

Public Document Pack

Date of meeting Monday, 13th November, 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 **DECLARATIONS OF INTEREST**
To receive Declarations of Interest from Members on items included in the agenda
- 3 **MINUTES OF PREVIOUS MEETINGS** (Pages 3 - 6)
To consider the minutes of the previous meeting(s).
- 4 **HEALTH AND SAFETY SIX MONTH REPORT** (Pages 7 - 14)
- 5 **CORPORATE RISK MANAGEMENT REPORT** (Pages 15 - 22)
- 6 **TREASURY MANAGEMENT HALF YEARLY REPORT** (Pages 23 - 30)
- 7 **ANNUAL AUDIT LETTER** (Pages 31 - 42)
- 8 **INTERNAL AUDIT PROGRESS REPORT QUARTER TWO** (Pages 43 - 48)
- 9 **QUARTERLY REPORT ADOPTION OF INTERNAL AUDIT HIGH RISK REPORT** (Pages 49 - 54)
- 10 **AUDIT AND STANDARDS TRAINING**
To discuss with Members what training they would like to receive in relation to this Committee.
- 11 **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, S 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.

NOTE: THERE ARE NO FIRE DRILLS PLANNED FOR THIS EVENING SO IF THE FIRE ALARM DOES SOUND, PLEASE LEAVE THE BUILDING IMMEDIATELY FOLLOWING THE FIRE EXIT SIGNS. PLEASE **DO NOT** USE THE LIFTS.

COUNCIL CHAMBER: FIRE EXITS ARE AT THE REAR OF THE CHAMBER AT BOTH SIDES AND THIS IS THE SAME FOR OCCUPANTS OF THE PUBLIC GALLERY.

COMMITTEE ROOMS: EXIT VIA THE WAY YOU ARRIVED AT THE MEETING OR AT THE FAR END OF THE COUNCIL CHAMBER.

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AUDIT AND STANDARDS COMMITTEE

Monday, 25th September, 2017
Time of Commencement: 7.00 pm

Present:- Councillor Ms Sarah Pickup – in the Chair

Councillors Dymond, Cooper, S Hambleton and Wing

Officers Executive Director (Resources and Support Services) - Kelvin Turner, Liz Dodd - Head of Audit and Elections (and Monitoring Officer), Geoff Durham and Dave Roberts and Simon Sowerby

Also in Attendance Mr Phil Butters – University of Keele
Mr Paul Harvey – Grant Thorntons

1. APOLOGIES

Apologies were received from Councillor Simon White and John Gregory (Grant Thorntons).

2. DECLARATIONS OF INTEREST

There were no declarations of interest stated.

3. MINUTES OF PREVIOUS MEETING

Resolved: That the minutes of the meeting held on 3 July, 2017 be agreed as a correct record subject to Phil Butters being recorded as in attendance.

4. CORPORATE RISK MANAGEMENT REPORT -APRIL TO JUNE, 2017 (QUARTER 1)

Consideration was given to a report informing Members of the progress made by the Council in enhancing and embedding risk management for the period April to June, 2017.

Members' attention was drawn to the risks as outlined in Appendix A. Two risks at 3 and 4 had increased for the reasons stated in the appendix.

Resolved:

- (i) That the progress that has been made in managing the risks identified within the Strategic, Operational, Project and Partnership Risk Registers, be noted.
- (ii) That point 2.1.1 showing the number of overdue risks be noted.
- (iii) That point 2.2.1 advising of the risk level increases be noted.

- (iv) That point 2.2.2 regarding the new risks identified between April to June 2017 be noted.

5. STATEMENT OF ACCOUNTS 2016/17 AND EXTERNAL AUDITOR'S AUDIT FINDINGS REPORT

Consideration was given to a report seeking to approve the Statement of Accounts, to receive the external auditor's Audit Findings Report for 2016/17 and to agree the Letter of Representation to the Auditor.

Paul Harvey of Grant Thornton introduced the report and advised Members that there were no significant issues.

- Resolved:**
- (i) That the Statement of Accounts 2016/17 be approved and signed by the Chair.
 - (ii) That the Audit Findings Report for 2016/17 be received.
 - (iii) That the Letter of Representation be approved for signature by the Council's Section 151 Officer.

6. LOCAL GOVERNMENT OMBUDSMAN ANNUAL REVIEW LETTER

Consideration was given to a report informing Members of the Council's performance in relation to complaints made to the Local Government Ombudsman.

This was an information item and Members attention was brought to the two appendices attached to the report.

Resolved: That the report be received.

7. INTERNAL AUDIT PROGRESS REPORT - QUARTER 1 2017/18

Consideration was given to a report updating members on the work undertaken by the Internal Audit section during April to June, 2017.

Resolved: That the information be received.

8. QUARTERLY REPORT : ADOPTION OF INTERNAL AUDIT HIGH RISK RECOMMENDATIONS AND SUMMARY OF ASSURANCE 1 APRIL TO 30 JUNE 2017

Consideration was given to a report regarding any outstanding high risk recommendations for Quarter 1 – April to June, 2017 and requesting approval to requested actions and target dates. Also to provide Members with an assurance opinion on internal controls.

Members were assured that the Pentana Audit Management system was working well.

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

9. URGENT BUSINESS

There was no Urgent Business.

COUNCILLOR MS SARAH PICKUP
Chair

Meeting concluded at 7.30 pm

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AUDIT AND STANDARDS COMMITTEE – 13th November 2017

HEALTH AND SAFETY 6 MONTH REPORT

Submitted by: Lee Jamieson – Corporate Health & Safety Officer

Portfolio: Policy, People & Partnerships

Ward(s) affected: None

Purpose of the Report

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

Recommendation

That the report be noted.

