | 373 | 373 |
| 202 | 359 | 561 | Provision for Bad Debts | 255 | 448 | 703 |
| - | 1,067 | 1,067 | Provision for Appeals | - | (120) | (120) |
| | | | Transfer of Previous Years Surplus | | | |
| 140 | - | 140 | - Newcastle-under-Lyme Borough Council | 116 | - | 116 |
| 809 | - | 809 | - Staffordshire County Council | 690 | - | 690 |
| 140 | - | 140 | - Office of Police & Crime Commissioner | 117 | - | 117 |
| 54 | - | 54 | - Staffordshire Fire and Rescue Authority | 45 | - | 45 |
| 53,482 | 34,197 | 87,679 | Total Expenditure | 56,350 | 34,768 | 91,118 |
| (6) | (1,391) | (1,397) | Deficit/(Surplus) for the Year | 779 | (600) | 179 |
| (1,137) | 2,122 | 985 | Balance Brought Forward at 1 April | (1,143) | 731 | (412) |
| (6) | (1,391) | (1,397) | Deficit/(Surplus) for the year | 779 | (600) | 179 |
| (1,143) | 731 | (412) | Balance Carried Forward at 31 March | (364) | 131 | (233) |
| | | | Allocation of Collection Fund Balance | | | |
| (144) | 292 | 148 | - Newcastle-under-Lyme Borough Council | (46) | 52 | 6 |
| (809) | 66 | (743) | - Staffordshire County Council | (259) | 12 | (247) |
| (53) | 7 | (46) | - Staffordshire Fire and Rescue Authority | (42) | 1 | (41) |
| - | 366 | 366 | - Central Government | - | 66 | 66 |
| (137) | - | (137) | - Office of Police & Crime Commissioner | (17) | - | (17) |
| (1,143) | 731 | (412) | | (364) | 131 | (233) |

Notes

1. Business Rates

The Council collects business rates in its area based on non-domestic rateable values (£86.944m at 31 March 2017 and £86.369m at 31 March 2016) multiplied by a uniform business rate. The rate is specified by the Government, in 2016/17 the rate was 49.7p, with a reduction for "small businesses" to 48.4p on application (49.3p in 2015/16 - "small business" reduction, 48.0p).

In 2013/14, the administration of business rates changed following the introduction of a business rates retention scheme which aims to give Councils a greater incentive to grow businesses but also increases the financial risk due to volatility in appeals and non-collection of rates. Instead of paying business rates to a central pool, local authorities retain a proportion of the total collectable rates due. In the case of Newcastle-under-Lyme the local share is 40%. The remainder is distributed to preceptors, these are Central Government (50%), Staffordshire County Council (9%) and Stoke-on-Trent and Staffordshire Fire Authority (1%).

The business rates shares payable for 2016/17 were estimated, via the NNDR1 return, before the start of the financial year as £16.964m to Central Government, £3.054m to Staffordshire County Council, £0.339m to Stoke-on-Trent and Staffordshire Fire and Rescue Authority and £13.571m to Newcastle-under-Lyme Borough Council.

The total of these sums (£33.928m) has been paid in 2016/17 and charged to the collection fund in year.

The actual business rates payable for 2016/17, as per the NNDR3 return, when taking into account the cost of collection, provisions for appeals and bad debts and transitional protection was calculated to be £33.837m.

The variance between the estimated business rates shared between Central Government, Staffordshire County Council, Stoke-on-Trent and Staffordshire Fire and Rescue Authority and Newcastle-under-Lyme Borough Council as per the NNDR1 return (£33.928m) and the actual business rates payable per the NNDR3 return (£33.837m) is £0.091m - a deficit to the collection fund for 2016/17.

In addition to the business rates shares payable for 2016/17, the estimated 2015/16 deficit declared in January 2016 regarding business rates of £0.691m was repaid into the collection fund by Central Government, Staffordshire County Council and Stoke-on-Trent and Staffordshire Fire and Rescue Authority.

The actual 2015/16 deficit was calculated to be £0.731m, therefore there was a shortfall of £0.040m in the collection of this deficit in 2016/17 which will need to be recouped, along with the estimated 2016/17 deficit declared in January 2017, from Central Government, Staffordshire County Council and Stoke-on-Trent and Staffordshire Fire and Rescue Authority during 2017/18.

Taking into account the remaining 2015/16 deficit and the 2016/17 deficit, the business rates collection fund has a deficit of £0.131m as at 31 March 2017.

When the scheme was introduced, Central Government set a baseline level for each authority identifying the expected level of retained business rates and a top up or tariff amount to ensure that all authorities receive their baseline amount. Tariffs due from authorities payable to Central Government are used to finance the top ups to those authorities who do not achieve their targeted baseline funding. In this respect Newcastle-under-Lyme Borough Council paid a tariff in 2015/16 to the value of £9.587m.

2. Council Tax

Council Tax Income is derived from charges raised, in eight valuation bands, according to the value of residential properties. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by Staffordshire County Council, Office of the Police and Crime Commissioner Staffordshire, Stoke-on-Trent and Staffordshire Fire and Rescue Authority and Newcastle-under-Lyme Borough Council for the forthcoming year and dividing this by the council tax base. The average Band D tax in 2016/17 of £1,517.04 compared with £1,470.78 in 2015/16.

Multiplication of this amount by the proportions set out in the Council Tax Base table below gives the amount due for a property in each band.

The Council Tax base for 2016/17 was 36,078 (35,242 in 2015/16), this was derived as follows:

| Band & Value Range | Number of Dwellings | After Discounts & Exemptions | Ratio to Band D | Band D Equivalents |
|---------------------------------|---------------------|------------------------------|-----------------|--------------------|
| Band A- | - | 51 | 5/9 | 28.36 |
| Band A (Up to £40,000) | 23,846 | 15,935 | 6/9 | 10,623.60 |
| Band B (£40,001 - £52,000) | 10,307 | 8,418 | 7/9 | 6,546.94 |
| Band C (£52,001 - £ 68,000) | 11,173 | 9,691 | 8/9 | 8,614.02 |
| Band D (£68,001 - £88,000) | 4,926 | 4,456 | 9/9 | 4,455.98 |
| Band E (£88,001 - £120,000) | 2,701 | 2,474 | 11/9 | 3,023.26 |
| Band F (£120,001 - £160,000) | 1,717 | 1,573 | 13/9 | 2,272.08 |
| Band G (£160,001 - £320,000) | 912 | 837 | 15/9 | 1,395.80 |
| Band H (Over £320,000) | 46 | 22 | 18/9 | 43.50 |
| | | | | 37,004 |
| Less non collection rate (2.5%) | | | | (925) |
| Borough Council Tax Base | | | | 36,078 |

In addition to the Council Tax payable for 2016/17, the estimated 2015/16 surplus declared in January 2016 regarding Council Tax of £0.968m was repaid to the preceptors (Staffordshire County Council, Office of the Police and Crime Commissioner Staffordshire, Stoke-on-Trent and Staffordshire Fire Authority and Newcastle-under-Lyme Borough Council).

The actual 2015/16 surplus was calculated to be £1.143m, therefore there was a balance of £0.174m on the payment of this surplus in 2015/16 which will need to be paid during 2017/18 to the preceptors.

Taking into account the remaining 2015/16 surplus, the surplus declared to the preceptors for 2016/17 in January 2017 was £0.365m. The actual balance of the Council Tax collection fund as at 31 March 2017 is £0.364m.

Audit Certificate

Independent Auditors Report to the Members of Newcastle under Lyme Borough Council

To be provided by Grant Thornton.

Appendices

Appendix 1 – Accounting Policies, Standards, Judgements, Assumptions and Adjustments

Accounting Policies

i. General Principles

The Statement of Accounts summarises the Council's transactions for the 2016/17 financial year and its position at the year-end of 31 March 2017. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which is required to be prepared in accordance with accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and the Service Reporting Code of Practice 2016/17, published by the Chartered Institute of Public Finance and Accountancy (CIPFA), supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

ii. Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the risks and rewards of ownership to the purchaser and it is probable that economic benefits associated with the transaction will flow to the Council;
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits associated with the transaction will flow to the Council;
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and used, they are carried as inventories on the Balance Sheet;
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate rather than the cash flows fixed or determined by the contract;
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

iii. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with the Council's own bank which are repayable without penalty on notice of not more than 24 hours. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand.

iv. Exceptional Items

When items of income and expenditure are material to understanding the Council's financial performance, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts.

v. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise from changes in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are made when required by accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

vi. Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- Depreciation attributable to the assets used by the relevant service;
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off;
- Amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. These are therefore reversed out by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement.

vii. Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include benefits such as wages and salaries, annual leave and sick leave and non-monetary benefits for current employees that are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements or other form of leave, e.g. time off in lieu earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy, and are charged on an accruals basis to the appropriate service at the earlier of when the Council can no longer withdraw the offer of those benefits or costs for a restructuring are recognised.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post Employment Benefits

Employees of the Council (unless they chose to opt out) are members of the Local Government Pensions Scheme, administered by Staffordshire County Council. The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees working for the Council.

- The Local Government Scheme is accounted for as a defined benefits scheme:
- The liabilities of the Staffordshire Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and forecasts of projected earnings for current employees;
- Liabilities are discounted to their value at current prices, using a discount rate of 2.5% (3.4% for the unfunded scheme). IAS19 states that the discount rate used to place a value on the liabilities should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The calculation of the discount rate uses data intended to match to the duration of the pension liabilities of a typical employer together with the use of a weighted average duration to tailor the rate used to an individual employers liability duration profile. The data referred to is the government bond yield curve, which is readily available, and a corporate bond yield curve, constructed by the pension fund actuary based on the constituents of the iBoxx AA Corporate Bond index.
- The assets of Staffordshire Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:
 - Quoted securities – current bid price;
 - Unquoted securities – professional estimate;
 - Unitised securities – current bid price;
 - Property – market value.
- The change in the net pensions liability is analysed into the following components:
 - Current service cost – the increase in liabilities as a result of years of service earned this year - allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
 - Past service cost - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
 - Net interest on the net defined benefit liability/asset, i.e. net interest expense for the Council - the change during the period in the net defined benefit liability/asset that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability/asset at the beginning of the period, taking into account any changes in the net defined benefit liability/asset during the period as a result of contribution and benefit payments;
- The return on plan assets, excluding amounts included in net interest on the net defined benefit liability/asset, charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;
- Actuarial gains and losses - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions - charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;
- Contributions paid to the Staffordshire Pension Fund - cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

viii. Events After the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events;
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

ix. Financial Instruments

Financial Instruments are defined as: any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. Typical financial instruments are: Liabilities - trade payables, borrowings, financial guarantees; Assets - bank deposits, trade receivables, investments; derivatives, such as forward investment deals.

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Financial Assets

Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market;
- Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Short Term Investments

Short term investments include:

- Deposits with financial institutions repayable without penalty on notice of not more than 24 hours (except for such deposits held in the Council's own bank accounts);
- Investments that mature in less than twelve months from the date of acquisition.

Available-for-Sale Assets

The Council has no available for sale assets.

Instruments Entered Into Before 1 April 2006

The Council has entered into a financial guarantee that is not required to be accounted for as a financial instrument. This guarantee is reflected in the Statement of Accounts to the extent that a contingent liability note, note 4.5, (pages 45 to 46) is needed under the policies set out in the section on Provisions, Contingent Liabilities and Contingent Assets.

x. Foreign Currency Translation

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

xi. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- The Council will comply with the conditions attached to the payments;
- The grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

xii. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

xiii. Heritage Assets

The Council's Heritage Assets are either held in its Museum or consist of outdoor structures of various kinds. All of these assets are tangible. The Museum's collection of heritage assets are described in note 3.3.3 (page 33) to the accounts. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Authority's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below:

Museum Collection

These items are reported in the Balance Sheet at insurance valuation, which is based on market values as assessed by an external valuer in October 2006. These valuations are updated where necessary by the museum curator in respect of significant items and changes. New items are added at cost, if purchased and at valuation, if donated, where they are significant. It is considered that obtaining a complete revaluation each year for all items would involve a disproportionate cost in comparison to the benefits to the users of the Council's financial statements. No depreciation is charged since the items in the collection are deemed to have indeterminate lives.

Outdoor Structures

There is no reliable cost or valuation information available to enable these items to be valued. Consequently, they are not recognised on the Balance Sheet.

General

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Authority's general policies on impairment (see note 'xviii', page 64).

Heritage assets may occasionally be disposed of which have a doubtful provenance or are unsuitable for public display. The proceeds of such items are accounted for in accordance with the Authority's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts (see note 'xviii').

xiv. Inventories

Inventories are included in the Balance Sheet at the lower of cost and net realisable value.

xv. Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated, however their values are considered each year according to market conditions at the year-end (i.e. if any properties or classes of properties, following consideration are thought likely to be subject to a valuation change, they are revalued). In any case every property is revalued once every five years according to a rolling programme of revaluations. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

xvi. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset.

Lease payments are apportioned between a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability; and, a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General

Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- A charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received);
- Finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

Regulations were issued when IFRS was implemented that permit amounts receivable under leases (if they were in existence on or before 31 March 2010) that changed from operating leases to finance leases as a result of changes to proper practices to be treated as if the status of the lease had not changed. This means that amounts receivable under operating leases that became finance leases on transition to IFRS can continue to be credited to the General Fund balance as revenue income. Such leases will be accounted for in accordance with the current provisions of the Code, with any adjustments to the General Fund balance being made by way of an adjusting transaction with the Capital Adjustment Account in the Movement of Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

xvii. Overheads and Support Services

The costs of overheads and support services are charged to service segments in accordance with the authority's arrangements for accountability and financial performance.

xviii. Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. No de-minimis level, below which expenditure is not capitalised, applies. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- The purchase;
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management;
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in a Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure, community assets and assets under construction – depreciated historical cost. Where the historical cost is unknown, a nominal value of £1 is attributed to the asset concerned;
- All other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value. Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Assets within each asset class are revalued together to ensure consistency of valuation within class. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

Where decreases in value are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Revaluation gains or losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. They are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Impairment losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- Dwellings and other buildings - straight-line allocation over the useful life of the property as estimated by the valuer;
- Vehicles, plant, furniture and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer;
- Infrastructure - straight-line allocation over estimated life of asset.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Depreciation is not permitted by statutory arrangements to have an impact on the General Fund Balance. It is therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell. Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. These are required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

xix. Provisions, Contingent Liabilities and Contingent Assets

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable

that an outflow of resources will be required or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet but are disclosed in note 4.5 to the accounts (pages 45 to 46).

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent assets are not recognised in the Balance Sheet but are disclosed in note 4.5 to the accounts (pages 45 to 46) where it is probable that there will be an inflow of economic benefits or service potential.

xx. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then transferred back into the General Fund Balance so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets and retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

xxi. Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure (less any grant or contribution received towards it) from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

xxii. VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

xxiii. Council Tax

The collection of Council Tax is, in substance, an agency arrangement, whereby the Borough Council as the Billing Authority collects the amounts of tax due, on behalf of itself and the major precepting authorities (Staffordshire County Council; Office of the Police and Crime Commissioner Staffordshire; Staffordshire Fire Authority) and pays over to the precepting authorities the amounts of their precept demands. Each of these bodies includes in their Comprehensive Income and Expenditure Statement their proportion of accrued council tax income for the year. The cash collected belongs proportionately to the Borough Council and the preceptors. There is, therefore, a debtor/creditor relationship between the billing authority and each major precepting authority recognised in their respective balance sheets. The Borough Council only recognises in its balance sheet its own share of any outstanding council tax arrears, receipts in advance and receivables impairment allowance.

The difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Council Tax Collection Fund Adjustment Account and included in the Movement in Reserves Statement.

xxiv. National Non Domestic Rates (NNDR)

The collection of National Non Domestic Rates is, in substance, an agency arrangement, whereby the Borough Council as the Billing Authority collects the amounts of tax due, on behalf of itself, Central Government, Staffordshire County Council and the Staffordshire Fire Authority and pays over to these bodies their share of the amounts collected. Each of these bodies includes in their Comprehensive Income and Expenditure Statement their proportion of accrued NNDR income for the year. The cash collected belongs proportionately to the Borough Council and these other bodies. There is, therefore, a debtor/creditor relationship between the billing authority and each of them which will be recognised in their respective

balance sheets. The Borough Council only recognises in its balance sheet its own share of any outstanding NNDR arrears, receipts in advance and receivables impairment allowance.

The difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the NNDR Collection Fund Adjustment Account and included in the Movement in Reserves Statement.

The Borough Council is a member of the Stoke on Trent and Staffordshire Business Rates Pool into which the amount which would have otherwise been payable as a levy to central government is paid.

xxv. Fair Value Measurement

Some non-financial assets such as surplus assets and investment properties are measured at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market. Measurement uses the assumptions that market participants would use when pricing an asset or liability, assuming they are acting in their best economic interest and takes account of their ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. Valuation techniques appropriate in the circumstances are used, and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy as follows:

Level 1 - quoted prices in active markets for identical assets or liabilities that can be accessed at the measurement date;

Level 2 - inputs other than quoted prices that are observable for the asset, either directly or indirectly;

Level 3 - unobservable inputs for the asset or liability.

Accounting Standards That Have Been Issued but Have Not Yet Been Adopted

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. There are no changes which are expected to impact upon the 2017/18 Statement of Accounts.

Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- Identifying whether leases of assets are operating or finance leases;
- Whether contractual arrangements have the substance of a lease;
- Whether land and buildings owned by the Council are investment properties;
- Whether the Council's exposure to possible losses is to be accounted for as a provision or a contingent liability.

Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The significant items in the Council's Balance Sheet at 31 March 2017 for which there is a risk of material adjustment in the forthcoming financial year are as follows:

- The recoverable amounts in relation to debtors;
- Principal actuarial assumptions used at the balance sheet date in respect of the defined benefit pension scheme;
- Fair values for property plant and equipment that are not based on recently observed market prices;
- Fair values for financial assets that are not based on recently observed market prices.
- The business rates retention scheme came into effect on 1 April 2013. The accounts include a provision for the estimated costs of appeals that have been lodged with the valuation office. This is a complex calculation based on past success levels. As at 31 March 2017 the Council's share of the estimated appeals against business rates is £0.725m.