1. **Background**

1.1 Attached as an Appendix is the health and safety report submitted to the council. It covers the period 1st April 2017 to 30th September 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 Target 100 continues to be used, additional training has been provided to users and administrators to support employees using the system.

6.2 Trials of 2 Lone Working Devices have been completed and a preferred device has been identified. A procurement exercise is currently underway to purchase the required number of devices.

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Audit and Standards Committee

Health and Safety 6 Monthly Report (April 2017 to September 2017).

1. INTRODUCTION

- 1.1 This report outlines the current state of health and safety matters during the year from 1st April 2017 to 30th September 2017.
- 1.2 There is considerable progress to report, including the delivery of training, fire evacuation, progress with lone working protection, Castle House and the review of a Corporate Drug and Alcohol Policy.

2. POLICIES AND GUIDANCE

- 2.1 A significant amount of work has been undertaken to assist the Facilities Management team to prepare fire evacuation and first aid policies and procedures for Castle House. These documents have been prepared so as to align so far as possible with Staffordshire County Council requirements as the building landlord. However, implementation of these will form part of the Facilities Management agreement being undertaken by NULBC.
- 2.2 Work on the review of the Drug and Alcohol Policy is continuing. It is anticipated that this will be completed over the next few months and will then go to Corporate Health & Safety Committee for consultation. Trade Unions are represented on the Committee.

3. TARGET 100

- 3.1 Work continues with the use of Target 100, user and administrator training has recently been delivered by the software provider Business Safety Systems. The system is used to record all risk assessments, accidents and incidents. It is also used to record risk assessment monitoring and review activity.
- 3.2 A number of report templates have been requested from the provider to assist in monitoring trends and to allow further reporting.

4. HEALTH AND SAFETY TRAINING

- 4.1 The following Health and Safety Training has been completed –
 - Evac Chair
 - Target 100 Version 6 (User and Administrator)

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
2017/18 (6 months)	83	2	183****	0.31

* 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.

**** This is mainly due to 2 incidents, one period of 118 days and one period of 42 days to end of September.

5.2 All accidents (staff & members of public)

Month	RIDDOR*	Non-Reportable	Near Miss	Dangerous Occurrence
April 2017	0	9	8	0
May 2017	0	13	5	0
June 2017	1	14	25	0
July 2017	0	15	12	0
August 2017	1	19	8	0
September 2017	0	13	11	0
TOTAL	2	83	69	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
June	Member of public	Jubilee 2	Slip – reported as a precaution	None required
August	Member of public	Wolstanton Marsh	Fall	Inspection of play equipment undertaken, no defect(s) identified

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 –

- Brampton Museum
- Jubilee 2 – focussed on wet areas and water

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

- 15th June 2017
- 21st September 2017

7.2 Matters arising from the meetings included:

- Accidents, Incidents and Near Misses
- Target 100
- Training
- Buildings, Utilities and Infrastructure
- External Yard, Waste Transfer Station, Salt Yard
- Feedback from depot walk around inspection
- Yard operations reorganisation

8 LEISURE (SHE) Safety, Health and Environment Meetings

These meetings continue to be held, during which the following points (regarding health and safety) are discussed

- Accident Statistics
- Accident / Incident Investigations
- Risk Assessments
- COSHH

The Corporate Safety Officer attends the meetings if requested.

9. CORPORATE HEALTH AND SAFETY COMMITTEE

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

- 21st July 2017
- 28th September 2017

9.2 The committee discussed the following items during this period:

- Noise and Vibration
- 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
- Communication of Health and Safety Procedures
- Health and safety arrangements for Castle House

10. FIRE

10.1 Following a fire within the bailing shed at Knutton Lane depot on 7th July 2017 the fire risk assessment has been reviewed which identified a number of action points.

10.2 As a result of the review, additional fire extinguishers have been provided in the waste transfer station area and work is currently being undertaken to source a provider for bespoke practical training in the use of fire extinguishers for some of the waste transfer operatives and garage staff.

10.3 As the cause of the fire was found to be batteries mixed in with paper recycling material, the recycling team are currently reviewing the types of materials collected for recycling, with a view to withdrawing collection of batteries from the recycling/kerb side collection scheme.

11. Lone Working Review

11.1 A corporate working group was established to undertake a review of lone working arrangements. This group includes staff representatives from all service areas and Trade Unions. As part of this review process, Business Managers completed a lone working survey which has helped to populate risk assessments and safe working procedures.

11.2 Business Managers were also 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.

11.3 During the review period, Business Managers have reviewed their lone working risk assessments to ensure that they reduce the risks associated with lone working.

- 11.4 A working party of representative lone working officers was set up to review the lone working products available in the market place, these were demonstrated by the various suppliers, as a result of which, trials of two different lone worker devices were undertaken. Following the trial the working group met to evaluate the products, to determine the need for devices and gave feedback regarding a preferred device.
- 11.5 Business Managers have since reviewed the numbers of devices required and costings have been obtained in accordance with procurement requirements. A report is currently being prepared to present to EMT for consideration due to an increase in the cost of the lone working scheme. This increase is the result of an increased number of devices required due to greater uptake of agile working across the authority. In addition, as a result of the relocation to Castle House, sharing or pooling devices has been made more difficult due to a lack of 'cross-over' of staff; this too has meant an increase in the number of devices required.

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

13 November 2017

**CORPORATE RISK MANAGEMENT REPORT FOR THE PERIOD July to
September 2017 (Quarter 2)**

Submitted by: Simon Sowerby - Business Improvement Manager

Portfolio: Policy, People and Partnerships

Ward(s) affected: All

Purpose of the Report

To inform Members of the progress made by the Council in enhancing and embedding risk management for the period July - September 2017 (Q2), including progress made in managing identified corporate risks.

Recommendations

The Committee is asked to:-

- (a) Scrutinise the progress that has been made in managing the risks identified within the Strategic, Operational, Project and Partnership Risk Registers, where applicable.**
- (b) Note the point 2.1.1 showing the number of overdue risks.**
- (c) Note the point 2.2.1 advising of the risk level increases.**
- (d) Note the point 2.2.2 regarding the new risks identified between July to September 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 (Q1 2017) was reported to the Council's Audit & Standards Committee in September 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 NO overdue reviews.
- 2.2 Following a previous meeting a brief point is now produced to show any risks where the risk level has increased to a Medium 7, 8 or High 9.
 - 2.2.1 Your officer can report that there have been no risk level increases.
 - 2.2.2 There have been no new risks added to profiles during July to September 2017.
 - 2.2.3 Should there be any increase during October to December 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	High	7 Amber	8 Amber	9 High Red
		4	5	6

L I H O O D	Medium	Green	Amber	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

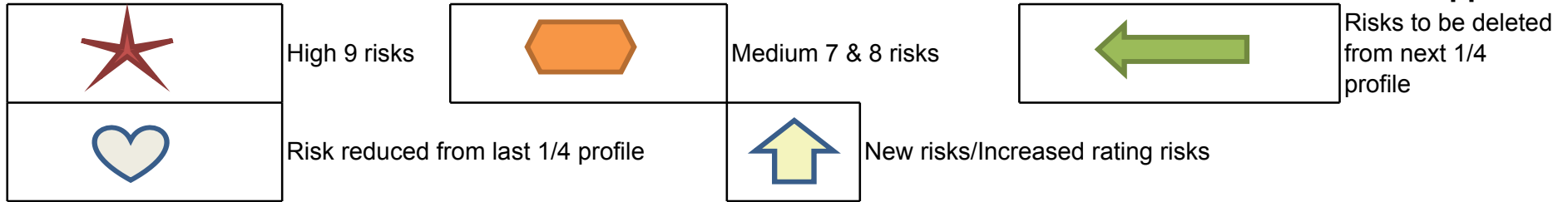
8.1 None where actions are to be taken in order to mitigate the risks as these will be met from within existing budgets. Where this is not possible, further reports will be submitted to Members.


9. List of Appendices



Appendix A – Notable High and Medium risks

10. **Background Papers**

None




Appendix A								
Risks and Action Plan	Risk Owner	Action Required to Address Risk	Target Date	Risk Category	Current position / progress	Status	Status	Current Rating
Risk Identified			for action completion	Strategic, Operational, Project	as at 24/10/2017	as at Mar 17	as at June 17	as at Sept 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 24/10/2017	Status as at Mar 17	Status as at June 17	Current Rating as at Sept 17
 <p>2</p> <p>Financial consequences of adverse planning decisions</p>	Regeneration and Development	Production of Emerging Joint Local Plan – completion of Preferred Options stage	Dec-17	Strategic	The emerging Joint Local Plan will provide a more robust framework against which future planning applications will be determined. It will take several years to complete but it will gather greater weight as it proceeds through the various stages of the overall process. The Preferred options document is the next stage and will be reported to Cabinet in December 2017	I = 3 L = 3 High 9	I = 3 L = 3 High 9	I = 3 L = 3 High 9
 <p>3</p> <p>Fire risk occurrence</p>	Corporate Health and Safety	<ol style="list-style-type: none"> 1. Removal of the battery collection from the council's recycling system. 2. Specific extinguisher training being procured for staff at the site. 3. Amendment to fire evacuation plan once training received. 	Mar-18	Operational	Current battery collection and recycling is undertaken at the council however this is not a requirement - the requirement lies with the businesses that sell batteries to provide a recycling point - this will allow the council to cease the collection practice and reduce the likelihood of fires occurring	I = 3 L = 1 Medium 3	I = 3 L = 3 High 9	I = 3 L = 3 High 9

Risks and Action Plan Risk Identified	Risk Owner	Action Required to Address Risk	Target Date	Risk Category	Current position / progress	Status	Status	Current Rating
		in order to reduce the risk	for action completion	Strategic, Operational, Project	as at 24/10/2017	as at Mar 17	as at June 17	as at Sept 17
4 Failure to deliver Local Air Quality Management action plans	Environmental Protection	Deliver Air Quality Action Plan to DEFRA. Failure to manage air quality in accordance with statutory requirements and not addressing risks to residents health in affected areas. The minister has reserve power functions and judicial review of the council function /decision making may be called. Development and delivery of measures requires buy in from key stakeholders.	Nov-17	Operational	The action plan should have been delivered during 2016/17, however it was revised to be delivered during Q2 of 2017/18. The draft report was sent to the consultants for comments during September and will be sent to DEFRA around 04/11/2017	I = 2 L = 1 LOW 2	I = 2 L = 3 Medium 8	I = 2 L = 3 Medium 8