Events After the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Executive Director (Resources and Support Services) on 25th May 2017. Events taking place after this date are not reflected in the financial statements or notes. There were no material events taking place before this date about conditions existing at 31 March 2017 which required the amendment of figures in the financial statements or notes to the financial statements.

Appendix 2 – Supplementary Accounts

Building Control Account

The Building (Local Authority Charges) Regulations 2010 require the disclosure of information regarding the setting of charges for the administration of the building control function, however, certain activities performed by the Building Control Division cannot be charged for, such as providing general advice and carrying out enforcement.

The statement below combines the building control accounts for Stoke-on-Trent City Council and Newcastle Borough Council (The North Staffordshire Building Control Partnership) and shows the total cost of providing the service divided between chargeable and non-chargeable activities.

| | Total | Fee Earning | Non-charging |
|-----------------------------|--------------|-------------|--------------|
| | £000 | £000 | £000 |
| Employees | 502 | 318 | 184 |
| Premises | 16 | 10 | 6 |
| Transport | 12 | 8 | 4 |
| Supplies & Services | 6 | 4 | 2 |
| Central Support | 93 | 58 | 35 |
| Structural Engineers | 21 | 21 | - |
| Total Expenditure | 650 | 419 | 231 |
| Building Regulation Charges | 375 | 375 | - |
| Miscellaneous Income | 2 | 2 | - |
| Total Income | 377 | 377 | - |
| Surplus/ (Deficit) | (273) | (42) | (231) |

Trusts and Other Similar Funds

The following statement summarises the balances and movements during the year of the various Funds for which the Council assumes a supervisory role. Balances relating to these Funds are not included in the Consolidated Balance Sheet and their transactions are not included in the Consolidated Revenue Account.

| | Balance 01/04/2016 £000 | Expend. £000 | Income £000 | Balance 31/03/2017 £000 |
|--|-------------------------------|-----------------|----------------|-------------------------------|
| Newcastle Almshouses Trust (Accom. For Poor) | 36 | 8 | 16 | 44 |
| Sports Advisory Council (Assistance to Sport) | 17 | 16 | 19 | 20 |
| Museum Purchase Fund (Purchase of Exhibits) | 6 | - | - | 6 |
| | Balance 01/10/2015 £000 | Expend. £000 | Income £000 | Balance 30/09/2016 £000 |
| United Charities Eliza Hinds Charity (Grave Maintenance) | 3 | - | 3 | 6 |
| United Charities Relief in Need (Gifts - Elderly) | 31 | 2 | 5 | 34 |
| United Charities Relief in Sickness (Gifts - Elderly) | 75 | 4 | 11 | 82 |
| | 168 | 30 | 54 | 192 |

The United Charities financial year ends at 30 September each year. The balances brought forward in relation to these charities are those at 30 September 2015 and the carried forward balances are those for 30 September 2016.

Business Improvement District

The Council provides services as an agent to the Newcastle-under-Lyme Business Improvement District. The Council collected income of £0.318m on behalf of the Business Improvement District during the financial year 2016/17, this amount was accordingly paid to the Business Improvement District.

Appendix 3 – Annual Governance Statement 2016/17

To be provided by Head of Audit and Elections.

Appendix 4 – Glossary of Terms

To assist readers of the Statement of Accounts to understand its contents the following definitions are provided of terms used in the text.

Accounting Policies

Accounting policies are the principles, bases, conventions, rules and practices applied by the Council that specify how the effects of transactions and other events are to be reflected in its financial statements through recognising, selecting measurement bases for and presenting assets, liabilities, gains, losses, and changes to reserves.

Accruals

The concept that items of income and expenditure are recognised as they are earned or incurred, not as money is received or paid.

Actuarial Gains and Losses

For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because:

- Events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses);
- The actuarial assumptions have changed.

Amortisation

An annual charge to a revenue account to reduce the value of an asset to zero over a period of years.

Assets Register

A register of the Council's fixed assets which records their essential details, including their description and location, valuation, basis of valuation, life and service chargeable for their use.

Balance Sheet

This shows a summary of the overall financial position of the Council at the end of the financial year.

Business Improvement District (BID)

A BID is a defined area within which businesses are required to pay an additional business rates levy (a business rates supplement) in order to fund projects within the BID's boundaries. A completely separate body from the Council is responsible for operating the BID scheme. The BID is often funded primarily through the levy but can also draw on other public and private funding streams. The Council as billing authority collects the supplement and pays it over to the BID body, whose income it is, charging the body for the costs of collection.

Capital Expenditure

Expenditure on the acquisition of fixed assets or expenditure, which adds to and does not merely maintain existing assets.

Capital Grants Receipts in Advance Account

An account which holds the balances of capital grants received where conditions apply and have not been satisfied meaning that the grants are not yet available for use to finance expenditure.

Capital Grants Unapplied Account

A usable reserve holding the balances of capital grants received or due to the Council at the year end where conditions do not apply to those grants or conditions have been satisfied meaning that the grant is available for use to finance expenditure.

Capital Receipts

Income received from the sale of capital assets which may be used to finance new capital expenditure.

CIPFA

The Chartered Institute of Public Finance and Accountancy (CIPFA) is one of the leading accountancy bodies in the United Kingdom and specialises in public services.

Collection Fund

A fund accounting for Council Tax and Non-Domestic Rates received by the Council and the payments which are made from the fund including precepts to other authorities, the Council's own demand and shares of business rates receipts.

Community Assets

Assets which the Council intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.

Consistency

The concept that the accounting treatment of like items within an accounting period and from one period to the next is the same.

Contingent Asset

A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the local authority's control.

Contingent Liability

A contingent liability is either: -

- A possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the authority's control;
- A present obligation arising from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

Creditors

Amounts owed by the Council for goods and services, where payments have not been made at the end of the financial year.

Current Service Cost

The increase in the present value of a defined benefit pension scheme's liabilities expected to arise from employee service in the current period.

Curtailment

For a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include termination of employees' services earlier than expected, for example as a result of discontinuing a segment of the business and termination of, or amendment to the terms of, a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify only for reduced benefits.

Debtors

Amounts owed to the Council for goods and services, where the income has not been received at the end of the financial year.

Deferred Liabilities

These are liabilities which by arrangement are payable beyond the next year at some point in the future or are paid off by an annual sum over a period of time, specifically for this Council amounts outstanding in respect of finance leases.

Defined Benefit Pension Scheme

A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

Depreciation

The measure of the cost or revalued amount of the benefits of the fixed asset that have been consumed during the period. Consumption includes wearing out, using up or other reduction in the useful life of a fixed asset whether arising from use, the passing of time or obsolescence through either changes in technology or demand for the goods and services produced by the asset.

Discretionary Benefits

Retirement benefits which the employer has no legal, contractual or constructive obligation to award and are awarded under the authority's discretionary powers, such as The Local Government (Discretionary Payments) Regulations 1996.

Expected Rate of Return on Pension Assets

For a funded defined benefit pension scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

Experience Gains and Losses

See Actuarial Gains and Losses

Fair Value

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market.

Fair Value Hierarchy

A three level classification of techniques used in order to measure the fair value of financial assets and liabilities. The highest level (Level 1) uses quoted prices in active markets for identical assets or liabilities that can be accessed at the measurement date, Level two uses inputs other than quoted prices that are observable for the asset, either directly or indirectly and Level 3 uses unobservable inputs for the asset or liability. Techniques employed should aim to maximise the use of observable inputs and minimise the use of unobservable inputs.

Financial Instrument

A Financial Instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. Typical financial instruments are: Liabilities - trade payables, borrowings, financial guarantees; Assets - bank deposits, trade receivables, investments; Derivatives - forward investment deals.

Financial Reporting Standards (FRSs)

Statements prepared by the Accounting Standards Committee. Many of the Financial Reporting Standards (FRSs) and the earlier Statements of Standard Accounting Practice (SSAPs) apply to local authorities and any departure from these must be disclosed in the published accounts.

Financial Year

The period of time to which the Statement of Accounts relates. The financial year of the Council runs from 1 April to 31 March.

Fixed Assets

Tangible assets that yield benefits to the local authority and the services it provides for a period of more than one year.

The classes of fixed assets required to be included in the accounting statements are:

Operational assets

- Other land and buildings (excluding Council Dwellings);
- Vehicles, plant, furniture and equipment;
- Infrastructure assets;
- Community assets.

Non operational assets

- Investment Properties;
- Assets Held for Sale.

Assets under construction are not shown separately. They are included in the balance relating to the category of operational asset where they will be included when completed.

Formula Grant

A Formula Grant is paid by central government to local authorities. Formula Grant is largely funded by local business rates income (which is ultimately collected for central government). Revenue Support Grant and business rates are added together to make up the Formula Grant, which is then distributed to local authorities using a complex formula.

General Fund Revenue Account

This account records the expenditure and income incurred by the Council in operating its services during the year. It does not record any capital expenditure or income but does include the costs associated with capital expenditure in the form of capital financing costs (mostly related to interest, capital charges for the use of assets by services and depreciation charges).

Government Grants

Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfer of assets to an authority in return for past or future compliance with certain conditions relating to the activities of the authority.

Heritage Assets

Tangible assets with historical, artistic, scientific, technological, geophysical or environmental qualities which are held and maintained primarily for their contribution to knowledge and culture.

Historical Cost

Actual cost of acquiring or constructing an asset.

iBoxx

iBoxx bond market indices are benchmarks for professional use and comprise liquid investment grade bond issues. They enable investors to analyse and select benchmarks that reflect their investment profile

Impairment

A reduction in the value of a fixed asset below its carrying amount on the balance sheet.

Infrastructure Assets

Fixed assets that are not able to be taken away, expenditure on which is recoverable only by continued use of the asset created. Examples of infrastructure are highways and sewers.

Interest Cost

For a defined benefit pension scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

Insurance Value

The value placed upon an asset for insurance purposes.

Intangible Assets

Non-financial fixed assets that do not have physical substance but are identifiable and are controlled by the Council through custody or legal rights. Specifically purchased software licenses are included in this category of asset.

Inventories

The amount of unused or unconsumed stocks held in expectation of future use. When use will not arise until a later period, it is appropriate to carry forward the amount to be matched to the use or consumption when it arises. Inventories comprise the following categories:

- Goods or other assets purchased for resale;
- Consumable stores;
- Raw materials and components purchased for incorporation into products for sale;
- Products and services in intermediate stages of completion;
- Long-term contract balances;
- Finished goods.

Investments

A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the authority. Investments should be classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment. Investments which do not meet the above criteria should be qualified as current assets.

Investment Properties

Interest in land and/or buildings:

- In respect of which construction work and development have been completed;
- Which is held for its investment potential, any rental income being negotiated at arm's length; and
- Which do not support the service or strategic objectives of the Council.

Leasing

Method of financing the provision of capital assets which does not provide for the title to the asset to pass to the authority. In return for the use of the asset the Council pays rental charges over a specified period of time. There are two basic types of leasing arrangement:

- Finance leases which transfer the risks and rewards of ownership of an asset to the lessee (the Council) and such assets are included within the fixed assets in the Balance Sheet;
- Operating leases where the ownership of the asset remains with the lessor and annual rental is charged direct to the revenue account.

Liquid Resources

Current asset investments that are readily disposable by the authority without disrupting its business and are either readily convertible to known amounts of cash at or close to the carrying amount or are traded in an active market.

Long Term Debtors

Comprises amounts which are owed to the Council which are not investments and which are not expected to be realised within the next financial year. The main items included in this heading are outstanding loans from the Council to other bodies and outstanding amounts in respect of finance leases of Council properties to other bodies.

Material Items

An item is material if its omission, non-disclosure or misstatement could be expected to lead to a distortion of the view given by the financial statements.

National Non-Domestic Rate (NNDR)

Amounts payable to local authorities from non-domestic properties. The rate poundage is set nationally. The amount collected is distributed via the business rates retention scheme to Central Government, Staffordshire County Council and Stoke-on-Trent and Staffordshire Fire Authority. The remainder is retained by the Borough Council but is subject to a tariff payment and pool levy.

Non-Distributed Costs

Overheads from which no user now benefits and which are not apportioned to services.

Past Service Cost

For a defined benefit pension scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

Precept

Demands made upon the Collection Fund by other authorities (Staffordshire County Council, Police and Fire Authorities and Parish Councils) for the services that they provide.

Prior Period Adjustments

Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. They do not include normal recurring conditions or adjustments of accounting estimates made in prior years.

Provisions

Amounts set aside to meet liabilities or losses which are likely to be incurred but where the amount remains uncertain.

Quoted Securities

Assets such as shares that are traded on financial exchanges.

Realisable Value

Open market value of the asset in its existing use (or open market value in the case of non- operational assets), less the expenses to be incurred in realising the asset.

Related Parties

Two or more parties are related when at any time during the financial period:

- One party has direct or indirect control over the other party, or
- The parties are subject to common control from the same source, or
- One party has influence over the financial and operational policies of the other party to the extent that the other party might be inhibited from pursuing at all times its own separate interests, or
- The parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interests.

For individuals identified as related parties, the following are also presumed to be related parties:

- Members of the close family or the same household, and
- Partnerships, companies, trusts or other entities in which the individual, or a member of their close family or same household, has a controlling interest.

Related Party Transaction

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made.

Reserves

Reserves fall into two different categories:

- Usable Reserves representing sums set aside to meet future expenditure for specific purposes and which the Council is able to utilise to provide services.
- Unusable Reserves which the Council is not able to utilise to provide services. This category of reserves includes reserves which hold unrealisable gains and losses, such as the Revaluation Reserve and reserves which are adjustment accounts which deal with situations where income and expenditure are recognised statutorily against the General Fund balance on a different basis from that expected by accounting standards, for example the Capital Adjustment Account.

Retirement Benefits

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable as a result of either (i) an employers decision to terminate an employee's employment before the normal retirement date or (ii) an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.

Revenue Expenditure

Expenditure on day-to-day running of the Council, including employee costs, running expenses and capital financing costs.

Revenue Expenditure Funded from Capital under Statute (REFCUS)

Expenditure which does not result in the creation of a fixed asset and which is classified as capital for funding purposes but is chargeable to the Income and Expenditure Account (I&E Account) as revenue expenditure. Any grants or contributions towards such expenditure are also chargeable to the I&E Account. An appropriation is made to the I&E Account from the Capital Adjustment Account of the amount of expenditure financed from capital resources. Such expenditure was formerly referred to as deferred charges.

Revenue Support Grant (RSG)

Grant paid to local authorities by Central Government to help finance its general expenditure.

Scheme Liabilities

The liabilities of a defined benefit pension scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

Settlement

An irrevocable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. Settlements include a lump-sum cash payment to scheme members in exchange for their rights to receive specified pension benefits, the purchase of an irrevocable annuity contract sufficient to cover vested benefits and the transfer of scheme assets and liabilities relating to a group of employees leaving the scheme.

Unitised Securities

A fund that is sold in units specified by a fund manager, rather than shares of fund managed assets.

Unquoted Securities

Assets such as shares that are not traded on financial exchanges.

Useful Life

Period over which the local authority will derive benefits from the use of a fixed asset.

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NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

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

Date 3 July 2017

INTERNAL AUDIT SECTION ANNUAL REPORT 2016-17

Submitted by: Head of Audit & Elections

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 2016-17 enclosed as Appendix A.

Recommendation

That the Internal Audit Section Annual Report for 2016-17 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 2016-17 financial year.

1. Background

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

- 1.4 The Council's Internal Audit Section consists of 2.0 FTE Audit Technicians and 1.0 FTE Corporate Fraud Officer and is managed by the Head of Audit & Elections.
- 1.5 This report aims to provide information about the programme of work undertaken by Internal Audit during the financial year 2016-17. 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 2016-17 was awarded to Information Security Advice Limited.
- 1.7 As required by the Public Sector Internal Audit Standards the Head of Audit & Elections 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 Head of Audit & Elections 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 original Audit Plan for 2016-17 on the 15 February 2016. The plan accounted for 526 audit days. A revised audit plan of 358 days was approved by the committee on the 14 November 2016. The annual report of the internal audit service is based on the revised plan.
- 2.2 Completion of the Audit Plan was 91% against a target of 90%.
- 2.3 A total of 68 recommendations have been made during 2016/17 of which over 80% have been implemented. A manual process has been in place for these during 2016/17 due to the implementation of the new audit management system. All recommendations have now been migrated to the new system and these will now be incorporated as part of the automated tracking process within the system.
- 2.4 The work of Internal Audit shows the Council to have an adequate, effective and reliable framework of internal control, which provides reasonable assurance regarding the effective and efficient achievement of the Council's objectives.

3. **Options Considered**

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

4. **Proposal**

Not applicable

5. **Reasons for Preferred Solution**

Not applicable

6. **Outcomes Linked to Corporate Priorities**

- 6.1 Internal Audit contributes to the prevention, identification and investigation of fraud and corruption and contributes to promoting an anti-fraud culture.
- 6.2 Internal Audit helps to ensure that best use is made of the Council's resources and contributes to improving efficiency whilst underpinning the remaining priorities of the Council.

7. **Legal and Statutory Implications**

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

8. **Equality Impact Assessment**

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

9. **Financial and Resource Implications**

- 9.1 The total budget, for the Section for 2016/17 was £250,880

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 15 February 2016 – Internal Audit Plan 2016-17

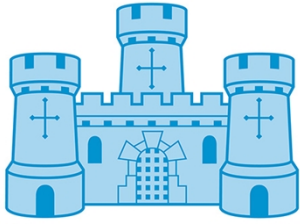
13. **List of Appendices**

- 13.1 Annual Report of the Internal Audit Section 2016-17

14. **Background Papers**

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

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NEWCASTLE·UNDER·LYME
BOROUGH COUNCIL

**ANNUAL REPORT OF THE
INTERNAL AUDIT SERVICE
2016/17**

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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 2016-17. 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 Our mission is;
"To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight"

The accepted definition from the Institute of Internal Auditors states:

"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."