4

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 24/10/2017	as at Mar 17	as at June 17	as at Sept 17
5  Loss of Specialist equipment - servers	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	24/10/17 - Update - ICT have completed building a new DR site at the depot and resilient telephony links have also been installed. Significant progress has also been made in removing the Council's reliance upon a single building to house staff, as more than 50% of workers based at the current Civic Offices are now enabled to work from home. ICT will work with the Council's Civil Contingencies group following the migration to Castle House to ensure that BCPs are updated appropriately to reflect the changed vulnerabilities and improvements.	I = 1 L = 3 Medium 7	I = 1 L = 3 Medium 7	I = 1 L = 3 Medium 7

NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

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

13 November 2017

1. TREASURY MANAGEMENT HALF YEARLY REPORT 2017/18

Submitted by: Head of Finance

Portfolio: Finance, IT and Customer

Ward(s) affected: All Indirectly

Purpose of the Report

To receive the Treasury Management Half Yearly Report for 2017/18 and to review the Treasury Management activity for this period.

Recommendations

(a) That the Treasury Management Half Yearly Report for 2017/18 be received.

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.

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. **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 approved by Council on 22 February 2017.

2. **Issues**

2.1 The Treasury Management Half Yearly Report for 2017/18 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.

2.3 **Heritable Bank**

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

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

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

The Council will be notified by the bank's administrators of the timescale for the payment following the conclusion of the administration (timescale not currently known).

3. **Legal and Statutory Implications**

3.1 See Background for details.

4. **Financial and Resource Implications**

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

5. **Major Risks**

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

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

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

6. **List of Appendices**

6.1 Appendix 1, Treasury Management Half Yearly Report 2017/18.

7. **Background Papers**

- CIPFA Treasury Management Code of Practice (revised November 2011),
- Council's Treasury Management Policy Statement,
- Council's Treasury Management Strategy,
- Local Government Act 2003,
- Local Authorities (Capital Finance and Accounting) (England) Regulations 2003,
- Guidance on Local Authority Investments issued by the Department for Communities and Local Government (revised March 2010),
- Bevan Brittan notice to creditors of Heritable Bank (October 2015),
- Ernst and Young creditors of Heritable Bank report (April 2015),
- Ernst and Young creditors of Heritable Bank report (March 2016).

Treasury Management Half Yearly Report – 2017/18

1. Background

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

Accordingly Treasury Management is defined as:

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

The second main function of a treasury management service is the funding of an authority’s capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasions any debt previously drawn may be restructured to meet Council risk or cost objectives.

2. Introduction

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

The primary requirements of the Code are as follows:

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

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

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

- An economic update for the 2017/18 financial year to 30 September 2017
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy
- A review of the Council's investment portfolio for 2017/18

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

Commodity prices fluctuated over the period with oil falling below \$45 a barrel before inching back up to \$58 a barrel. UK Consumer Price Inflation (CPI) index rose with the data print for August showing CPI at 2.9%, its highest since June 2013 as the fall in the value of sterling following the June 2016 referendum result continued to feed through into higher import prices. The new inflation measure CPIH, which includes owner occupiers' housing costs, was at 2.7%.

The unemployment rate fell to 4.3%; it's lowest since May 1975, but the squeeze on consumers intensified as average earnings grew at 2.5%, below the rate of inflation. Economic activity expanded at a much slower pace as evidenced by Q1 and Q2 GDP growth of 0.2% and 0.3% respectively. With the dominant services sector accounting for 79% of GDP, the strength of consumer spending remains vital to growth, but with household savings falling and real wage growth negative, there are concerns that these will be a constraint on economic activity in the second half of calendar 2017.

The Bank of England made no change to monetary policy at its meetings in the first half of the financial year. The vote to keep Bank Rate at 0.25% narrowed to 5-3 in June highlighting that some MPC members were more concerned about rising inflation than the risks to growth. Although at September's meeting the Committee voted 7-2 in favour of keeping Bank Rate unchanged, the MPC changed their rhetoric, implying a rise in Bank Rate in "the coming months". The Council's treasury advisor Arlingclose is not convinced the UK's economic outlook justifies such a move at this stage, but the Bank's interpretation of the data seems to have shifted.

In the face of a struggling economy and Brexit-related uncertainty, Arlingclose expects the Bank of England to take only a very measured approach to any monetary policy tightening; any increase will be gradual and limited as the interest rate backdrop will have to provide substantial support to the UK economy through the Brexit transition.

Outlook for the remainder of 2017/18

The UK economy faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. Both consumer and business confidence remain subdued. Household consumption growth, the driver of UK GDP growth, has softened following a contraction in real wages. Savings rates are at an all-time low and real earnings growth (i.e. after inflation) struggles in the face of higher inflation.

The Bank of England's Monetary Policy Committee has changed its rhetoric, implying a rise in Bank Rate in "the coming months". Arlingclose is not convinced the UK's economic outlook justifies such a move at this stage, but the Bank's interpretation of the data seems to have shifted.

This decision is still very data dependant and Arlingclose is, for now, maintaining its central case for Bank Rate at 0.25% whilst introducing near-term upside risks to the forecast as shown below. Arlingclose's central case is for gilt yields to remain broadly stable in the across the medium term, but there may be near term volatility due to shifts in interest rate expectations.

4. Regulatory Updates – as provided by the Council's Treasury Management Advisors, Arlingclose

MiFID II

Local authorities are currently treated by regulated financial services firms as professional clients who can "opt down" to be treated as retail clients instead. But from 3rd January 2018, as a result of the second Markets in Financial Instruments Directive (MiFID II), local authorities will be treated as retail clients who can "opt up" to be professional clients, providing that they meet certain criteria. Regulated financial services firms include banks, brokers, advisers, fund managers and custodians, but only where they are selling, arranging, advising or managing designated investments. In order to opt up to professional, the Council must have an investment balance of at least £10 million and the person authorised to make investment decisions on behalf of the Council must have at least one year's relevant professional experience. In addition, the firm must assess that that person has the expertise, experience and knowledge to make investment decisions and understand the risks involved.

The main additional protection for retail clients is a duty on the firm to ensure that the investment is "suitable" for the client. It is likely that retail clients will face an increased cost and potentially restricted access to certain products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice. The Council has declined to opt down to retail client status in the past as the costs were thought to outweigh the benefits.

The Council does not plan to opt up professional status because it will not hold investment balances of at least £10 million and will not be engaging into borrowing where unnecessary. The Council could borrow in accordance with its Capital Financing Requirement; this could temporarily mean that the Council could opt up to become a professional client (i.e. greater than £10m of investments) but this would introduce increased risk associated with investing public monies. Remaining a retail client may lead to an increased cost and restricted access to some financial products after 3rd January 2018. This is currently being reviewed with the Council's Treasury Management Advisors together with advice from CIPFA and the Local Government Association.

CIPFA Consultation on Prudential and Treasury Management Codes

In February 2017 CIPFA canvassed views on the relevance, adoption and practical application of the Treasury Management and Prudential Codes and after reviewing responses launched a further consultation on changes to the codes in August with a deadline for responses of 30th September 2017.

The proposed changes to the Prudential Code include the production of a new high-level Capital Strategy report to full council which will cover the basics of the capital

programme and treasury management. The prudential indicators for capital expenditure and the authorised borrowing limit would be included in this report but other indicators may be delegated to another committee. There are plans to drop certain prudential indicators, however local indicators are recommended for ring fenced funds (including the HRA) and for group accounts. Other proposed changes include applying the principles of the Code to subsidiaries.

Proposed changes to the Treasury Management Code include the potential for non-treasury investments such as commercial investments in properties in the definition of “investments” as well as loans made or shares brought for service purposes. Another proposed change is the inclusion of financial guarantees as instruments requiring risk management and addressed within the Treasury Management Strategy. Approval of the technical detail of the Treasury Management Strategy may be delegated to a committee rather than needing approval of full Council. There are also plans to drop or alter some of the current treasury management indicators.

CIPFA intends to publish the two revised Codes towards the end of 2017 for implementation in 2018/19, although CIPFA plans to put transitional arrangements in place for reports that are required to be approved before the start of the 2018/19 financial year.

The Department of Communities and Local Government (DCLG) and CIPFA wish to have a more rigorous framework in place for the treatment of commercial investments as soon as is practical. It is understood that DCLG will be revising its Investment Guidance (and its MRP guidance) for local authorities in England; however there have been no discussions with the devolved administrations yet.

5. Treasury Management Strategy Statement and Annual Investment Strategy Update

The Treasury Management Strategy Statement (TMSS) for 2017/18 was approved by Full Council on 22 February 2017. The Council’s Annual Investment Strategy, which is incorporated in the TMSS, outlines the Council’s investment priorities as follows:

- Security of Capital
- Liquidity

The Council will also aim to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term, and only invest with highly credit rated financial institutions using the Arlingclose suggested creditworthiness matrices. Currently investments are only being made with UK financial institutions.

Investments during the first six months of the 2017/18 financial year have been in line with the strategy, and there have been no deviations from the strategy.

As outlined in Section 4 above, there is considerable uncertainty in the financial and banking market, both globally and in the UK. In this context, it is considered that the strategy approved on 22 February 2017 is still fit for purpose in the current economic climate.

6. Investment Portfolio 2017/18

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

The Council held no investments as at 30 September 2017 (£3.4m at 31 March 2017), however £1.7m was held in the Lloyds Current Account. Funds available for investment purposes can vary between nothing and £4million due to fluctuations in cash inflows and outflows during each month. Large cash inflows include council tax & business rate direct debits and the Housing Benefit subsidy from the Department for Work and Pensions. Large cash outflows include payment of the precepts to Staffordshire County Council, the Fire Authority and the Police, payment of salaries and payment of business rates to Central Government and the Staffordshire Business Rate pool.

The investment portfolio yield for the first six months of the year is 0.39% against a target of 0.25%. The Council's budgeted investment return for 2017/18 is £49,000 (£24,500 for first 2 quarters). As at the end of the first 2 quarters of 2017/18 £4,800 of interest has been earned. Despite a greater return in terms of interest rates, fewer funds have been available for investment during this period; this is expected to be the case during the rest of 2017/18.

7. Borrowing Position 2017/18

The only borrowing envisaged by the 2017/18 Treasury Management Strategy is temporary borrowing to cover short-term cash flow deficits. In fact no borrowing has taken place for the first half of the financial year.

However, it was resolved at the meeting of the Council that took place on 7 September 2016, due to the delay in capital receipts; prudential borrowing will most likely be required towards the end of the 2016/17 financial year. However, this is now expected to happen towards the back end of 2017/18.

8. Prudential Indicators 2017/18

Treasury management activity during the first half year has been carried out within the parameters set by the prudential indicators contained in the approved 2017/18 Treasury Management Strategy. Consequently, there is no intention to revise any of the indicators for the remainder of the year.