- 1.5 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.
- 1.6 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 Head of Audit & Elections 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 2016-17 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 2016-17

- 3.1 Internal Audit examined 30 systems in 2016-17. 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 9 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. For 2016/17 key control reviews were conducted for all systems. 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 | 1 | 0 |
| Asset Management (Capital | Well Controlled | 0 | 0 | 0 |
| Council Tax | Well Controlled | 0 | 1 | 0 |
| Creditors | Well | 0 | 0 | 0 |

| Audit Area | Level of Assurance Given | Number of Recommendations made | | |
|---|--------------------------|--------------------------------|---|---|
| | | | | |
| | Controlled | | | |
| Treasury Management | Well Controlled | 0 | 0 | 0 |
| NNDR | Well Controlled | 0 | 0 | 0 |
| Civica Financial System (Main Accounting) | Well Controlled | 0 | 0 | 1 |
| Housing Benefits | Well Controlled | 0 | 0 | 0 |
| Sundry Debtors | Adequately Controlled | 0 | 3 | 1 |

- 3.3 A summary of the level of assurance, for all of the systems covered in 2016/17 by risk category, is given in the table below:-

| Risk | Assurance | | | |
|------------|-----------------|-----------------------|---------------------------------|-------------------|
| | Well Controlled | Adequately controlled | Less than adequately controlled | Poorly controlled |
| High (A) | 10 | 1 | 0 | 0 |
| Medium (B) | 3 | 16 | 0 | 0 |
| | 13 | 17 | 0 | 0 |

Opinions are classified as:

| | |
|--|---|
| Well Controlled | Controls are in place and operating satisfactorily. Reasonable assurance can be given that the system, process or activity should achieve its objectives safely whilst achieving value for money (vfm) |
| Adequately controlled | There are some control weaknesses but most key controls are in place and operating effectively. Some assurance can be given that the system, process or activity should achieve its objectives safely whilst achieving value for money. |
| Less than adequately controlled | Controls are in place but operating poorly or controls are inadequate. Only limited assurance can be given that the system, process or activity should achieve its objectives safely whilst achieving value for money. |
| Poorly controlled | Controls are failing or not present. No assurance can be given that the system, process or activity should achieve its objectives safely whilst achieving value for money. |

- 3.4 A total of 68 recommendations were made during 2016/17, recommendations are classified 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)

Low Risk – Action that is considered desirable and which should result in enhanced control or better value for money.

The 68 recommendations can be broken down as follows;

| | High Risk | Medium Risk | Low Risk |
|-------|-----------|-------------|----------|
| Total | 1 | 41 | 26 |

The main themes arising from the recommendations were in relation to compliance with contract procedures, financial regulations, staffing issues in respect of training and the updating of procedure notes. Recommendations during 2016/17 have been monitored on a manual basis whilst work has been on-going to implement a new audit management system, Pentana.

4 **AUDIT PERFORMANCE**

4.1 The table below indicates the Section's performance against the audit plan for 2016-17

| | 2016-17 | | | |
|----------------------|---------|-----------|------------|----------|
| | Planned | Actual | Actual % | Target % |
| Original Plan | 53 | 30 | 57% | 90% |
| Revised Plan | 35 | 32 | 91% | 90% |

Thirty-two audits were completed in the year out of the Fifty-three planned for in the original 2016-17 Audit Plan.

4.2 The revised audit plan was reported to Audit & Risk committee in November 2016 and was revised due to a number of factors that affected and influenced the delivery of the original audit plan. These included work on the implementation of the new computer system, Pentana, which has taken up considerably more time than was originally anticipated partly due to the limited resource available to actually implement and develop the system. In addition one of the audit technicians was transferred to a Principal Accountant post in Finance, which alongside a number of other factors which included issues in both the licensing and election teams resulted in a number of audit days being lost to dealing with other matters.

4.3 In addition to the audit plan the Section has also carried out a number of other pieces of ad hoc work and minor consultancy exercises, these have included work on Disabled Facilities Grants and also completion of claims for Election Expenses.

5. **FRAUD & IRREGULARITY WORK**

Pro-active Fraud work

5.1 The Internal Audit section has taken a proactive approach to the prevention / detection of fraud and corruption. During the year it has:-

- Continued membership of the Midlands Fraud Forum;

- Working with Stoke on Trent City Council on the development of a North West Staffordshire Corporate Fraud Hub..

Fraud/Irregularity Investigations

- 5.2 A number of special projects have been 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
- 5.3 No allegations have been received through the Council's Confidential Reporting or Anti-fraud and Bribery frameworks in the year.

National Fraud Initiative Datamatching

- 5.4 The Council is a statutory participant in the Cabinet Office's National Fraud Initiative (NFI) exercise which is carried out every 2 years. The 2016-17 matches have recently been received and are being reviewed by the relevant departments.

6. REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT

- 6.1 A review of the effectiveness of the system of Internal Audit has been undertaken within the year as part of the Quality Assurance and Improvement Programme as required by PSIAS. There were two key elements to the review:-
- the Head of Audit & Elections has conducted a self-assessment of the section in relation to compliance with the Public Sector Internal Audit Standards (PSIAS) and the Local Government Application Note (LGAN); and
 - an External Quality Assessment carried out by Cipfa in January 2017. The outcome of this review was presented to the Audit & Risk Committee in April 2017.
- 6.2 The review concluded that Internal Audit is effective and conforms sufficiently with the requirements of PSIAS/LGAN to ensure that the opinion given in this Annual Report can be relied upon for assurance purposes. The full results of the review are given in a separate report to the Audit and Risk Committee.
- 6.3 In order to ensure the quality of each audit, Head of Audit & Elections reviews each report to sign it off. These processes form part of the internal quality assurance process and helps to provide a consistent approach between the auditors.

7 FACTORS AFFECTING THE EXTENT OF OUR INTERNAL WORK

- 7.1 There are a number of issues that have affected the extent of our internal audit work during the year, they are:
- the implementation of a new audit management system which has taken longer than anticipated to develop and implement due to limited resources with the audit team.

- the Head of Audit & Elections in addition to her role of monitoring officer has taken the responsibility for elections and is now the Head of Audit & Elections..
- In seeking to provide an independent and objective opinion it is accepted that, being located within the organisation, the Internal Audit function cannot be wholly independent of all management. Internal Audit's independence will therefore be achieved through its organisational status although the Head of Audit & Elections is also the Council's Monitoring Officer this does not undermine or compromise the independence. Consideration was given as to whether or not there would be any conflict with regards to the issue of Independence, however given the similarity in nature to both the roles it is felt that there would be no compromise to independence. Any audit work undertaken on electoral services or directly related to the role of the Monitoring Officer will be reported directly to the S151 officer and not to the Head of Audit and Elections

8. **NON AUDIT AREAS**

- 8.1 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.
- 8.2 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 Head of Audit & Elections 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.

9.0 **OPERATIONAL PLANS FOR 2017/18**

- 9.1 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 2017/18 the CIPFA e-learning package in relation to Bribery will be rolled out across the organisation.
- 9.2 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.
- 9.3 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 Standards Committee is developed in line with best practice.
- 9.4 The Head of Audit & Elections 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.

- 9.5 The Head of Audit & Elections 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.
- 9.6 The Head of Audit & Elections 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.

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

NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

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

Date 3 July 2017

HEADING Review of the Effectiveness of the Audit Committee

Submitted by: Head of Audit & Elections

Portfolio Finance, IT and Customer

Ward(s) affected All

Purpose of the Report

In order to demonstrate that the Council has good governance and as part of providing evidence to support the Annual Governance Statement, the Council needs to demonstrate that it has an effective Audit Committee. An assessment has been completed on the effectiveness of the Audit Committee for 2016/17 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 2016/17 be noted.

Reasons

That members agree with the findings of the review which concludes that the effectiveness of the Audit Committee during 2016/17 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 Head of Audit & Elections 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 2016/17

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 has been included as Appendices to this report.

5. **Reasons for Preferred Solution**

The adoption of 'good practice' processes and procedures contributes to reducing risks and liabilities to the Council.

6. **Outcomes Linked to Corporate Priorities**

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

7. **Legal and Statutory Implications**

Under the Accounts and Audit Regulations 2015 the Council is required to undertake an annual assessment of the effectiveness of its Audit Committee.

8. **Equality Impact Assessment**

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

9. **Financial and Resource Implications**

There are no financial implications identified from this proposal.

10. **Major Risks**

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

11. **Key Decision Information**

Not applicable

12. **Earlier Cabinet/Committee Resolutions**

Not applicable

13. **List of Appendices**

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

14. **Background Papers**

File of evidence compiled against the CIPFA Code of Practice Checklist

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SELF-ASSESSMENT CHECKLIST 2016/17– MEASURING THE EFFECTIVENESS OF THE AUDIT COMMITTEE

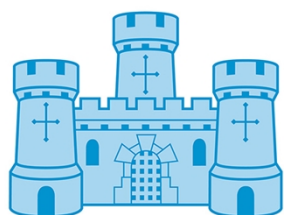
| Ref. | Issue | Yes | No | N/A | Comment | Evidence Ref |
|------------|---|-----|----|-----|---|--------------|
| 1.0 | Terms of Reference | | | | | |
| 1.1 | Have the Committee’s terms of reference been approved by full Council? | ✓ | | | Yes, these were approved as part of the Constitution by Full council. | 1 |
| 1.2 | Do the terms of reference follow the CIPFA model? | ✓ | | | | 1,15 |
| 2.0 | Internal Audit Process | | | | | |
| 2.1 | Does the Committee approve the strategic audit approach and the annual programme? | ✓ | | | The audit charter and audit plan are reported annually to the Committee. | 2,3 |
| 2.2 | Is the work of internal audit reviewed regularly? | ✓ | | | Regular progress reports are presented to the Committee. | 4 |
| 2.3 | Are summaries of quality questionnaires from managers reviewed? | ✓ | | | This is included in the annual report. Satisfaction scores are also one of the PI’s for the services and again these are reported quarterly. | 5 |
| 2.4 | Is the annual report, from the Head of Audit, presented to the Committee? | ✓ | | | | 6 |
| 3.0 | External Audit Process | | | | | |
| 3.1 | Are reports on the work of external audit and other inspection agencies presented to the Committee? | ✓ | | | All external audit reports are presented to committee | |
| 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 148 | <ul style="list-style-type: none"> • Risk Management Strategies • Internal Control Statements • Anti-Fraud Arrangements • Whistle-Blowing Strategies? | ✓ | | | Committee. | 8 |
| | | ✓ | | | | 9 |
| | | ✓ | | | | |
| | | ✓ | | | | |

| Ref. | Issue | Yes | No | N/A | Comment | Evidence Ref |
|------------|--|-----|----|-----|---|-----------------|
| 4.0 | Membership | | | | | |
| 4.1 | Has the membership of the Committee been formally agreed and a quorum set? | ✓ | | | See constitution. | 10 |
| 4.2 | Is the Chair free of executive or scrutiny functions? | ✓ | | | Chair is free of Executive functions. | 10 |
| 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. | 11,12,13 |
| 4.5 | Can the Committee access other Committees as necessary? | ✓ | | | | |
| 5.0 | Meetings | | | | | |
| 5.1 | Does the Committee meet regularly? | ✓ | | | Yes the Committee meets 5 times per year. | 14 |
| 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. | |
| Ref. | Issue | Yes | No | N/A | Comment | Evidence Ref |
| 6.0 | Training | | | | | |
| 6.1 | Is induction training provided to members? | ✓ | | | All new members receive induction training. In addition as part of Member charter Status each member will have their own person specification/job description | 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 |
| 7.0 | Administration | | | | | |
| 7.1 | Does the authority's S151 officer or deputy attend all meetings? | ✓ | | | The Executive Director (Resources and Support Services) as the Councils Section 151 Officer attends all the meetings of the Audit & Risk committee | |
| 7.2 | Are the key officers available to support the Committee? | ✓ | | | | |

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Contents List for Self-Assessment of the Effectiveness of the Audit Committee
2016-17.

| Working Paper Reference | Description of Item |
|--------------------------------|---|
| 1 | Council's Constitution |
| 2 a | Report to Audit and Risk Committee re 2016/17 Audit Plan |
| 2 b | 2016/17 Audit Plan |
| 3 | 2016/17 Internal Audit Charter |
| 4 a | Internal Audit Progress Report Quarter 1 & 2 2016/17 |
| 4 b | Internal Audit Progress Report Quarter 3 2016/17 |
| 4 c | Briefing note update Quarter 1& 2 |
| 4 d | Brief note update Quarter 2 |
| 4e | Revised Audit Plan |
| 5 | Annual Audit Questionnaire |
| 6 | Annual Audit Report |
| 7 | Outstanding Recommendations |
| 8 | Corporate Risk Management Report – Quarter 3 2016/17 |
| 9 a | Review of the Council's Anti-Fraud & Anti-Corruption Framework |
| 9 b | Review of the Anti-Money Laundering Policy |
| 9 c | 2016-17 Anti-Fraud & Anti-Corruption Framework |
| 9 d | 2016-17 Anti-Money Laundering Policy |
| 9 e | 2016-17 Fraud Guide for Managers |
| 9 f | 2016-17 Fraud Response Plan |
| 9 g | 2016-17 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 2016/17 |
| 15 | CIPFA Practical Guide |

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

NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

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

Date 3 July 2017

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

Submitted by: Head of Audit & Elections

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 2016/17.

Recommendations

That the report outlining the findings from the review of the effectiveness of the system of Internal Audit for 2016/17, 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 2016/17 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 Head of Audit & Elections 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 Head of Audit & Elections 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 Head of Audit & Elections 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 2016/17 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 2017/18. The revised action plan for 2017/18 can be found at Appendix D.
- 2.3 Members will be aware that during 2016-17 an External Assessment of Internal Audit was undertaken by CIPFA and the final report was presented to the committee in April 2017. It is a requirement of the Standards that an external assessment is completed once every 5 years. A copy of the final report is provided as Appendix E.
- 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 2016/17. 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 Head of Audit & Elections.

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

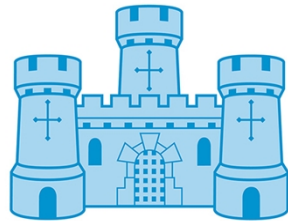
13. **List of Appendices**

Appendix A - Self Assessment – please press on the link for this appendix
Appendix B - Key to Evidence for Self-Assessment
Appendix C - Progress against Action plan for 2016/17
Appendix D - Action Plan for 2017/18.
Appendix E - Final Report – External Quality Assessment of Internal Audit

14. **Background Papers**

File of evidence compiled against the PSIAS

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NEWCASTLE·UNDER·LYME
BOROUGH COUNCIL

Compliance with the Public Sector Internal Audit Standards and the Local Government Application Note – Self Assessment 2016-17

This checklist has been 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. It incorporates the requirements of the PSIAS as well as the Application Note in order to give comprehensive coverage of both documents.

Please Tick to indicate Y = Yes, P = Partial, N = No. Evidence for each response must be provided and reasons for any partial or full non-compliance should be given, together with any compensating measures in place or actions in progress to address this.

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 | Evidence | Ref |
|-----------|---|---|---|---|--|--------|
| 1 | Definition of Internal Auditing | | | | | |
| | Using evidence gained from assessing conformance with other Standards, is the internal auditing activity: a) Independent? b) Objective? | Y | | | The Internal Audit Charter approved by Executive Management Team and the Audit & Risk Committee sets out the purpose, objectives and scope of Internal Audit. | 1 |
| | Using evidence gained from assessing conformance with other Standards does the internal auditing activity use a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes within the organisation? | Y | | | There is an annual risk based audit plan this is based on a risk assessment methodology and audits are categorised as High Medium and Low. An audit management system APACE assists with this process. | 2 3 |
| 2. | Code of Ethics | | | | | |

| Ref | Conformance with the Standard | Y | P | N | Evidence | Ref |
|-----|--|---|---|---|--|---|
| | <p>Integrity</p> <p>Using evidence gained from assessing conformance with other Standards, do internal auditors:</p> <ul style="list-style-type: none"> a) Perform their work with honesty, diligence and responsibility? b) Observe the law and make disclosures expected by the law and the profession? c) Not knowingly partake in any illegal activity nor engage in acts that are discreditable to the profession of internal auditing or to the organisation? d) Respect and contribute to the legitimate and ethical objectives of the organisation? | Y | | | <p>The Audit Team are professionally qualified and members of CIPFA, ACCA and AAT and therefore have to comply with the relevant standards for these professional bodies.</p> <p>In addition the organisation has a range of policies that seek to ensure compliance with the law.</p> <p>Organisational policies include;</p> <ul style="list-style-type: none"> Employees Code of Conduct Information Security Policies Anti-Fraud & Anti-Corruption Polices Financial Regulations Contract Regulations | <p>4</p> <p>5a-j</p> <p>6 a-e</p> <p>7</p> <p>8</p> |

| Ref | Conformance with the Standard | Y | P | N | Evidence | Ref |
|-----|---|---|---|---|---|-----|
| | <p>Objectivity</p> <p>Using evidence gained from assessing conformance with other Standards, do internal auditors display objectivity by not:</p> <ul style="list-style-type: none"> a) Taking part in any activity or relationship that may impair or be presumed to impair their unbiased assessment? b) Accepting anything that may impair or be presumed to impair their professional judgement? c) Disclosing all material facts known to them that, if not disclosed, may distort the reporting of activities under review? | Y | | | Internal Auditors complete an annual declaration in relation to confidentiality and also potential interests that may conflict with their role. | 9 |
| | <p>Confidentiality</p> <p>Using evidence gained from assessing conformance with other Standards, do internal auditors display objectivity by:</p> <ul style="list-style-type: none"> a) Acting prudently when using information acquired in the course of their duties and protecting that information? b) Not using information for any personal gain or in any matter that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation? | Y | | | Internal Auditors complete an annual declaration in relation to confidentiality and also potential interests that may conflict with their role. | 9 |

| Ref | Conformance with the Standard | Y | P | N | Evidence | Ref |
|------------|--|---|---|---|---|-----|
| | <p>Competency</p> <p>Using evidence gained from assessing conformance with other Standards, do internal auditors display objectivity by:</p> <ul style="list-style-type: none"> a) Only carrying out services for which they have the necessary knowledge, skills and experience? b) Performing service in accordance with the PSIAS? c) Continually improving their proficiency and effectiveness and quality of their services, for example through CPD schemes? | Y | | | <p>The Audit Team are professionally qualified and members of CIPFA, ACCA and AAT and therefore have to comply with the relevant standards for these professional bodies.</p> <p>Annual appraisals identify areas of training that is required and provide the auditors with the opportunity to discuss what training needs they require. The organisations appraisal scheme is recognised by the relevant professional bodies for CPD purposes</p> | |
| | Do internal auditors have regard to the “On Standards of Public Life” <i>Seven Principles of Public Life</i> ? | Y | | | These are contained within the Council’s constitution and also various other Council policies that the internal auditors as well as all other employees of the Council have to adhere to | |
| | Standards | | | | | |
| 3. | Attribute Standards | | | | | |
| 3.1 | 1000 Purpose, Authority and Responsibility | | | | | |
| | <p>Does the internal audit charter include a formal definition of:</p> <ul style="list-style-type: none"> a) The purpose b) The authority, and c) The responsibility <p>Of the internal audit activity consistent with the Public Sector Internal Audit Standards (PSIAS)</p> | Y | | | Internal Audit Charter see reference 1 | 1 |