Annex A

Treasury Management – Glossary of Terms

- **CIPFA** – the Chartered Institute of Public Finance and Accountancy, is the professional body for accountants working in Local Government and other public sector organisations.
- **CPI** – a measure that examines the weighted average of prices of a basket of consumer goods and services. The Consumer Price Index is calculated by taking price changes for each item in the predetermined basket of goods/services and averaging them; the goods are weighted according to their importance. Changes in CPI are used to assess price changes associated with the cost of living.
- **CPIH** – a measure of how much prices are rising that, unlike CPI, takes into account owner-occupiers' housing costs and council tax.
- **GDP** – Gross Domestic Product is the market value of all officially recognised final goods and services produced within a country in a given period of time.
- **Liquidity** – relates to the amount of readily available or short term investment money which can be used for either day to day or unforeseen expenses. For example Call Accounts allow instant daily access to invested funds.
- **MiFID II** – The European Union (EU) published the final text of the second Markets in Financial Instruments Directive (MiFID II) in May 2014, aiming to improve the functioning of financial markets in light of the financial crisis and to strengthen investor protection. The new rules come into effect on 3rd January 2018.
- **MPC** – interest rates are set by the Bank of England's Monetary Policy Committee. The MPC sets an interest rate it judges will enable the inflation target to be met



The Annual Audit Letter for Newcastle Under Lyme Borough Council

Year ended 31 March 2017

October 2017

John Gregory

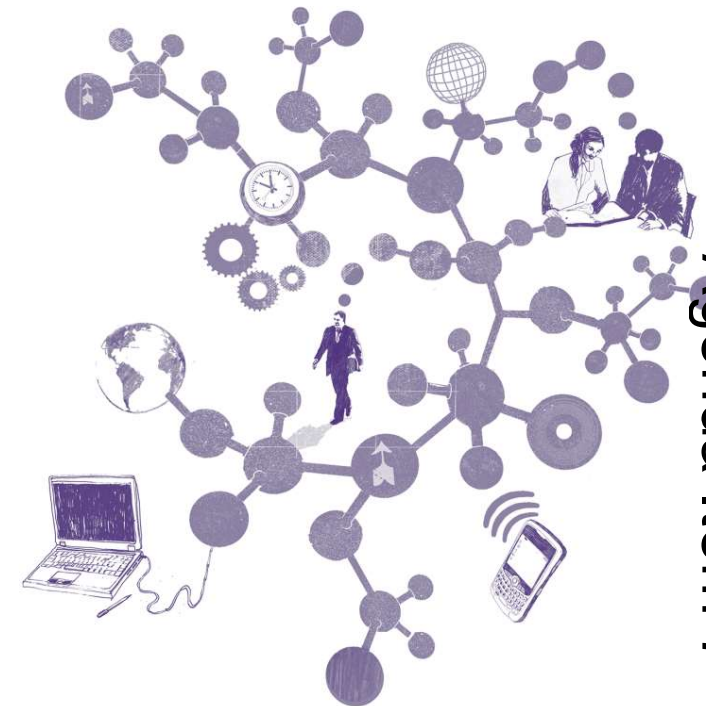
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Agenda Item 7

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- A Reports issued and fees

Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Newcastle Under Lyme Borough Council (the Council) for the year ended 31 March 2017.

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

We reported the detailed findings from our audit work to the Council's Audit and Standards Committee (as those charged with governance) in our Audit Findings Report on 25 September 2017.

Our responsibilities

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

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

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

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 25 September 2017.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017. We reflected this in our audit opinion on 25 September 2017.

We certified that we had completed the audit of the accounts of Newcastle Under Lyme Borough Council in accordance with the requirements of the Code on 25 September 2017.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2017. We will report the results of this work to the Audit and Standards Committee in our Annual Certification Letter.

Working with the Council

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

Grant Thornton UK LLP
October 2017

Audit of the accounts

Our audit approach

Materiality

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

We determined materiality for our audit of the Council's accounts to be £1.243 million, which is 2% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for related party transactions and senior officer remuneration.

We set a lower threshold of £62,150, above which we reported errors to the Audit and Standards Committee in our Audit Findings Report.

The scope of our audit

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

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

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

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

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

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

Audit of the accounts

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of property, plant and equipment</p> <p>The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p>	<p>As part of our audit work we have</p> <ul style="list-style-type: none"> • Reviewed management's processes and assumptions for the calculation of the estimate. • Reviewed the competence, expertise and objectivity of the Council's internal valuer. • Reviewed the instructions issued to valuation experts and the scope of their work. • Discussed with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions. • Tested revaluations made during the year to ensure they were input correctly into the Council's asset register. • Evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. 	<p>During 2016/17 the Council elected to amend the date of valuation from 31 March to 1 April. Therefore those assets scheduled for valuation at 31 March 17 under the rolling programme (last revalued 31 March 12), will now be valued at 1 April 17, and therefore the revaluations are not reflected in the 2016/17 financial statements. Therefore they will not have been valued within a 5 year period with the result that the requirements of the CIPFA code are not being complied with in this regard.</p> <p>The internal valuer has undertaken an impairment review of all properties at the year end to identify any significant variations in carrying value between the date that they were valued and year end. We have compared this to the Gerald Eve expected movements and overall the difference is just above our trivial value. There is no indication that the value in the accounts is materially misstated. This issue will be addressed in 2017/18 when the assets are revalued at 1 April 2017.</p>
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund net liability, as reflected in its balance sheet, represents a significant estimate in the financial statements</p>	<p>We have</p> <ul style="list-style-type: none"> • Identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. • Reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. • Gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made. • Reviewed the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>Our audit work has not identified any issues in respect of the valuation of pension fund liability.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 25 September 2017, in advance of the 30 September 2017 national deadline.