Classification: NULBC **UNCLASSIFIED**

Appendix A

| Ref | Conformance with the Standard | Y | P | N | Evidence | Ref |
|------|--|---|---|---|--|-----|
| LGAN | Does the internal audit charter define the terms “board” and “senior management”, for the purpose of the internal audit activity? <i>Note that it is the expectation that the audit committee will fulfil the role of the board in the majority of instances.</i> | Y | | | Internal Audit Charter see reference 1 | 1 |

Classification: NULBC **UNCLASSIFIED**

| | | | | |
|------|---|--|--|--|
| | a) Set out the internal audit activity's position with the organisation? | | see reference 1. | |
| LGAN | b) Establish the Chief Audit Executive's (CAE) functional reporting relationship with the board? | | The Head of Audit & Elections is the CAE for the purpose of compliance with the PSAIS. | |
| LGAN | c) Establish the accountability, reporting line and relationship between the CAE and those to whom the CAE may report administratively? | | | |
| LGAN | d) Establish the responsibility of the board and also the role of the statutory officers (such as the CFO, monitoring officer and the head of paid service) with regards to Internal Audit? | | | |
| LGAN | e) Establish internal audit's right of access to all records, assets, personnel and premises and its authority to obtain such information? | | | |
| LGAN | f) Define the scope of internal audit's activities? | | | |
| LGAN | g) Recognise that internal audit's remit extends to the entire control environment of the organisation | | | |
| LGAN | h) Identify internal audit's contribution to the review of the effectiveness of the control environment, as set-out in the Accounts and Audit (England) Regulations 2011? | | | |
| LGAN | i) Establish the organisational independence of internal audit? | | | |
| LGAN | j) Cover the arrangements for appropriate | | | |

| Ref | Conformance with the Standard | Y | P | N | Evidence | Ref |
|------------|---|---|---|---|--|---------|
| | Does the CAE periodically review the internal audit charter and present it to senior management and the board for approval? | Y | | | The Charter is reviewed and reported to Executive Management Team and the Audit and Risk Committee on an annual basis | 1 12 |
| | Does the CAE attend audit committee meetings? | Y | | | The Head of Audit & Elections as CAE attends and presents reports to the Audit and Risk Committee | |
| | Does the CAE contribute to audit committee agendas? | Y | | | The Head of Audit & Elections as CAE attends the Officer pre meetings that set the Agenda for the Audit and Risk Committee meetings | |
| 3.2 | 1100 Independence and Objectivity | | | | | |
| | Does the CAE have unrestricted access to senior management and the board? | Y | | | The Head of Audit & Elections is a member of the Wider Management Team and also in her role as Monitoring Officer is a member of the Statutory Officer Group. Access rights are also formulated within the Audit Charter and also Financial Regulations | 1 |
| | Does the CAE have free and unfettered access to, as well as communicate effectively with, the chief executive or equivalent and the chair of the audit committee? | Y | | | See also the completion of the Self-assessment of the Audit and Risk Committee against the CIPFA code of practice | |
| | Are threats to objectivity identified and managed at the following levels? a) Individual auditor? b) Engagement? c) Functional? d) Organisational? | Y | | | These are managed through the declaration of interests and confidentiality statements that are completed annually by the auditors. | 9 |
| | 1100 Organisational Independence | | | | | |

| Ref | Conformance with the Standard | Y | P | N | Evidence | Ref |
|------|--|---|---|---|---|---------|
| | Does the CAE report to an organisational level equal or higher to the corporate management team? | Y | | | The Head of Audit & Elections reports to the Section 151 Officer as Executive Director (Resources & Support Services) who is a member of the Executive Management Team. | |
| LGAN | Does the CAE's position in the management structure; <ul style="list-style-type: none"> a) Reflect the influence he or she has on the control environment? b) Provide the CAE with sufficient status to ensure that audit plans, reports and action plans are discussed effectively with the board? c) Ensure that he or she is sufficiently senior and independent to be able to provide credibly constructive challenge to senior management? | Y | | | <p>The self-assessment against CIPFA's Role of the Head of Internal Audit has been completed in respect of the Head of Audit & Elections which helps to demonstrate this.</p> <p>This is also set out in the Audit Charter.</p> <p>The Head of Audit & Elections as CAE is also a member of the Wider Management Team, the Departmental Management Team for Resources and Support Services and also the Statutory Officers Group.</p> | 13 1 |

| Ref | Conformance with the Standard | Y | P | N | Evidence | Ref |
|-----|---|---|---|---|--|----------------------------|
| | <p>Does the CAE confirm to the board, at least annually, that the internal audit activity is organisationally independent?</p> <p><i>The following example can be used by the CAE when assessing the organisational independence of the internal audit activity:</i></p> <p>The Board:</p> <ul style="list-style-type: none"> a) Approves the internal audit charter b) Approves the risk-based audit plan c) Approves the internal audit budget and resource plan d) Receives communications from the CAE on the activity's performance (in relation to the plan, for example) e) Approves decisions relating to the appointment and removal of the CAE f) Seeks reassurance from management and the CAE as to whether there are any inappropriate scope or resource limitations | Y | | | <p>This is set out in the Annual Report of the Internal Audit Service, the Annual Governance Statement.</p> <p>The Board for the purposes of compliance with the PSIAS is the Audit and Risk Committee. The Charter, Audit Plan and Performance against the Audit Plan are all reported here</p> | 14 15 12 16 17 |
| | Does the chief executive or equivalent undertake, countersign, contribute feedback to or review the performance appraisal of the CAE? | Y | | | Performance appraisal completed by S151 Officer (Executive Director Resources and Support Services) | |
| | Is feedback sought from the chair of the audit committee for the CAE's performance appraisal? | | | N | | |
| | 1111 Direct Interaction with the Board | | | | | |

| Ref | Conformance with the Standard | Y | P | N | Evidence | Ref |
|-----|---|---|---|---|--|-----|
| | Does the CAE communicate and interact directly with the board? | Y | | | Monthly assurance statements with regards to the implementation of audit recommendations are emailed to the Chair and Vice Chair of the Audit and Risk Committee. Quarterly reports on assurance are then subsequently reported to both the Audit and Risk Committee and the Executive Management Team | 18 |
| | <i>1120 Individual Objectivity</i> | | | | | |
| | Do internal auditors have an impartial, unbiased attitude? | Y | | | Declaration of Interests and Confidentiality Statements completed annually | 9 |
| | Do internal auditors avoid any conflict of interest, whether apparent or actual? | Y | | | Declaration of Interests and Confidentiality Statements completed annually | 9 |
| | <i>1130 Impairment to Independence or Objectivity</i> | | | | | |
| | If there has been any real or apparent impairment of independence or objectivity, has this been disclosed to appropriate parties (depending on the nature of the impairment and the relationship between the CAE and senior management/the board as set out in the internal audit charter)? | | | | There has been no apparent impairment of independence or objectivity that required reporting to senior management. In the event that this did occur then a report would be submitted as appropriate. | |
| | Have internal auditors assessed specific operations for which they have been responsible within the previous year? | Y | | | | |

| Ref | Conformance with the Standard | Y | P | N | Evidence | Ref |
|------|---|---|---|---|---|-----|
| | If there have been any assurance engagements in areas over which the CAE also has operational responsibility, have these engagements been overseen by someone outside of the internal audit activity | y | | | Internal Audit has a role with regards to Information Assurance with one of the audit technicians being 0.5 FTE of an Information Assurance officer. Information assurance/security forms parts of audits role and is covered in the CIPFA document Role of the Head of Internal Audit, this does not therefore compromise any of our independence. | 13 |
| LGAN | Are assignments for on-going assurance engagements and other audit responsibilities rotated periodically within the internal audit team? | Y | | | Audit assignments are rotated as much as possible within the confines of a small team. Try to rotate as much as possible if resources and experience allow, depending on experience and work available. However limitations due to small team. Also there can be advantages to the same person doing an audit on a couple of consecutive occasions and this is done, although would try to rotate every so often to widen experience and to allow a fresh pair of eyes to look at the system. Sometimes there is a benefit to allow an auditor to complete a review on 2 consecutive occasions. | |
| LGAN | Have internal auditors declared interests in accordance with organisational requirements? | Y | | | Confidentiality Agreements are completed on an annual basis | 9 |
| LGAN | Where any internal auditor has accepted any gifts, hospitality, inducements or other benefits from employees, clients, suppliers or other third parties (other than as may be allowed by the organisation's own policies), has this been declared and investigated fully? | Y | | | No Gifts or Hospitality have been received/offered to the internal auditors. There is a corporate policy on Gifts and Hospitality that is communicated annually to all staff. The Internal Auditors are aware of this. | 19 |

| Ref | Conformance with the Standard | Y | P | N | Evidence | Ref |
|------------|---|---|---|---|--|---------|
| LGAN | Have any instance been discovered where an internal auditor has used information obtained during the course of duties for personal gain? | | | N | None known | |
| LGAN | Have internal auditors disclosed all material facts known to them which, if not disclosed, could distort their reports or conceal unlawful practice, subject to any confidentiality agreements? | Y | | | | |
| LGAN | Have internal auditors complied with the Bribery Act 2010? | Y | | | Bribery Act covered as part of mandatory briefings to all staff and also part of on-line e-learning package on Fraud & Corruption. New training packages were purchased during 2015/16 in relation to Whistleblowing and Bribery. Whistleblowing was rolled out in 2015/16 it is proposed to roll out the Bribery package during 2017/18 | 6 a - e |
| | If there has been any real or apparent impairment of independence or objectivity relating to a proposed consulting services engagement, was this disclosed to the engagement client before the engagement was accepted? | | | | N/A | |
| | Where there have been significant additional consulting services agreed during the year that were not already included in the audit plan, was approval sought from the board before the engagement was accepted? | | | | N/A | |
| 3.3 | 1200 Proficiency and Due Professional Care | | | | | |
| | <i>1210 Proficiency</i> | | | | | |
| | Does the CAE hold a professional qualification, such as CMIIA/CCAB or equivalent? | Y | | | The Head of Audit & Elections is CIPFA qualified | |

| Ref | Conformance with the Standard | Y | P | N | Evidence | Ref |
|------|---|---|---|---|---|-----|
| | Is the CAE suitably experienced? | Y | | | Head of Audit & Elections – 26 years audit experience, 18 years at supervisory role, 11 years in Management capacity. | |
| LGAN | Is the CAE responsible for recruiting appropriate internal audit staff, in accordance with the organisation's human resources processes? | Y | | | | |
| LGAN | Does the CAE ensure that up-to-date job descriptions exist that reflect roles and responsibilities and that person specifications define the required qualifications, competencies, skills, experience and personal attributes? | Y | | | Job Descriptions and Person specifications are reviewed regularly to ensure they are up to date and in any event these would be done at the recruitment stage. | |
| | Does the internal audit activity collectively possess or obtain the skills, knowledge and other competencies required to perform its responsibilities? | Y | | | | |
| | Where the internal audit activity does not possess the skills, knowledge and other competencies required to perform its responsibilities, does the CAE obtain competent advice and assistance? | y | | | | |
| | Do internal auditors have sufficient knowledge to evaluate the risk of fraud and anti-fraud arrangements in the organisation? | Y | | | Head of Audit & Elections undertaken Fraud Loss Measurement Training course with BDO & PKF The authority is a member of the Midlands Fraud Forum which comprises public and private sector organisations that come together to share best practice in relation to fraud and tackling fraud issues. | |

| Ref | Conformance with the Standard | Y | P | N | Evidence | Ref |
|-----|---|---|---|---|---|-----|
| | Do internal auditors have sufficient knowledge of key information technology risks and controls? | | P | | This has been identified as an area of weakness within the team as it is such a specialist area of work. The size of the audit team does not justify a FTE Computer Audit Specialist therefore the Audit service currently buys in 30 days specialist computer audit work as part of the annual audit plan. In addition to this the Staffordshire Chief Auditors Group are trying to develop the IT skills within our own teams through an IT Sub Group which comprises auditors with some IT awareness – the aim of the group is to share best practice in order to enhance the skills in this area. | |
| | Do internal auditors have sufficient knowledge of the appropriate computer-assisted audit techniques that are available to them to perform their work, including data analysis techniques? | | P | | This is an area that needs to be developed. | |
| | 1220 Due Professional Care | | | | | |
| | Do internal auditors exercise due professional care by considering the: <ul style="list-style-type: none"> a) Extent of work needed to achieve the engagement’s objectives? b) Relative complexity, materiality or significance of matters to which assurance procedures are applied? c) Adequacy and effectiveness of governance, risk management, and control processes? d) Probability of significant errors, fraud, or non-compliance? e) Cost of assurance in relation to potential benefits? | Y | | | Objectives for Audit Briefs and Audit Programmes are based on CIPFA control matrices. In addition to these discussions are held with the relevant Head of Service or Service Manager prior to the Audit Brief being issued in order to identify areas of concern/weakness that the management may have identified or need reviewing. | |

| Ref | Conformance with the Standard | Y | P | N | Evidence | Ref |
|------|---|---|---|---|--|-----|
| | <p>Do internal auditors exercise due professional care during a consulting engagements by considering the:</p> <ul style="list-style-type: none"> a) Needs and expectations of clients, including the nature, timing and communication of engagement results? b) Relative complexity and extent of work needed to achieve the engagement's objectives? c) Cost of the consulting engagement in relation to potential benefits? | Y | | | An Audit protocol has been developed that provides for pre audit discussion with clients before audit brief produced to ensure objectives are agreed and any existing audit programmes are up to date. | 20 |
| | <i>1230 Continuing Professional Development</i> | | | | | |
| LGAN | Has the CAE defined the skills and competencies for each level of auditor? | Y | | | The CIPFA Excellent Internal Auditor competencies are applied | 21 |
| LGAN | Does the CAE periodically assess individual auditors against the predetermined skills and competencies? | Y | | | These are reviewed annually as part of employee appraisal process | |
| | Do internal auditors undertake a programme of continuing professional development? | Y | | | The work based employee appraisal scheme covers this and has been approved by the relevant professional organisations | 10 |
| | Do internal auditors maintain a record of their professional development and training activities? | | P | | Yes these are maintained in a training log – although this needs to be reviewed and updated | |

| Ref | Conformance with the Standard | Y | P | N | Evidence | Ref |
|------------|--|---|---|---|---|-----|
| 3.4 | 1300 Quality Assurance and Improvement Programme | | | | | |
| | Has the CAE developed a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the internal audit activity and enables conformance with all aspects of the PSIAS to be evaluated? | y | | | The PSIAS are reviewed/updated annually – action plan is derived from this and report to A&R committee as part of the overall governance statement process. A QAIP has been developed by SCAG and is in the process of being implemented. An external assessment was completed in January 2017 | |
| | Does the QAIP assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement? | y | | | The PSIAS are reviewed/updated annually – action plan is derived from this and report to A&R committee as part of the overall governance statement process. A QAIP has been developed by SCAG and is in the process of being implemented. An external assessment was completed in January 2017 | |
| | Does the CAE maintain the QAIP | y | | | The PSIAS are reviewed/updated annually – action plan is derived from this and report to A&R committee as part of the overall governance statement process. A QAIP has been developed by SCAG and is in the process of being implemented. An external assessment was completed in January 2017 | |
| LGAN | If the organisation is a “larger relevant body” in England, does it conduct a review of the effectiveness of its internal audit at least annually, in accordance with the Accounts and Audit (England) Regulations 2011? | | | | N/A | |
| | 1310 Requirements of the Quality Assurance and Improvement Programme? | | | | | |
| | Does the QAIP include both internal and external assessments? | y | | | yes | |

| Ref | Conformance with the Standard | Y | P | N | Evidence | Ref |
|------|---|---|---|---|---|--------|
| | 1311 Internal Assessments | | | | | |
| LGAN | Does the CAE ensure that audit work is allocated to staff with the appropriate skills, experience and competence? | Y | | | | |
| | Do internal assessments include on-going monitoring of the internal audit activity, such as:- a) Routine quality monitoring processes? b) Periodic assessments for evaluating conformance with the PSIAS? | Y | P | | All reports are reviewed at the draft stage by the Head of Audit & Elections before they are issued. In addition a further review is made of the final report once the findings and recommendations have been discussed and agreed. Working papers are reviewed – however given that they are stored as word/excel documents within Microsoft office – it is not practical for the Head of Audit & Elections to go in and sign off every WP. Pentana has been developed over the course of 2016/17 and this will be continued going forward. | |
| LGAN | Does on-going performance monitoring include comprehensive performance targets? | Y | | | Performance targets are set annually and progress against these are reported on a quarterly basis to Audit and Risk Committee | |
| LGAN | Are the performance targets developed in consultation with appropriate parties and included in any service level agreement? | Y | | | Performance targets are discussed as part of the appraisal process and also reported to Audit and Risk Committee | |
| LGAN | Does the CAE measure, monitor and report on progress against these targets? | Y | | | Progress against performance targets are reported quarterly to the Audit and Risk Committee | 22 |
| LGAN | Does on-going performance monitoring include obtaining stakeholder feedback? | Y | | | Satisfaction surveys sent to clients at the end of each audit review, an annual survey is sent to EMT, WMT & BM | 23 a&b |

| Ref | Conformance with the Standard | Y | P | N | Evidence | Ref |
|------|--|---|---|---|---|-----|
| | Are periodic self-assessments or assessments carried out by people external to the internal activity undertaken by those with a sufficient knowledge of internal audit practices? Sufficiency would require knowledge of the PSIAS and the wider guidance available such as the Local Government Application Note and/or IIA practice advisories, etc.? | y | | | An external assessment was completed in January 2017 by CIPFA | |
| LGAN | Does the periodic assessment include a review of the activity against the risk-based plan and the achievement of its aims and objectives? | y | | | The external assessment was completed in 2017 | |
| | 1312 External Assessments | | | | | |
| | Has an external assessment been carried out, or is planned to be carried out, at least once every 5 years? | y | | | Yes this was completed in January 2017 | |
| LGAN | Has the CAE considered the pros and cons for the different types of external assessment (i.e. "full" or self-assessment plus "independent validation") | Y | | | | |
| | 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? | y | | | The final report was presented to the Audit & Risk Committee in April 2017. | |
| 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? | y | | | The scope of the assessment was agreed with the S151 officer | |

| Ref | Conformance with the Standard | Y | P | N | Evidence | Ref |
|-----|---|---|---|---|--|-----|
| | Has the CAE agreed the scope of the external assessment with the external assessor or assessment team? | y | | | Completed | |
| | Has the assessor or assessment team demonstrated its competence in both areas of professional practice of internal auditing and the external assessment process? Competence can be determined in the following ways: <ul style="list-style-type: none"> a) experience gained in an organisation of similar size b) complexity c) sector (i.e. the public sector) d) industry (i.e. local government), and e) technical experience Note that if an assessment team is used, competence needs to be demonstrated across the team and not for each individual member. | y | | | Yes | |
| | How has the CAE used his or her professional judgement to decide whether the assessor or assessment team demonstrates sufficient competence to carry out the external assessment? | y | | | External assessment completed following joint procurement exercise with SCAG | |
| | Does the assessor or assessment team have any real or apparent conflicts of interest with the organisation? This may include, but is not limited to, being part of or under the control of the organisation to which the internal audit activity belongs. | y | | | External assessment completed following joint procurement exercise with SCAG | |

| Ref | Conformance with the Standard | Y | P | N | Evidence | Ref |
|-----|--|---|---|---|---|-----|
| | 1320 Reporting on the Quality Assurance and Improvement Programme | | | | | |
| | <p>Has the CAE reported the result of the QAIP to senior management and the board?</p> <p>Note that:</p> <ul style="list-style-type: none"> a) the results of both external and periodic internal assessment must be communicated upon completion b) the results of the on-going monitoring must be completed annually c) the results must include the assessor's or assessment team's evaluation with regards to the degree of the internal audit activity's conformance with the PSIAS. | | P | | <p>Report following external assessment has been reported to Audit & Risk Committee.</p> <p>An internal self assessment is completed annually as part of the overall governance review.</p> | |
| | Has the CAE included the results of the QAIP and progress against any improvements plans in the annual report? | Y | | | An action plan following the internal self-assessment has been formulated | |
| | 1321 Use of Conforms with the International Standards for the Professional Practice of Internal Auditing | | | | | |
| | Has the CAE stated that the internal audit activity conforms with the PSIAS only if the results of the QAIP support this? | Y | | | | |
| | 1322 Disclosure of non-conformance | | | | | |
| | Has the CAE reported any instances of non-conformance with the PSIAS to the board? | Y | | | This is part of the action plan | |

| Ref | Conformance with the Standard | Y | P | N | Evidence | Ref |
|------------|--|---|---|---|---|-----|
| | Has the CAE considered including any significant deviations from the PSIAS in the governance statement and has this been evidenced? | Y | | | No significant deviances identified as part of the self assessment | |
| 4. | Performance Standards | | | | | |
| 4.1 | 2000 Managing the Internal Audit Activity | | | | | |
| | Do the results of the internal audit activity's work achieve the purposes and responsibilities of the activity, as set out in the internal audit charter? | Y | | | | |
| | Does the internal audit activity conform with the <i>Definition of Internal Auditing</i> and the <i>Standards</i> ? | Y | | | | |
| | Do individual internal auditors, who are part of the internal audit activity, demonstrate conformance with the <i>Code of Ethics</i> and the <i>Standards</i> ? | Y | | | | |
| | Does the internal audit activity add value to the organisation and its stakeholders by a) Providing objective and relevant assurance? b) Contributing to the effectiveness and efficiency of the governance, risk management and internal control processes? | Y | | | Annual Report of the Internal Audit Service Self-assessment against the PSIAS Annual Governance Statement | |
| | 2010 Planning | | | | | |
| | Has the CAE determined the priorities of the internal audit activity in a risk based plan and are these priorities consistent with the organisations goals? | Y | | | | |

| Ref | Conformance with the Standard | Y | P | N | Evidence | Ref |
|-----|--|---|---|---|---|-----|
| | Does the risk-based plan take account the requirement to produce an annual internal audit opinion? | Y | | | | |
| | Does the risk-based plan take into account the organisations assurance framework? | Y | | | The criteria in risk assessment covers this | 3 |
| | Does the risk based plan incorporate or is it linked into a strategic or high-level statement of: <ul style="list-style-type: none"> a) How the internal audit service will be delivered? b) How the internal audit service will be developed in accordance with the internal audit charter? c) How the internal audit service links to organisational objectives and priorities? | Y | | | The Audit Charter refers to the risk based audit methodology upon which the audit plan is formulated. The Charter also links to the organisations objectives and priorities. | 1 |
| | Does the risk based plan set-out how internal audit's work will identify and address local and national issues and risks? | Y | | | The criteria in risk assessment covers this | 3 |
| | In developing the risk based plan, has the CAE taken into account the organisation's risk management framework and relative risk maturity of the organisation? | Y | | | The criteria in risk assessment covers this | 3 |
| | If such a risk-management framework does not exist, has the CAE used his or her judgement of risks after input from senior management and the board and evidenced this? | Y | | | In addition to the risk based methodology the Head of Audit & Elections meets with Executive Directors and Heads of Service when formulating the plan and requests input from them. | 24 |

| Ref | Conformance with the Standard | Y | P | N | Evidence | Ref |
|------|--|---|---|---|--|-----|
| LGAN | Does the risk based plan set-out the: a) Audit work to be carried out? b) Respective priorities of those pieces of audit work? c) Estimated resources needed for the work? | Y | | | The Audit plan contains details of the risk categorisation and the estimated number of days required for each audit assignment | 2 |
| LGAN | Does the risk based plan differentiate between audit and other types of work? | | | N | The audit plan relates to those areas identified for review as a result of the risk assessment however the Head of Audit & Elections when calculating the resource available to complete the plan will have days set aside as a contingency to cover investigations and any consultancy work. The consultancy days are not detailed in the audit plan. | |
| LGAN | Is the risk-based plan sufficiently flexible to reflect the changing risks and priorities of the organisation? | Y | | | Risk based model covers this and is reviewed annually to ensure that all risks have been adequately reviewed and are covered | |
| | Does the CAE review the plan on a regular basis and has he or she adjusted the plan when necessary in response to changes in the organisation's business, risks, operations, programmes, systems and controls? | Y | | | Progress against plan is reviewed quarterly and whenever large investigations/staffing issues arise to ensure that resources can be targeted accordingly. | |
| | Is the internal audit activity's plan of engagements based on a documented risk assessment? | Y | | | Audit methodology risk assessment part of audit planning model in APACE | 9 |
| | Is the risk assessment used to develop the plan of engagements undertaken at least annually? | Y | | | Risk assessments are also reviewed and updated at the end of each audit assignment and then these are subsequently updated in APACE | |

| Ref | Conformance with the Standard | Y | P | N | Evidence | Ref |
|------|---|---|---|---|--|-----|
| LGAN | <p>In developing the risk-based plan, has the CAE also considered the following:</p> <ul style="list-style-type: none"> a) Any declarations of interest (for the avoidance of conflicts of interest)? b) The requirement to use specialists, e.g. IT or contract and procurement auditors? c) Allowing contingency time to undertake ad hoc reviews or fraud investigations as necessary? d) The time required to carry out the audit planning process effectively as well as regular reporting to and attendance of the board, the development of the annual report and the CAE opinion? | Y | | | <p>The declarations of interest statements are reviewed.</p> <p>There is a provision within the audit budget to buy in 30 days specialist computer audit work.</p> <p>In calculating audit days available a contingency is taken out of this allocation to allow a small amount of contingency time for special investigations and projects etc.</p> | |
| | Is the input of senior management and the board considered in the risk assessment process? | Y | | | Head of Audit & Elections meets with HoS to go through audit areas, requests made to HoS to identify new areas and where functions have ceased to exist etc. All these are fed into the Risk Assessment model | 24 |
| | Does the CAE identify and consider the expectations of senior management, the board and other stakeholders for internal audit opinion and any other conclusions? | Y | | | Head of Audit & Elections meets with HoS to go through audit areas, requests made to HoS to identify new areas and where functions have ceased to exist etc. All these are fed into the Risk Assessment model | |
| | Does the CAE take into consideration any proposed consulting engagement's potential to improve the management of risks, to add value and to improve the organisation's operations before accepting them? | Y | | | Head of Audit & Elections meets with HoS to go through audit areas, requests made to HoS to identify new areas and where functions have ceased to exist etc. All these are fed into the Risk Assessment model | |

| Ref | Conformance with the Standard | Y | P | N | Evidence | Ref |
|------|---|---|---|---|--|-----|
| | Are consulting engagements that have been accepted included in the risk-based plan? | Y | | | Areas put forward by HoS are risk assessed in the same way to ensure all reviews are treated consistently. | |
| | <i>2020 Communication and Approval</i> | | | | | |
| | Has the CAE communicated the internal audit activity's plans and resource requirements to senior management and the board for review and approval? | Y | | | A copy of the audit plan is circulated to Executive Management Team, Heads of Service and Business Managers | |
| | Has the CAE communicated any significant interim changes to the plan and/or resource requirements to senior management and the board for review and approval, where such changes have arisen? | Y | | | Where changes to the plan are required these are reported to the A&R committee | |
| | Has the CAE communicated the impact of any resource limitations to senior management and the board? | Y | | | Where changes to the plan are required these are reported to the A&R committee. The consequences of these changes are also included in this report | |
| | <i>2030 Resource Management</i> | | | | | |
| | Does the risk-based plan explain how internal audit's resource requirements have been assessed? | Y | | | | |
| LGAN | Has the CAE planned the deployment of resources, especially the timing of engagements, in conjunction with management to minimise abortive work and time? | Y | | | Where possible audit reviews are scheduled in conjunction with management | |

| Ref | Conformance with the Standard | Y | P | N | Evidence | Ref |
|------|---|---|---|---|--|-----|
| LGAN | <p>If the CAE believes that the level of agreed resources will impact adversely on the provision of the internal audit opinion, has he or she brought these consequences to the attention of the board?</p> <p>This may include an imbalance between the work plan and resource availability and/or other significant matters that jeopardise the delivery of the plan or require it to be changed.</p> | Y | | | <p>Reports have been presented to EMT and where appropriate approval has been granted to buy in additional audit resource in the form of agency work</p> | |

| Ref | Conformance with the Standard | Y | P | N | Evidence | Ref |
|------|--|---|---|---|--|-----|
| | <i>2040 Policies and Procedures</i> | | | | | |
| | Has the CAE developed and put into place policies and procedures to guide the internal audit activity? | | P | | <p>A folder is maintained electronically of all Audit Documentation – this contains audit briefs and programmes.</p> <p>CIPFA Audit Manual is available for all auditors – an audit manual is currently being developed.</p> <p>Audit Protocol sets out procedures for auditors to follow – this document is also circulated to EMT, HoS & Business Managers as well as being available on the intranet.</p> <p>The audit documentation folder needs further development – this would be assisted with a fully integrated audit management system.</p> | |
| 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– an audit manual is currently being developed.</p> <p>Audit Protocol sets out procedures for auditors to follow – this document is also circulated to EMT, HoS & Business Managers as well as being available on the intranet.</p> <p>The audit documentation folder needs further development – this would be assisted with a fully integrated audit management system.</p> | |

| Ref | Conformance with the Standard | Y | P | N | Evidence | Ref |
|------|---|---|---|---|--|-----|
| LGAN | Are the policies and procedures regularly reviewed and updated to reflect changes in working practices and standards? | Y | | | Reviewed each time audit documentation is accessed from the folder to ensure these are updated. Audit Protocol reviewed as a minimum on an annual basis. Audit Protocol sets out procedures for auditors to follow – this document is also circulated to EMT, HoS & Business Managers as well as being available on the intranet. | |
| | <i>2050 Coordination</i> | | | | | |
| | 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? | | | N | This needs to be developed | |
| 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 | This needs to be developed | |
| | Does the CAE share information and coordinate activities with other internal and external providers of assurance and consulting services? | Y | | | | |
| LGAN | Does the CAE meet regularly with he nominated external audit representative to consult on and coordinate their respective plans? | Y | | | Quarterly meetings held with External Auditors – Grant Thornton | |
| | <i>2060 Reporting to Senior Management and the Board</i> | | | | | |

| Ref | Conformance with the Standard | Y | P | N | Evidence | Ref |
|------------|--|---|---|---|---|----------|
| | Does the CAE report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility and performance relative to its plan? | Y | | | Monthly reports are produced for EMT in relation to audit assurance and implementation of audit recommendations. Quarterly reports are presented to Audit and Risk Committee in relation to progress against the audit plan and performance indicators, and also levels of assurance | 17 25 |
| | Does the periodic reporting also include the significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by senior management and the board? | Y | | | Included in progress reports to Audit and Risk Committee. Risks and control issues included as part of risk assessment methodology which is reviewed at the end of each audit assignment and the risk model is then updated accordingly | |
| | Is the frequency and content of such reporting determined in discussion with senior management and the board and are they dependant on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management and the board? | Y | | | Monthly reports on outstanding recommendations reported to EMT and Heads of Service. In addition quarterly reports are presented to Audit and Risk Committee. | |
| | <i>2070 External Service Provider and Organisational Responsibility for Internal Auditing</i> | | | | | |
| | Where an external internal audit service provider acts as the internal audit activity, does that provider ensure that the organisation is aware that the responsibility for maintaining an effective internal audit activity remains with the organisation? | | | | N/A | |
| 4.2 | 2100 Nature of Work | | | | | |

| Ref | Conformance with the Standard | Y | P | N | Evidence | Ref |
|-----|--|---|---|---|--|-----|
| | Does the internal audit activity evaluate and contribute to the improvement of the organisation's governance, risk management and internal control processes? | Y | | | Risk assessment methodology and consultation with relevant managers | |
| | 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 | Need to develop a way of evidencing this. | |
| | 2010 Governance | | | | | |
| | Does the internal audit activity: <ul style="list-style-type: none"> a) Promote appropriate ethics and values within the organisation? b) Ensure effective organisational performance management and accountability? c) Communicate risk and control information to appropriate areas of the organisation? d) Coordinate the activities of and communicate information among the board, external and internal auditors and management? | Y | | | Annual Review of Code of Corporate Governance Governance evaluation is completed annually to support production of the Annual Governance Statement Risks are identified and reported accordingly to relevant managers as part of the audit reports | |
| | Does the internal audit activity assess and make appropriate recommendations for improving the governance process as part of accomplishing those objectives? | Y | | | Where issues are identified these are reported as recommendations to the relevant managers. | |

| Ref | Conformance with the Standard | Y | P | N | Evidence | Ref |
|------|--|---|---|---|---|-----|
| | Has the internal audit activity evaluated the: a) Design b) Implementation, and c) Effectiveness of the organisation's ethics related objectives, programmes and activities? | | | N | This needs to be developed | |
| | Has the internal audit activity assessed whether the organisation's information technology governance supports the organisation's strategies and objectives? | Y | | | A separate independent risk assessment is completed by an external computer auditor in relation to ICT areas – this informs the computer audit days that are brought in as part of the audit plan. | |
| LGAN | Has the CAE considered the proportionality of the amount of work required to assess the ethics and information governance of the organisation when developing the risk-based plan? | Y | | | All aspects are considered when formulating the audit plan | |
| | 2120 Risk Management | | | | | |
| | Has the internal audit activity evaluated the effectiveness of the organisation's risk management processes by determining that: a) Organisational objectives support and align with the organisation's mission? b) Significant risks are identified and assessed? c) Effectiveness and efficiency of operations and programmes? d) Safeguarding of assets? e) Compliance with laws, regulations, policies, procedures and contracts? | Y | | | Risk Management is included in the audit plan, in addition the risks in relation to service areas are reviewed as part of every audit assignment, the auditors have access to the risk management system GRACE. | |