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

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Audit and Standards Committee on 25 September 2017.

Annual Governance Statement and Narrative Report

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

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

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2016 which specified the criterion for auditors to evaluate:

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

Key findings

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

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

Overall VfM conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017.

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Financial Standing The medium term financial strategy (MTFS) 2017/18 to 2021/22 indicates a forecast budget shortfall of £2.728m for 2017/18, with additional shortfalls across 2018/19 to 2021/22 totalling £3.235m. The Budget Review Group, along with officers are building upon the work already done to identify savings opportunities as part of the 2020 project, to find ways of eliminating the shortfall.</p> <p>This links to the Council's arrangements for understanding and using appropriate cost and performance information to support informed decision making; and planning finances effectively to support the sustainable delivery of strategic priorities.</p>	<p>We reviewed the MTFS, assessed the realism of savings/income generation plans, reviewing the outturn for 2016/17 and the Council's track record of addressing budget shortfalls.</p>	<p>We found that the Council has:</p> <ul style="list-style-type: none"> • set a balanced budget for 2017/18 • identified and taken account of funding cuts in its medium term financial plans including responding to consultations on changes to the New Home Bonus and 100% Business Rate Retention, both of which will have an impact on the Council. • identified actions to address over 50% of these shortfalls and have developed an efficiency and savings programme to identify further savings. <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements</p>

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Appendix A: Reports issued and fees

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

Fees

	Proposed fee £	Actual fees £	2015/16 fees £
Statutory audit of Council	55,002	55,002	55,002
Housing Benefit Grant Certification	6,210	TBC	8,052
Total fees (excluding VAT)	61,212	TBC	63,054

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

Fees for other services

Service	Fees £
Audit related services:	
• None	Nil
Non-audit services	
• None	Nil

Non- audit services

No non-audit or audited related services have been undertaken for the Council

Reports issued

Report	Date issued
Audit Plan	March 2017
Audit Findings Report	September 2017
Annual Audit Letter	October 2017



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NEWCASTLE-UNDER-LYME BOROUGH COUNCIL

REPORT OF THE EXECUTIVE MANAGEMENT TEAM TO AUDIT & RISK COMMITTEE

Date 13 November 2017

HEADING **INTERNAL AUDIT PROGRESS REPORT – Quarter 2 2017/18**

Submitted by: Head of Audit & Elections

Portfolio Finance IT and Customer

Ward(s) affected All

Purpose of the Report

To report on the work undertaken by the Internal Audit section during the period 1st July to 30th September 2017. This report identifies the key issues raised. The full individual reports issued to Officers contain the key issues plus a variety of minor issues and recommendations.

Recommendations

That Members consider any issues that they may wish to raise with Cabinet and, or Executive Directors.

Reasons

The role of Internal Audit is to ensure that the Council has assurance that controls are in place and operating effectively across all Council Services and Departments.

1 Background

1.1 The Internal Audit Plan for 2017/18 allows for 435 days of audit work.

1.2 This is the second progress report of the current financial year presented to the Committee and the areas that it will cover are as follows;

- Actual against planned performance for the first quarter, demonstrating progress against the plan
- Details of audit reviews completed and final reports issued
- Consultancy and non-audit work, including corporate work

1.3 The delivery of an audit plan does not normally show 25% of the audits completed on a quarterly basis. Past experience has shown this is more likely to be around 25% in the second quarter. Achievement of the 25% is dependent on a full complement of staff from 1st April, fully qualified and trained to complete work with minimum supervision. A full 50% of the plan is not normally achieved due to slippage of the previous quarter, and other factors such as special investigations. The audit plan is a guide to what may be achieved given optimum resources and no external influences; as such it is normal to revise the plan throughout the year to reflect unforeseen issues. Emphasis during such a revision, if required, will be on achieving the high risk audit reviews first, followed by medium and low. Variations to the plan will affect

the assurance that Internal Audit can give as to the effectiveness of the internal controls and systems; it is the role of the Head of Audit & Elections with responsibility for the Section to highlight to members if this is approaching a level that would jeopardise that assurance statement.

2 Issues

2.1 Performance Indicators

The indicators reported below relate to the end of the second quarter (September 2017).

2.2 Number of Recommendations Implemented

At the conclusion of every audit, an audit report is issued to management detailing findings of the audit review together with any recommendations required to be implemented to address any weakness identified.

Up to the end of September 2017, 121 recommendations had been made of which 83 have been implemented, 69%, this has increased from 43% at the end of quarter one. The target for the implementation of all recommendations is 96% by the end of the financial year.

The introduction of automated recommendation tracking is starting to embed across the organisation as Heads of Service and Business Managers are now logging into a web portal to provide updates on their outstanding recommendations. These updates are then reviewed by members of the Internal Audit team before being approved within the system for completion and sign off.

Progress made against the plan.

This is measured using two indicators;

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

Reporting for this performance indicator is still under development.

- **Percentage of audits completed compared to the total number of audits planned for completion (percentage):** the annual target for this is 90%. 35% of the planned audits had been completed by the end of quarter 2, this set against a target of 25%.

2.3 Audit reviews completed and final reports issued between 1 July and 30 September 2017

On completion of the audit reviews an opinion can be given as to the efficiency and effectiveness of the controls in place, opinions are graded as follows:

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

2.4 The table below shows the overall audit opinion and the number and types of recommendations agreed to improve existing controls, or introduce new controls on the audit reviews completed since the 1st April 2017.