| Ref | Conformance with the Standard | Y | P | N | Evidence | Ref |
|-----|---|---|---|---|--|----------|
| | Has the internal audit activity evaluated the potential for fraud and also how the organisation itself manages fraud risk? | Y | | | A fraud awareness guide has been produced and circulated to managers. This guide contains a risk assessment proforma which managers are requested to complete and return to the Head of Audit & Elections, these are then used to inform the audit planning process. | 27 & 27a |
| | Do internal auditors address risk during consulting engagements consistently with the objectives of the engagement? | Y | | | | |
| | Are internal auditors alert to other significant risks when undertaking consulting engagements? | Y | | | Reports are obtained from the Risk Management System, GRACE | |
| | Do internal auditors successfully avoid managing risks themselves, which would in effect lead to taking on management responsibility, when assisting management in establishing or improving risk management processes? | Y | | | Any issues identified would be reported to management and recommendations would be made accordingly. | |
| | 2130 Control | | | | | |
| | Has the internal audit activity evaluated the effectiveness of the organisation's risk management processes by determining that: <ul style="list-style-type: none"> a) Achievement of the organisation's strategic objectives? b) Reliability and integrity of financial and operational information? c) Effectiveness and efficiency of operations and programmes? d) Safeguarding of assets? e) Compliance with laws, regulations, policies, procedures and contracts? | Y | | | Risk Management and Strategic Risks are specific audit areas within the audit plan. | |

| Ref | Conformance with the Standard | Y | P | N | Evidence | Ref |
|------------|---|---|---|---|--|-----|
| | Do internal auditors utilise knowledge of controls gained during consulting engagements when evaluating the organisation's control processes? | Y | | | | |
| 4.3 | 2200 Engagement Planning | | | | | |
| | Do internal auditors develop and document a plan for each engagement? | Y | | | An audit brief is produced for each audit assignment – these are completed by reviewing previous audit report and in consultation with the relevant service manager. | 28 |
| | Does the engagement plan include the engagements: a) Objectives? b) Scope? c) Timing? d) Resource allocations? | Y | | | See copy of audit brief | 28 |

| Ref | Conformance with the Standard | Y | P | N | Evidence | Ref |
|-----|---|---|---|---|---|-----|
| | <p>Do internal auditors consider the following in planning an engagement, and is this documented:</p> <ul style="list-style-type: none"> a) The objectives of the activity being reviewed? b) The means by which the activity controls its performance? c) The significant risks to the activity being audited? d) The activity's resource e) The activity's operations f) The means by which the potential impact of the risk is kept to an acceptable level? g) The adequacy and effectiveness of the activity's governance, risk management and control processes compared to a relevant framework or model? h) The opportunities for making significant improvements to the activity's governance, risk management and control processes? | Y | | | Audit Brief covers all these areas; brief is discussed with relevant service manager before issue. To ensure that objectives timescales etc are agreed with management. | 28 |

| Ref | Conformance with the Standard | Y | P | N | Evidence | Ref |
|-----|--|---|---|---|--|-----|
| | <p>Where an engagement plan has been drawn up for an audit to a party outside of the organisation, have the internal auditors established a written understanding with that party about the following:</p> <ul style="list-style-type: none"> a) Objectives? b) Scope? c) The respective responsibilities and other expectations of the internal auditors and the outside party (including restrictions on distribution of the results of the engagement and access to engagement records)? | | | | <p>N/A</p> <p>No audits have been completed for a party outside of the organisation.</p> | |
| | <p>For consulting engagements, have internal auditors established an understanding with the engagement clients about the following:</p> <ul style="list-style-type: none"> a) Objectives? b) Scope? c) The respective responsibilities of the internal auditors and the client and other client expectations? | Y | | | <p>Audit Briefs are drawn up in consultation with the relevant service managers</p> | |
| | <p>For significant consulting engagements, has this understanding been documented?</p> | | P | | <p>This would normally be in the form of email correspondence nothing formal exists at present</p> | |

| Ref | Conformance with the Standard | Y | P | N | Evidence | Ref |
|-----|--|---|---|---|---|-----|
| | 2210 Engagement Objectives | | | | | |
| | Have objectives been agreed for each engagement? | Y | | | Audit Brief covers these – initially these are formulated using CIPFA matrices. Heads of Service and Business Managers are also consulted in relation to these. | |
| | Have internal auditors carried out a preliminary risk assessment of the activity under review? | Y | | | Risks are identified as part of the control matrices | |
| | Do the engagement objectives reflect the results of the preliminary risk assessment that has been carried out? | Y | | | Yes audit briefs are reviewed and updated for each audit assignment | |
| | Have internal auditors considered the probability of the following, when developing the engagement objectives: a) Significant errors? b) Fraud? c) Non-compliance? d) Any other risks? | Y | | | | |
| | Have internal auditors ascertained whether managements and/or the board have established adequate criteria to evaluate and determine whether objectives and goals have been accomplished? | Y | | | These will be contained within service plans which again are reviewed as part of each audit assignment. | |
| | If the criteria have been deemed adequate, have the internal auditors used the criteria in their evaluation of governance, risk management and controls? | Y | | | | |

| Ref | Conformance with the Standard | Y | P | N | Evidence | Ref |
|------|---|---|---|---|--|-----|
| | If the criteria have been deemed inadequate, have the internal auditors worked with management and/or the board to develop appropriate evaluation criteria? | Y | | | Audit testing and then recommendations will be developed accordingly | |
| LGAN | If the value for money criteria have been referred to, has the use of all the organisation's main types of resources been considered; including money, people and assets? | Y | | | | |
| | Do the objectives set for consulting engagements address governance, risk management and control processes as agreed with the client? | Y | | | | |
| | Are the objectives set for consulting engagements consistent with the organisation's own values, strategies and objectives? | Y | | | | |
| | 2220 Engagement Scope | | | | | |
| | Is the scope that is established for the engagement sufficient to satisfy the engagement's objectives? | Y | | | Objectives discussed and agreed with management | |
| | Does the engagement scope include consideration of the following relevant areas of the organisation: a) Systems? b) Records? c) Personnel? d) Premises? | Y | | | | |

| Ref | Conformance with the Standard | Y | P | N | Evidence | Ref |
|-----|---|---|---|---|--|-----|
| | Does the engagement scope include consideration of the following relevant areas under the control of outside parties, where appropriate: a) Systems? b) Records? c) Personnel? d) Premises? | Y | | | The audit brief will consider all aspects of the audit and these issues will be discussed with the relevant manager prior to the audit commencing to ensure that all aspects are considered. | |
| | Where significant consulting opportunities have arisen during an assurance engagement, was a specific written understanding as to the objectives, scope, respective responsibilities and other expectations drawn up? | | P | | Where additional issues arise that require consideration – Head of Audit & Elections 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. | |
| | Where significant consulting opportunities have arisen during an assurance engagement, were the results of the subsequent engagement communicated in accordance with the relevant consulting Standards? | Y | | | All issues identified will be included in the audit report | |
| | For a consulting engagement, was the scope of the engagement sufficient to address any agreed-upon objectives? | Y | | | Scope and objectives would be agreed with management | |

| Ref | Conformance with the Standard | Y | P | N | Evidence | Ref |
|-----|---|---|---|---|---|-----|
| | If the internal auditors developed any reservations about the scope of a consulting engagement while undertaking that engagement, did they discuss those reservations with the client and therefore determine whether or not to continue with the engagement? | y | | | Auditors will in the first instance raise concerns with the Head of Audit & Elections who will inform the relevant managers if it is appropriate to do so. | |
| | During consulting engagements, did internal auditors address the controls that are consistent with the objectives of those engagements? | Y | | | | |
| | During consulting engagements, were internal auditors alert to any significant control issues? | Y | | | Significant control issues if they exist will arise from assignment objectives | |
| | 2230 Engagement Resource Allocation | | | | | |
| | Have internal auditors decided upon the appropriate and sufficient level of resources required to achieve the objectives of the engagement based on: <ul style="list-style-type: none"> a) The nature and complexity of each individual engagement? b) Any time constraints? c) The resources available? | Y | | | This forms part of the audit needs assessment process that feeds into the audit planning model. The level of resource required for each audit assignment is determined at the outset. The audit brief does contain a note to the effect that the number of days is an estimate and may change dependent upon the findings of the review. Should the resources be insufficient this will be noted and the days altered in the planning model accordingly. Audit planning model is reviewed according to resources available and assignments prioritised in terms of risk category for the review. | |
| | 2240 Engagement Work Programme | | | | | |
| | Have internal auditors developed and documented work programmes that achieve the engagement objectives? | Y | | | Audit programmes detailing key control objectives are available for each audit review – these are based on CIPFA control matrices | |

| Ref | Conformance with the Standard | Y | P | N | Evidence | Ref |
|-----|--|---|---|---|---|-----|
| | Do the engagement work programmes include the following procedures for: a) Identifying information? b) Analysing information? c) Evaluating information? d) Documenting information? | Y | | | | |
| | Were work programmes approved prior to implementation for each engagement? | Y | | | These are discussed alongside audit brief, the Head of Audit & Elections will review the audit programmes before the review starts however the client does not receive a copy | |
| | Were any adjustments required to work programmes approved promptly? | Y | | | Programmes and are reviewed and updated at the start of the review, if issues are identified during the review these will be updated accordingly. | |

| Ref | Conformance with the Standard | Y | P | N | Evidence | Ref |
|------------|---|---|---|---|--|-----|
| 4.4 | 2300 Performing the Engagement | | | | | |
| | Have internal auditors carried out the following in order to achieve each engagement's objectives: a) Identify sufficient information? b) Analyse sufficient information? c) Evaluate sufficient information? d) Document sufficient information? | Y | | | | |
| | 2310 Identifying Information | | | | | |
| | Have internal auditors identified the following in order to achieve each engagement's objectives: a) Sufficient information? b) Reliable information? c) Relevant information? d) Useful information? | Y | | | | |
| | 2320 Analysis and Evaluation? | | | | | |
| | Have internal auditors based their conclusions and engagement results on appropriate analyses and evaluations? | Y | | | Test sheets detailing tests undertaken are completed for each control identified and tested. Working papers are compiled to support this testing | |

| Ref | Conformance with the Standard | Y | P | N | Evidence | Ref |
|------|---|---|---|---|--|-----|
| LGAN | <p>Have internal auditors remained alert to the possibility of the following:</p> <ul style="list-style-type: none"> a) Intentional wrongdoing b) Errors and omissions c) Poor value for money d) Failure to comply with management policy, and e) Conflicts of interest <p>when performing their individual audits, and has this been documented?</p> | Y | | | Controls and objectives identified and detailed in the audit programmes are designed to identify these | |
| | <i>2330 Documenting Information</i> | | | | | |
| | Have internal auditors documented the relevant information required to support engagement conclusions and results? | Y | | | Test sheets detailing tests undertaken are completed for each control identified and tested. Working papers are compiled to support this testing | |
| LGAN | Are working papers sufficiently complete and detailed to enable another experienced internal auditor with no previous connection to the audit to ascertain what work was performed, to re-perform it if necessary and to support the conclusions reached? | Y | | | Test sheets detailing tests undertaken are completed for each control identified and tested. Working papers are compiled to support this testing. All working papers are filed electronically. | |
| | Does the CAE control access to engagement records? | Y | | | Internal Audit has a shared drive which is accessible to all the audit team | |
| | Has the CAE obtained the approval of senior management and/or legal counsel as appropriate before releasing such records to external parties? | | | | This would be done in accordance with the Information Security Policies and compliance with the Data Protection Act. | |

| Ref | Conformance with the Standard | Y | P | N | Evidence | Ref |
|------------|--|---|---|---|---|-----|
| | Has the CAE developed and implemented retention requirements for all types of engagement records? | Y | | | A records retention policy is in place for Internal Audit | |
| | Are the retention requirements for engagement records consistent with the organisation's own guidelines as well as any relevant regulatory or other requirements? | Y | | | The records of retention policy was formulated by Internal Audit following CIPFA guidelines | |
| | 2340 Engagement Supervision | | | | | |
| | Are all engagements properly supervised to ensure that objectives are achieved, quality is assured and that staff are developed? | Y | | | | |
| | Is appropriate evidence of supervision documented and retained for each engagement? | | P | | There will be email correspondence that evidences this but nothing formal is in place. A process needs to be developed – the implementation of an integrated audit management system would assist with this. | |
| 4.5 | 2400 Communicating Results | | | | | |
| | Do internal auditors communicate the results of engagements? | Y | | | A written report is completed at the end of each review | |
| | 2410 Criteria for Communicating | | | | | |
| | Do the communications of engagement results include the following: a) The engagement's objectives? b) The scope of the engagement? c) Applicable conclusions? d) Recommendations and action plans, if appropriate? | Y | | | There is a standard report template that is used for all audit assignments; this provides details of the scope and objectives of the report together with a summary of findings and an action plan that details the recommendations made. | 29 |

| Ref | Conformance with the Standard | Y | P | N | Evidence | Ref |
|------|---|---|---|---|---|-----|
| LGAN | Has the internal auditor discussed the contents of the draft final report with the appropriate levels of management to confirm factual accuracy, seek comments and confirm the agreed management actions? | Y | | | All reports are discussed in draft before being issued as a final – this gives management the opportunity to discuss findings/recommendations and where appropriate agree timescales for implementation of these | |
| LGAN | If recommendations and an action plan have been included, are recommendations prioritised according to risk? | Y | | | Recommendations are categorised as High, Medium or Low | |
| LGAN | If recommendations and an action plan have been included, does the communication also state agreements already reached with management, together with appropriate timescales? | Y | | | Draft discussions allow for management to discuss and agree the findings and provide feedback on these. Management comments are recorded in the action plan. | |
| LGAN | If there are any areas of disagreement between the internal auditor and management, which cannot be resolved by discussion, are these recorded in the action plan and the residual risk highlighted? | Y | | | These would be recorded under management comments in the action plan. | |
| LGAN | Do internal auditors disclose all material facts known to them in them in their audit reports which, if not disclosed, could distort their reports or conceal unlawful practice, subject to confidentiality requirements? | Y | | | All findings are disclosed – even minor issues these are covered as a point to note within the report | |
| LGAN | Do final communications of engagement results contain, where appropriate, the internal auditor’s opinions and/or conclusions, building up to the annual internal audit opinion on the control environment? | Y | | | All reports contain a level of assurance based upon the number and categorisation of audit recommendations. Details of how the level of assurance is calculated is detailed in the audit protocol document that is communicated to all managers | 20 |

| Ref | Conformance with the Standard | Y | P | N | Evidence | Ref |
|------|---|---|---|---|---|-----|
| | When an opinion or conclusion is issued, are the expectations of senior management, the board and other stakeholders taken into account? | Y | | | All reports contain a level of assurance based upon the number and categorisation of audit recommendations. Details of how the level of assurance is calculated is detailed in the audit protocol document that is communicated to all managers | |
| | When an opinion or conclusion is issued, is it supported by sufficient, reliable, relevant and useful information? | Y | | | All reports contain a level of assurance based upon the number and categorisation of audit recommendations. Details of how the level of assurance is calculated is detailed in the audit protocol document that is communicated to all managers | |
| | Where appropriate, do engagement communications acknowledge satisfactory performance of the activity in question? | Y | | | Reports will confirm where functions are reporting well. | |
| | When engagement results have been released to parties outside of the organisation, does the communication include limitations on the distribution and use of the results? | Y | | | This would be done in accordance with the Information Security Policies and compliance with the Data Protection Act. | |
| LGAN | If the CAE has been required to provide assurance to other partnership organisations, has he or she also demonstrated that their fundamental responsibility is to the management of the organisation to which they are obliged to provide internal audit service? | | | | | |
| | 2420 Quality of Communications | | | | | |

| Ref | Conformance with the Standard | Y | P | N | Evidence | Ref |
|-----|---|---|---|---|--|-----|
| | Are communications: <ul style="list-style-type: none"> a) Accurate? b) Objective? c) Clear? d) Concise? e) Constructive? f) Complete? g) Timely? | Y | | | The standard report template ensures consistency in the way that findings from the review are communicated. Draft discussions on the audit findings are completed within 10 working days of the draft being agreed by the Head of Audit & Elections. Audit satisfaction surveys allow managers to feed back any concerns they have in relation to the way the audit was conducted. | |
| | 2421 Errors and Omissions | | | | | |
| | If a final communication has contained a significant error or omission, did the CAE communicate the corrected information to all parties who received the original communication? | Y | | | If errors are identified these are corrected and an updated version of the reports is reissued | |
| | 2430 Use of “Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing” | | | | | |
| | Do internal auditors report that engagements are “conducted in conformance with the PSIAS” only if the results of the QAIP support such a statement? | | | N | Internal Audit reports do not state that they have been conducted in accordance with the PSIAS standards | |
| | 2431 Engagement Disclosure of Non-conformance | | | | | |

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

| Ref | Conformance with the Standard | Y | P | N | Evidence | Ref |
|-----|--|---|---|---|--|-----|
| | 2440 Disseminating Results | | | | | |
| | Has the CAE determined the circulation of audit reports within the organisation, bearing in mind confidentiality and legislative requirements? | Y | | | This is set out in the Audit Protocol. Where corporate reviews are undertaken – reporting is done at directorate level so as to maintain confidentiality within the directorates | 20 |
| | Has the CAE communicated engagement results to all appropriate parties? | Y | | | This is set out in the Audit Protocol. Where corporate reviews are undertaken – reporting is done at directorate level so as to maintain confidentiality within the directorates Summaries of reviews are presented quarterly to the Audit and Risk Committee as part of the Internal Audit progress reports. | |
| | Before releasing engagement results to parties outside the organisation did the CAE: a) Assess the potential risk to the organisation? b) Consult with senior management and/or legal counsel as appropriate? c) Control dissemination by restricting the use of results? | Y | | | This would be considered in accordance with the Council’s Information Security Policies and the requirements of the Data Protection Act. | |
| | Where any significant governance, risk and control issues were identified during consulting engagements, were these communicated to senior management and the board? | Y | | | | |
| | 2450 Overall Opinion | | | | | |
| | Has the CAE delivered an annual internal audit opinion? | Y | | | An annual Internal Audit Opinion is included in the Annual report of the Internal Audit Service. | 14 |

| Ref | Conformance with the Standard | Y | P | N | Evidence | Ref |
|-----|---|---|---|---|--|-----|
| | Does the annual internal audit opinion conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control? | Y | | | An annual Internal Audit Opinion is included in the Annual report of the Internal Audit Service. | 14 |
| | Does the annual audit opinion take into account the expectations of senior management, the board and other stakeholders? | Y | | | | |
| | Is the annual internal audit opinion supported by sufficient, reliable, relevant and useful information? | Y | | | This is supported by the work of the audit team, completion of audit assignments contained within the annual audit plan. | |
| | Does the communication identify the following: a) The scope of the opinion, including the time period to which the opinion relates? b) Any scope limitations? c) The consideration of all related projects including the reliance on other assurance providers? d) The risk or control framework or other criteria used as a basis for the overall opinion? | Y | | | See Annual Report of the Internal Audit Service | |
| | Where a qualified or unfavourable annual internal audit opinion is given, are the reasons for that opinion stated? | Y | | | Where applicable reasons would be documented and evidenced | |
| | Has the CAE delivered an annual report that can be used by the organisation to inform its governance statement? | Y | | | The annual report forms part of the evidence that supports the AGS | |

| Ref | Conformance with the Standard | Y | P | N | Evidence | Ref |
|--|--|---|---|---|--|-----|
| LGAN LGAN LGAN LGAN LGAN LGAN | Does the annual report incorporate the following: a) The annual internal audit opinion b) A summary of the work that supports that opinion? c) A disclosure of any qualifications to the opinion? d) The reasons for any for any qualifications to the opinion? e) A disclosure of any impairments or restrictions in scope? f) A comparison or work actually carried out with the work planned? g) A statement on conformance with the PSIAS h) The results of the QAIP i) Progress against any improvement plans resulting form the QAIP? j) A summary of the performance of the internal audit activity against its performance measures and targets? k) Any other issues which the CAE judges is relevant to the preparation of the governance statement? | | P | | A QAIP has now been developed through SCAG – these issues are included in the Annual Report which is presented as part of the evidence for the AGS | |
| 4.6 | 2500 Monitoring Progress | | | | | |