Audit Area	Risk Category	Level of Assurance	Number of Recommendations and Classification			Total
			High	Medium	Low	
Chief Executives						
Member Services	B	Adequately Controlled	0	1	1	2
Resources & Support Services						
Treasury Management	A	Well Controlled	0	0	0	0
Sundry Debtors	A	Adequately Controlled	0	2	0	2
Regeneration & Development Services						
Housing Strategy	B	Well Controlled	0	0	1	1
Corporate Reviews						
Freedom of Information	B	Adequately Controlled	0	1	1	2

Risk categories relate to the risk to the Council achieving its objectives if the area under review is not performing and identify the frequency of the audit. An 'A' risk area requires a review of its key controls on an annual basis or as the need for an audit arises for example, in the case of contracts coming to an end final account audits are required and completed. A 'B' risk area is reviewed twice during a three year programme and a 'C' risk every three years.

'Risk' can be defined as the chance, or probability, of one or more of the Council's objectives not being met. It refers both to unwanted outcomes that may arise, and to the potential failure to reach desired outcomes. Management compliance with agreed action plans will ensure that risks are addressed.

2.5 Consultancy and non-audit projects

Members will recall that it was previously reported that during the latter part of the first quarter the new audit management system, Pentana went live. During the second quarter we have continued to develop the system further and currently looking at different ways that information and the outcomes from audit reviews can be reported to the committee. The reporting functionality within the system is fairly flexible and I would be happy to explore with the members of the committee what information/level of detail they would like to see reported to future meetings.

3 Options Considered

3.1 Audit recommendations are discussed and agreed following the issue of the draft audit report. These draft discussions give management the opportunity to discuss and agree the recommendations that have been proposed.

3.2 The audit plan is a living document and as such circumstances may arise that affect it; these are considered in the light of risk and decisions taken to enable intelligent variations to be made to the plan.

4 Proposal

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

5 Reasons for Preferred Solution

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

6 Outcomes Linked to Corporate Priorities

6.1 The Internal Audit function contributes to the prevention, detection and investigation of potential fraud and corruption incidents as well as giving assurance on the effectiveness of services in terms of value for money.

6.2 By managers ensuring that they have strong controls in all their systems, processes and activities the potential for crime can be reduced whilst providing best value facilities.

7 Legal and Statutory Implications

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

8 Equality Impact Assessment

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

9 Financial and Resource Implications

9.1 The implementation of recommendations will ensure that the areas reviewed will provide value for money in relation to their objectives and that operations are

provided safely and risks managed. This in turn will reduce the risk of financial losses.

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

10 Major Risks

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

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

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

11 Key Decision Information

11.1 Not applicable

12 Earlier Cabinet/Committee Resolutions

12.1 Agreement of the Internal Audit Plan for 2017/18 (Audit and Risk Committee 13 February 2017).

13 Recommendations

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

14 Background Papers

14.1 Internal Audit Plan & PI's Folder

14.2 Pentana

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HEADING

QUARTERLY REPORT : ADOPTION OF INTERNAL AUDIT HIGH RISK RECOMMENDATIONS AND SUMMARY OF ASSURANCE 1 JULY TO 30 SEPTEMBER 2017

Submitted by: Head of Audit & Elections

Portfolio Finance IT and Customer

Ward(s) affected All

Purpose of the Report

To report on any outstanding high risk recommendations to the Audit and Standards Committee on a quarterly basis and where necessary to request Members' approval to the Executive Directors requested actions in respect of the recommendations and proposed target dates.

To provide Members with an assurance opinion on internal controls over Council Services.

Recommendations

That the action of your officers and levels of assurance be noted

Reasons

High risk recommendations are those agreed with management that are key controls in providing assurance as to the efficiency and effectiveness of the system, service or process under review. By agreeing to prolong target dates Members are accepting the risk of not implementing the control. Delayed implementation of such controls should be challenged to identify reasons behind this and solutions to the delay. Delays may be a result of external or internal influences, lack of resources or inertia. Such delays in the implementation of recommendations will affect the assurance opinion provided on each Service.

1. Background

1.1 High risk recommendations are those where action is considered imperative to ensure that the authority is not exposed to high risks and to do this it needs to be implemented within 1 month of the recommendation being agreed with managers.

1.2 Recommendations are reported to committee on an exception basis, i.e. reports where high risk recommendations have been followed up with Managers on more than two occasions are brought to the attention of Members. In addition the Chair and Vice Chair receive exception reports quarterly where high risk recommendations have been followed up with Managers after the initial implementation date has expired.

1.3 With the production of the Annual Governance Statement in conjunction with the Statement of Accounts the follow up and implementation of recommendations is increasingly important, since they provide both officers and Members with assurance as to the effectiveness of key internal controls.

1.4 Assurance is provided on an annual basis as part of the Annual Report on the Internal Audit Service. It is also provided to each Executive Director on a monthly basis, based on the number of recommendations that have been implemented, and where the target date has been changed more than twice on either medium or high risk recommendations.

2. Issues

- 2.1 At the end of quarter two there were no outstanding high risk recommendations.
- 2.2 A summary of the number of outstanding recommendations and assurance levels for each of the 4 directorates during quarter 2 can be found at Appendix A.
- 2.3 Given these results at the end of the second quarter there are no issues or concerns in relation to any outstanding recommendations within any of the Directorates.

3. Reasons for Preferred Solution

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

4. Outcomes Linked to Corporate