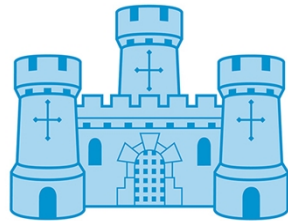
| Ref | Conformance with the Standard | Y | P | N | Evidence | Ref |
|------------|--|---|---|---|---|----------|
| | Has the CAE established a process to monitor and follow-up management actions to ensure that they have been effectively implemented or that senior management have accepted the risk of not taking action? | Y | | | Monthly assurance statements are prepared on a Directorate basis – these are based on the number of recommendations implemented and those outstanding in a given month. Reports of the recommendations that require action during the month are also sent to managers as a reminder. In addition monthly reports are also produced for EMT | 30 25 |
| | Where issues have changed during the follow-up process, has the CAE considered revising the internal audit opinion? | | | N | Audit opinion is based on findings at time of review – this would be reviewed as part of the next audit assignment | |
| | Do the results of monitoring management actions inform the risk-based planning of future audit work? | Y | | | | |
| | Does the internal audit activity monitor the results of consulting engagements as agreed with the client? | Y | | | These would be monitored in the same way as audit assignments | |
| 4.7 | 2600 Communicating the Acceptance of Risks | | | | | |
| | If the CAE has concluded that management has accepted a level of risk that may be unacceptable to the organisation, has he or she discussed the matter with senior management? | Y | | | This would be discussed with the relevant Director and Head of Service | |
| | If, after discussion with senior management, the CAE continues to conclude that they level of risk may be unacceptable to the organisation, has he or she communicated the situation to the board? | Y | | | These would be included in relevant reports to the Audit and Risk Committee | |

**Internal Audit – Self Assessment against
Public Sector Internal Audit Standards and the Local Government Application Note for 2016/17**

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BOROUGH COUNCIL

Progress against 2016-17 Action Plan: Compliance with the Public Sector Internal Audit Standards and the Local Government Application Note Self-Assessment 2016-17

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>March 2017</p> <p>A number of areas have been identified for training and a programme has been discussed and agreed with SCAG – this will be kept under review</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> | <p>March 2017</p> <p>A number of areas have been identified for training and a programme has been discussed and agreed with SCAG – this will be kept under review</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"> a) Routine quality monitoring processes? b) Periodic assessments for evaluating conformance with the PSIAS? | Y | P | | <p>All reports are reviewed at the draft stage by the Head of Audit & Elections 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 Head of Audit & Elections 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> | <p>December 2016</p> <p>Pentana has now been implemented and the auditors are now starting to use the system-progress with the system has been slow however over time this will bring efficiencies to the service.</p> |

| Ref | Conformance with the Standard | Y | P | N | Action Required | Target Date |
|-----|--|---|---|---|--|---|
| | <p>Has the assessor or assessment team demonstrated its competence in both areas of professional practice of internal auditing and the external assessment process?</p> <p>Competence can be determined in the following ways:</p> <ul style="list-style-type: none"> a) experience gained in an organisation of similar size b) complexity c) sector (i.e. the public sector) d) industry (i.e. local government), and e) technical experience <p>Note that if an assessment team is used, competence needs to be demonstrated across the team and not for each individual member.</p> | | | N | <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> | <p>March 2017</p> <p>Completed January 2017</p> |
| | <p>Has the CAE reported the result of the QAIP to senior management and the board?</p> <p>Note that:</p> <ul style="list-style-type: none"> a) the results of both external and periodic internal assessment must be communicated upon completion b) the results of the on-going monitoring must be completed annually <p>the results must include the assessor's or assessment team's evaluation with regards to the degree of the internal audit activity's conformance with the PSIAS.</p> | | | | <p>External Assessment has not yet been undertaken.</p> <p>However a report has been taken regarding the internal self-assessment against the PSIAS</p> | <p>March 2017</p> <p>Completed January 2017</p> |

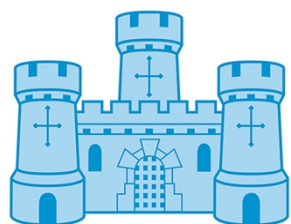
| Ref | Conformance with the Standard | Y | P | N | Action Required | Target Date |
|-----|---|---|---|---|---|---|
| | c) Has the CAE developed and put into place policies and procedures to guide the internal audit activity? | | P | | <p>External Assessment has not yet been undertaken.</p> <p>However a report has been taken regarding the internal self-assessment against the PSIAS.</p> <p>It is proposed that the assessment will be completed in the 2016/17 financial year.</p> | <p>March 2017</p> <p>Completed January 2017</p> |

| Ref | Conformance with the Standard | Y | P | N | Action Required | Target Date |
|------|--|---|---|---|--|---|
| LGAN | <p>Has the CAE established policies and procedures to guide staff in performing their duties in a manner that conforms to the PSIAS?</p> <p>Examples include maintaining an audit manual and/or using electronic management systems.</p> | | P | | <p>A folder is maintained electronically of all Audit Documentation – this contains audit briefs and programmes.</p> <p>CIPFA Audit Manual is available for all auditors</p> <p>Audit Protocol sets out procedures for auditors to follow – this document is also circulated to EMT, HoS & Business Managers as well as being available on the intranet.</p> <p>The audit documentation folder needs further development – this would be assisted with a fully integrated audit management system.</p> <p>Work is still on going in relation to the production of an audit manual.</p> | <p>March 2017</p> <p>Completed January 2017</p> |

| Ref | Conformance with the Standard | Y | P | N | Action Required | Target Date |
|------|---|---|---|---|---|---|
| | Does the risk-based plan include the approach to using other sources of assurance and any work that may be required to place reliance upon those sources? | | P | | <p>A folder is maintained electronically of all Audit Documentation – this contains audit briefs and programmes.</p> <p>CIPFA Audit Manual is available for all auditors</p> <p>Audit Protocol sets out procedures for auditors to follow – this document is also circulated to EMT, HoS & Business Managers as well as being available on the intranet.</p> <p>The audit documentation folder needs further development – this would be assisted with a fully integrated audit management system.</p> <p>Work is still on going in relation to the production of an audit manual</p> | <p>.</p> <p>March 2017</p> <p>Completed January 2017</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 | <p>March 2017</p> <p>To be carried forward to 2017/18</p> |

| Ref | Conformance with the Standard | Y | P | N | Action Required | Target Date |
|-----|---|---|---|---|--|--|
| | Does the internal audit activity evaluate and contribute to the improvement of the above using a disciplined and systematic approach and is this evidenced? | | | N | An assurance mapping process needs to be developed | March 2017 To be carried forward to 2017/18 |
| | For significant consulting engagements, has this understanding been documented? | | | N | Evidence of the assurance mapping process will be documented. | March 2017 To be carried forward to 2017/18 |
| | 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 | | This would normally be in the form of email correspondence. 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. This will be looked at as par to of the new audit system | March 2017 To be carried forward to 2017/18 |

| Ref | Conformance with the Standard | Y | P | N | Action Required | Target Date |
|-----|--|---|---|---|--|-------------------|
| | 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 | | Where additional issues arise that require consideration – Head of Audit & Elections 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. | March 2017 |
| | | | | N | Internal Audit reports do not state that they have been conducted in accordance with the PSIAS standards. The Head of Audit & Elections will review the report template and look to include a suitable form of words that will cover this. This will be considered with the implementation of the new system. | March 2017 |



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Action Plan 2017-18: Compliance with the Public Sector Internal Audit Standards and the Local Government Application Note Self-Assessment 2016-17

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;

| | | | |
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| 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 | | |

Classification: NULBC UNCLASSIFIED

Appendix D

| Ref | Conformance with the Standard | Y | P | N | Action Required | Target Date |
|------|---|---|---|---|---|--|
| LGAN | Has the CAE carried out an assurance mapping exercise as part of identifying and determining the approach to using other sources of assurance? | | | N | An assurance mapping process needs to be developed | March 2017 To be carried forward to 2017/18 |
| | Does the internal audit activity evaluate and contribute to the improvement of the above using a disciplined and systematic approach and is this evidenced? | | | N | An assurance mapping process needs to be developed | March 2017 To be carried forward to 2017/18 |
| | For significant consulting engagements, has this understanding been documented? | | | N | Evidence of the assurance mapping process will be documented. | March 2017 To be carried forward to 2017/18 |

Classification: NULBC UNCLASSIFIED

| 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> | <p>March 2017</p> <p>To be carried forward to 2017/18</p> |
| | 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 – Head of Audit & Elections 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> | <p>March 2017</p> <p>To be carried forward to 2017/18</p> |
| | | | | N | <p>Internal Audit reports do not state that they have been conducted in accordance with the PSIAS standards. The Head of Audit & Elections 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> | <p>March 2017</p> <p>To be carried forward to 2017/18</p> |

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External Quality Assessment of Newcastle Under-Lyme Borough Council's Internal Audit Service to the Public Sector Internal Audit Standards

Final Executive Summary Report

Lead Associate: Ray Gard, CPFA, FCCA, CFIIA, DMS

**Internal QA: Technical Manager, CIPFA, Professional Standards &
Guidance**

4th April 2017

Review of Newcastle-Under-Lyme Borough Council's Internal Audit Service – January/February 2017

Introduction

Internal audit within the public sector in the United Kingdom is governed by the Public Sector Internal Audit Standards (PSIAS), which have been in place since 1st April 2013 (revised April 2016). The standards require periodic self-assessments and an assessment by an external person every five years.

Background

Newcastle-Under-Lyme Borough Council's (NULBC) Internal Audit is based at the Civic Centre and only provides internal audit services to Newcastle-Under-Lyme Council. The team comprises 3.8 full time equivalent experienced and qualified staff, and have access to external specialists for computer audit on a contract basis.

The service has been operating under PSIAS for over three years, so this was deemed a good time for their first external review against the standards and the local government application note (LAGN) produced by CIPFA.

Review Process

The review was carried out between the 30th January and 3rd February 2017 through a process of interviews with employees of NULBC's Internal Audit Service, key officers within the Council, the Chair and Vice Chair of the Audit and Risk Committee, and document review. With regard to the latter, NULBC provided a comprehensive range of documents that were available for examination prior to and during this review. This included the services self-assessment against the PSIAS; quality assurance and improvement plan (QAIP); the audit manual and audit protocol; individual audit reports and supporting records; and a range of reports and communications that demonstrate the flow of information between Internal Audit and the Audit and Risk Committee.

All of these documents were made available to the reviewer and whilst they all contributed to the process, the following documents are regarded as fundamental and a major contributor to the review process:

- the audit charter and audit committee terms of reference;
- progress reports to the audit committee for the Council;
- Head of audit's annual report and opinion to the audit committee;
- audit plan and covering report to the audit committee;
- audit manual;
- individual audit reports and working papers;
- staff declarations of interest; and
- staff training and development records.

Conclusion and Opinion

From the evidence reviewed as part of the external quality assessment, no areas of non-compliance with the standards have been identified that would affect the

overall scope or operation of the internal audit activity, nor any significant areas of partial non-compliance.

On this basis it is our opinion that Newcastle-Under-Lyme Borough Council's Internal Audit Service generally conforms to the requirements of the Public Sector Internal Audit Standards. It is also our opinion that they generally conform to the requirements of the Local Government Application Note.

Two areas of partial compliance have been identified. The agreed action plan at appendix 1 sets out some practical recommendations (R) to address these issues and improve conformity with the standards.

Some practical suggestions have also been made to assist Newcastle-Under-Lyme Borough Council's Internal Audit Service with its continuous improvement and development programme. These primarily relate to the internal operations of the Internal Audit Service and not their conformity with PSIAS, and comprise minor enhancements to the policies, procedures, and manuals used by the service; individual audit reports; reports to management and the Audit and Risk Committee; and the use of computer assisted audit techniques. These are set out in detail in the full report. Some suggestions relating to the enhancement of the audit charter were incorporated into the revised charter for 2017/18 as the Head of Audit and Elections was revising this document during the review processes.

A list of the individuals interviewed during the review is included as appendix 2.

The Head of Audit and Elections has been provided with details of the areas where there is scope to enhance conformity with the standards and incorporate good practice into their operations.

Ray Gard, CPFA, FCCA, FCIIA, DMS

Summary findings and recommendations

| Standard | Compliance | Findings | Recommendations and Suggestions | No |
|--|---------------------------|--|--|---------------------|
| Attribute standards | | | | |
| 1000 Purpose, authority and responsibility | Partially Conforms | <p>The terms board, senior management and the chief audit executive (CAE) are all defined in the charter. The CAE has line management responsibilities for services that are subjected to review by internal audit and there is a mechanism in place to ensure that the CAE's integrity and objectivity is not impaired.</p> <p>The audit charter provides an adequate description of assurance services and consultancy services. The CAE's annual report for 2016/17 will also need to include these definitions.</p> <p>As consulting activity is likely to expand during the coming months, the audit charter and audit protocol should be revised to incorporate a section on consulting services.</p> <p>The audit charter makes reference to compliance with the definition of internal audit and to PSIAS, and the code of ethics for the professional bodies that the staff are members of. Compliance with the code of ethics for internal audit is not in the 2015/16 CAE's annual report so this</p> | <p>Include a definition for assurance and consulting services are included in the CAE's annual report and opinion for 2016/17.</p> <p>Expand the CAE's annual report and opinion for 2016/17 should be expanded to include compliance with the code of ethics for internal auditors and the core principles for internal audit. Reference must also be made to compliance with the CIPFA Local Government Application Note, as this is mandatory within UK local government organisations.</p> | <p>R1</p> <p>R2</p> |

| Standard | Compliance | Findings | Recommendations and Suggestions | No |
|--|---------------------------|--|---|----|
| | | should be added to the CAE's annual report for 2016/17. | | |
| 1100 Independence and objectivity | Generally Conforms | <p>The CAE reports to the Section 151 officer. In addition to being the Council's CAE they are also the Monitoring Officer and also manages the Election service.</p> <p>Internal audit reports to the Audit and Risk (A&R) Committee and the CAE has direct access to the chair of the committee, although this is not covered in the terms of reference for the A&R committee.</p> <p>The service is free from interference in determining the scope of their work and reporting. Independence and objectivity is maintained and there are processes in place to deal with potential or actual impairments (see 1000 above).</p> | No recommendations have been made for this standard | |
| 1200 Proficiency and due professional care | Generally Conforms | <p>The CAE holds a relevant CCAB qualification, being CPFA qualified.</p> <p>The internal audit team is experienced and qualified to Technician level with both team members in post being MAAT qualified.</p> <p>The team also has a qualified dedicated fraud specialist.</p> <p>The CAE has an understanding of IT risks and controls, but this knowledge is limited amongst the rest of the team who need to</p> | Enhance the knowledge and understanding of IT risks and controls for the Audit Technicians by implementing the action point on the QAIP | R3 |

| Standard | Compliance | Findings | Recommendations and Suggestions | No |
|----------|------------|---|---------------------------------|----|
| | | <p>be developed in this area of activity. This issue has been identified by the CAE and is on the services QAIP.</p> <p>For specialist technical reviews, they buy in specialist ICT auditors on an annual contract.</p> <p>The CAE has an understanding of computer assisted audit techniques (CAATs) and the service has had an IDEA licence in the past, although they do not currently have a current licence for IDEA or any other CAATs application. The CAE is however aware that they may need to develop the use of this application to test routine systems on a regular basis as this could free up staff resources to undertake audits that cannot be carried out by electronic means.</p> <p>The team has an audit manual and an audit protocol, and well-established working papers and methodologies. At the time of the EQA, the service was in a transition phase between audit management systems. The old system, APACE, had been de-commissioned as the licence had expired, and the new system, Pentana, was in the final stages of user acceptance testing and transferred from the 'test environment' to the 'live environment' during the EQA site visit.</p> | | |

| Standard | Compliance | Findings | Recommendations and Suggestions | No |
|--|---------------------------|---|---|-----------|
| | | <p>Consequently most working papers for 2015/16 were held as word or excel files on internal audit's shared drive.</p> <p>A risk based approach is applied to each audit assignment. There is a robust supervision and review process in place with the CAE performing this function for all working papers, draft and final audit reports.</p> <p>Staff development and CPD are linked to the employees annual appraisals and development programme, with data being held in the councils HR application</p> | | |
| <p>1300 Quality assurance and improvement programme</p> | <p>Generally Conforms</p> | <p>Both internal and external assessments are used as part of the quality assurance and improvement programme. The Head of Audit and Elections undertakes a self-assessment against PSIAS annually.</p> <p>CIPFA has been commissioned to undertake the full EQA review and the outcome of this review will be reported to the A&R Committee. The EQA review took place in January & February 2017.</p> <p>The outcomes of the annual self assessment and the pre-EQA review by the IIA have been reported to the A&R Committee.</p> <p>The annual report includes a statement stating that the service has complied with</p> | <p>The CAE's annual report and opinion for 2016/17 should be expanded to include compliance with the code of ethics for internal auditors and the core principles for internal audit. Reference must also be made to compliance with the CIPFA Local Government Application Note as this is mandatory within UK local government organisations. (see above)</p> | <p>R2</p> |

| Standard | Compliance | Findings | Recommendations and Suggestions | No |
|---|----------------------------------|--|---|-------------------------------|
| | | <p>PSIAS but the 2015/16 report did not mention the definition for internal audit, the code of ethics or the local government application note. This should be added to the CAE's annual report for 2016/17.</p> <p>Individual audit reports do not currently refer to the fact that the audit has been performed in accordance with the requirements of PSIAS or ISPPIA. This should be added to the report template currently being finalised in Pentana.</p> <p>The 2015/16 annual report also does not include a section regarding any impairments to independence or objectivity.</p> | | |
| Performance standards | | | | |
| <p>2000 Managing the internal audit activity</p> | <p>Partially Conforms</p> | <p>The planning process uses the internal audit's risk assessments, the outcomes from previous audits and discussions with senior managers. The plan does not make full use of the strategic risk register and does not use the operational risk registers as the CAE feels that these are not sufficiently mature to add value to the audit planning process. The risk assessment processes should be reviewed as the majority of the key financial systems tend to score as high risk and</p> | <p>Align the IA plan with the priorities in the Council's strategic plan 2015-18. This could be achieved by mapping the audits in the audit universe within Pentana to the priorities.</p> <p>Align the IA plan with the Council's strategic risk register. Again this could be achieved within the Pentana application.</p> <p>Ensure the key risks from the</p> | <p>R4</p> <p>R5</p> <p>R6</p> |

| Standard | Compliance | Findings | Recommendations and Suggestions | No |
|----------|------------|---|---|----|
| | | <p>have been audited on an annual basis, regardless of the fact that most are well controlled and few if any recommendations are made.</p> <p>Comprehensive policies and procedures, an audit manual and an audit protocol underpin the planning process.</p> <p>The 2016/17 audit plan is not aligned to the Council's objectives and strategies.</p> <p>The service does not have a separate strategic statement setting out how the CAE will deliver the internal audit service. Instead, the CAE has set out how the service will be delivered in the annual audit plan report to committee.</p> <p>Resource management is also covered in both the audit charter and the audit plan report. Whilst these documents provide information regarding the service having sufficient resources, they do not mention that the service also has sufficient skills to deliver the service.</p> <p>Reference is included in the audit charter, annual report, and audit protocol regarding coordination of resources, reporting etc refers to sharing information with the external auditor.</p> <p>Reports to the A&R Committee are informative and are usually made on a</p> | <p>operational risk registers are covered in the audit plan</p> | |

| Standard | Compliance | Findings | Recommendations and Suggestions | No |
|---------------------------------------|----------------------------------|---|--|----|
| | | <p>quarterly basis. However, due to the de-commissioning of the old APACE audit management system it has not been possible to provide detailed information for the A&R committee for the September and November 2016 meetings. Consequently, briefing papers were tabled at these two meetings rather than full progress reports.</p> <p>Regular reports are sent to the Corporate Management Team and the Statutory Officers group.</p> | | |
| <p>2100 Nature of work</p> | <p>Generally Conforms</p> | <p>The audit processes and methodology are set out in the audit manual and the risks, controls and audit objectives are recorded in the working papers. These are also included in the new Pentana application.</p> <p>The audit service assesses the adequacy of governance, risk, and IT governance arrangements as part of their audit activity as well as the control environment.</p> <p>At present, the service audits most of the key financial services on an annual basis even though 'well controlled' assurance opinions have been issued on the services for a number of years, often with no recommendations. Consideration should be given to moving the audit of these services to a less frequent timetable and redirecting audit resources to areas of</p> | <p>No recommendations have been made for this standard</p> | |

| Standard | Compliance | Findings | Recommendations and Suggestions | No |
|--|----------------------------------|--|--|----|
| | | <p>greater risk.</p> <p>The service has not been engaged to carry out consulting assignments in the past so this area of activity is not currently covered in the audit manual or the audit protocol. However, indications from senior management suggest this area of activity is likely to become an element of the services provided by internal audit in the future.</p> | | |
| <p>2200 Engagement planning</p> | <p>Generally Conforms</p> | <p>There is a robust planning process in place for all engagements based on internal audits risk assessments, the outcomes from previous audits and discussions with senior managers. Comprehensive policies and procedures, an audit manual, and an audit protocol underpin the planning and audit process.</p> <p>Detailed terms of reference are produced for each audit setting out the objectives, risks, key controls, information required for the audit, and time scales for the audit, but not the distribution schedule for the draft or final audit reports.</p> <p>Each assurance assignment includes an evaluation of the risks, governance and controls. Where opportunities to add value to the service are identified these are also reported to management.</p> | <p>No recommendations have been made for this standard</p> | |

| Standard | Compliance | Findings | Recommendations and Suggestions | No |
|--|----------------------------------|---|---|---------------------|
| <p>2300 Performing the engagement</p> | <p>Generally Conforms</p> | <p>The audit manual sets out the methodologies for carrying out the audits. The review process ensures that each audit is undertaken in accordance with the audit manual and methodologies, and the core principles for internal audit.</p> <p>Sufficient and relevant evidence is obtained for the audits and recorded in the audit files and set out in the audit reports. Going forward this will also be recorded in the Pentana application. Access control is applied to the audit records. The service has a records retention policy in place.</p> | <p>No recommendations have been made for this standard</p> | |
| <p>2400 Communicating the results</p> | <p>Partially Conforms</p> | <p>The results of audit assignments are communicated to senior managers, the section 151 Officer, and those officers responsible for managing the services that have been reviewed.</p> <p>The results of all completed audit are reported to the A&R Committee and those with 'less than adequately controlled' assurance audits are discussed in detail at the committee meetings</p> <p>Whilst all audit work carried out conforms to PSIAS, the code of ethics and the definition for internal audit, and this is confirmed in the CAE's annual report, a similar paragraph is not included in each individual audit report. Including such a paragraph would enhance the reputation of</p> | <p>Expand the CAE's annual report to include the Council's risk management and governance arrangements as well as the control environment.</p> <p>Add a statement to the CAE's annual report regarding compliance with the definition for internal audit, the code of ethics, PSIAS, the CIPFA Local Government Application Note and the seven principles of public life.</p> | <p>R7</p> <p>R8</p> |

| Standard | Compliance | Findings | Recommendations and Suggestions | No |
|--|----------------------------------|---|--|----|
| | | <p>the service. This issue has been identified by the CAE and is on the services QAIP, so including this as an improvement suggestion in this report will not add any further value to the service.</p> <p>Similarly should a situation arise where an audit does not conform, a statement should be included in the individual audit reports setting out the reasons for the non conformance</p> <p>The annual report for 2015/16 only gave an assurance opinion on the Council's control environment and did not cover the Council's governance and risk management arrangements. This needs to be added to the opinion in the CAE's annual report.</p> <p>The annual report for 2015/16 did not include a statement stating that the service complies with the definition of internal audit, the code of ethics, PSIAS, and the seven principles of public life. It is recommended that that this is added to the annual report for 2016/17.</p> | | |
| <p>2500 Monitoring progress</p> | <p>Generally Conforms</p> | <p>Progress on delivering the audit plan is reported to the A&R Committee. Performance indicators are set by the CAE in line with those used throughout the Staffordshire internal audit services and</p> | <p>No recommendations have been made for this standard</p> | |

| Standard | Compliance | Findings | Recommendations and Suggestions | No |
|--|----------------------------------|--|---|-----------|
| | | <p>are monitored on a quarterly basis.</p> <p>Management's progress on implementing recommendations is monitored by internal audit. Where applicable follow up reviews are undertaken although a revised audit opinion is not normally issued if the recommendations have been implemented. Progress on the implementation of recommendations is reported to the A&R Committee</p> | | |
| <p>2600 Communicating the acceptance of risks</p> | <p>Generally Conforms</p> | <p>The communication of the acceptance of risk is covered by the audit manual and audit protocol. There is an escalation process through the Statutory Officers Group and the A&R Committee if internal audit believe management is accepting a level of risk greater than the Council's risk appetite.</p> | <p>No recommendations have been made for this standard</p> | |
| <p>Code of Ethics</p> | <p>Generally Conforms</p> | <p>The service is conforming to the code of ethics for internal audit although this is not specifically referred to in the 2015/16 annual report. This is covered under standard 2400 above.</p> | <p>A statement is added to the CAE's annual report regarding compliance with the definition for internal audit, the code of ethics, PSIAS, the CIPFA Local Government Application Note and the seven principles of public life.</p> | <p>R4</p> |
| <p>Mission</p> | <p>Generally Conforms</p> | <p>The draft audit charter for 2017/18 includes the mission statement as required by the revised (2016) PSIAS</p> | <p>No recommendations have been made for the mission</p> | |

| Standard | Compliance | Findings | Recommendations and Suggestions | No |
|---|----------------------------------|--|--|----------------------|
| <p>Core principles of internal audit</p> | <p>Generally Conforms</p> | <p>Overall the internal audit service conforms to the core principles of internal audit although they are not set out in the audit charter and should be added at the next revision. A paragraph stating that the service complies with the core principles should also be included in the Head of Audit and Elections annual report for 2016/17.</p> <p>The CAE believes the service is currently operating at the minimum level to provide an adequate audit service and she is conscious that there is no cover for her post should the need arise.</p> <p>The S151 officer also believes that the service is lean, whilst the Chief Executive would like Internal Audit to develop into a service that could undertake VFM and consulting assignments. Both officers acknowledge that this will be difficult to achieve with the current limited resources. A solution to this problem will however need to be found if the service is to become the insightful, proactive and forward thinking service that senior management clearly want.</p> | <p>Add the core principles for internal audit to the audit charter at the next revision.</p> <p>Look to strengthen the service by exploring options to support the Head of Audit and Elections whilst remaining within the current budget allocation. This could be through creating a principle auditor post to take on the deputy role; or seconding staff into the section on a temporary basis; or partnering with another authority or public sector internal audit provider for additional resources; or entering into a full shared service arrangement</p> | <p>R9</p> <p>R10</p> |

Appendix 1: action plan

Recommendations

| No | Recommendation | Response | Responsible Person | Action date |
|----|---|---|--------------------------------------|---------------|
| R1 | Include a definition for assurance and consulting services are included in the CAE's annual report and opinion for 2016/17. | Agreed this will be included in the Annual Report for 2016/17 | Head of Audit & Elections – Liz Dodd | 31 July 2017 |
| R2 | Expand the CAE's annual report and opinion for 2016/17 should be expanded to include compliance with the code of ethics for internal auditors and the core principles for internal audit. Reference must also be made to compliance with the CIPFA Local Government Application Note as this is mandatory within UK local government organisations. | Agreed this will be included in the Annual Report for 2016/17 | Head of Audit & Elections – Liz Dodd | 31 July 2017 |
| R3 | Enhance the knowledge and understanding of IT risks and controls for the Audit Technicians by implementing the action point on the QAIP | Agreed – this area of work continue to be developed alongside the work programme of the Staffs Chief Auditors Computer Sub Group, which both of the Audit Technicians attend. | Head of Audit & Elections – Liz Dodd | 31 March 2018 |
| R4 | Align the IA plan with the priorities in the Council's strategic plan 2015-18. This could be achieved by mapping the audits in the audit universe within Pentana to the priorities. | This will be reviewed during 2017/18 through the use of Pentana | Head of Audit & Elections – Liz Dodd | 31 March 2018 |
| R5 | Align the IA plan with the Council's strategic risk register. Again this could be achieved within the Pentana application. | This will be reviewed during 2017/18 through the use of Pentana | Head of Audit & Elections – Liz Dodd | 31 March 2018 |

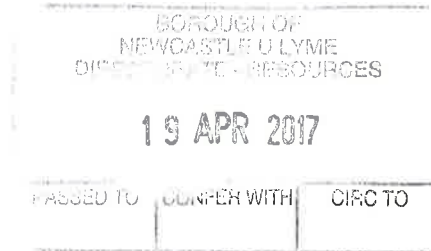
| No | Recommendation | Response | Responsible Person | Action date |
|-----|---|---|--------------------------------------|---------------|
| R6 | Ensure the key risks from the operational risk registers are covered in the audit plan | This will be reviewed during 2017/18 through the use of Pentana | Head of Audit & Elections – Liz Dodd | 31 March 2018 |
| R7 | Expand the CAE’s annual report to include the Council’s risk management and governance arrangements as well as the control environment. | Agreed this will be included in the Annual Report for 2016/17 | Head of Audit & Elections – Liz Dodd | 31 July 2017 |
| R8 | Add a statement is added to the CAE’s annual report regarding compliance with the definition for internal audit, the code of ethics, PSIAS, the CIPFA Local Government Application Note and the seven principles of public life. | Agreed this will be included in the Annual Report for 2016/17 | Head of Audit & Elections – Liz Dodd | 31 July 2017 |
| R9 | Add the core principles for internal audit to the audit charter at the next revision. | Agreed this will be added to the next revision of the Charter | Head of Audit & Elections – Liz Dodd | 31 March 2018 |
| R10 | Look to strengthen the service by exploring options to support the Head of Audit and Elections whilst remaining within the current budget allocation. This could be through creating a principle auditor post to take on the deputy role; or seconding staff into the section on a temporary basis; or partnering with another authority or public sector internal audit provider for additional resources; or entering into a full shared service arrangement. | Options will be discussed with the Section 151 Officer and there will be a continual look at the way we can develop the service through shared resource or partnering | Head of Audit & Elections – Liz Dodd | 31 March 2018 |

Appendix 2: Interviewees

| Person | Position | Organisation |
|----------------|--|--------------------------------------|
| Liz Dodd | Head of Audit and Elections (and Monitoring Officer) | Newcastle-Under-Lyme Borough Council |
| John Sellgren | Chief Executive Officer | Newcastle-Under-Lyme Borough Council |
| Kelvin Turner | Executive Director of Resources & Support Services (and Section 151 Officer) | Newcastle-Under-Lyme Borough Council |
| Dave Adams | Executive Director Operational Services | Newcastle-Under-Lyme Borough Council |
| Jane Spencer | Benefits Manager | Newcastle-Under-Lyme Borough Council |
| Sarah Moore | Partnerships Manager | Newcastle-Under-Lyme Borough Council |
| Nesta Barker | Head of Environmental Services | Newcastle-Under-Lyme Borough Council |
| Sarah Pickup | Chair of Audit and Risk Committee | Newcastle-Under-Lyme Borough Council |
| Sylvia Diamond | Vice Chair of Audit and Risk Committee | Newcastle-Under-Lyme Borough Council |
| Phil Evans | Audit Technician | Newcastle-Under-Lyme Borough Council |
| Phil Templeton | Audit Technician | Newcastle-Under-Lyme Borough Council |
| Tony Marshall | Agency Audit Technician | Newcastle-Under-Lyme Borough Council |



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18 April 2017

Dear Kelvin

Planned audit fee for 2017/18

The Local Audit and Accountability Act 2014 provides the framework for local public audit. Under these provisions 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 Audit 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](#).

From 2018/19 PSAA has been specified by the Secretary of State as an appointing person for principal local government and police bodies, and will make auditor appointments and set fees for bodies that have opted into the national auditor appointment scheme it is developing.

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 changes to the overall work programme for local government audited bodies for 2017/18, following the recent CIPFA/LASAAC announcement that their planned introduction of the Highways Network Asset Code into the financial reporting requirements for local authorities in 2017/18 will no longer proceed. PSAA have therefore set the 2017/18 scale audit fees at the same level as the scale fees applicable for 2016/17. The Council's scale fee for 2017/18 has been set by PSAA at £55,002.

The audit planning process for 2017/18, 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 2017/18 will be undertaken under this Code, on the basis of the [2017/18 work-programme and scales of 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); and
- 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 2016. 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 had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Certification of grant claims and returns

At the request of the Department for Work and Pensions, auditors appointed by PSAA will continue to certify local authority claims for housing benefit subsidy for 2017/18.

The Council's indicative fee for this certification work has yet to be set by PSAA. We will write to you to confirm the fee when this has been confirmed.

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:

| Main Audit fee | £ |
|--------------------------------------|---------------|
| September 2017 | 13,750 |
| December 2017 | 13,750 |
| March 2018 | 13,750 |
| June 2018 | 13,752 |
| Total | 55,002 |
| Housing Benefit Certification | |
| March 2018 | TBC |

Outline audit timetable

We will undertake our audit planning and interim audit procedures in December 2017 to March 2018. 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 2018 and work on the whole of government accounts return in July 2018.

| Phase of work | Timing | Outputs | Comments |
|----------------------------------|----------------------------|--|--|
| Audit planning and interim audit | December 2017 – March 2018 | 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 | June 2018 – July 2018 | 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 2018 – July 2018 | Audit Findings (Report to those charged with governance) | As above |
| Whole of government accounts | July 2018 | Opinion on the WGA return | This work will be completed alongside the accounts audit. |
| Annual audit letter | September 2018 | Annual audit letter to the Council | The letter will summarise the findings of all aspects of our work. |
| Grant certification | November 2018 | Grant certification report | A report summarising the findings of our housing benefit certification work |

Our team

The key members of the audit team for 2017/18 are:

| | Name | Phone Number | E-mail |
|--------------------|--------------------|---------------|--------------------------------|
| 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 | Matthew Berrisford | 0121 232 5352 | matthew.j.berrisford@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.

Yours sincerely

A handwritten signature in black ink, appearing to read 'John Gregory', written over a horizontal line.

John Gregory

Engagement Lead

For Grant Thornton UK LLP

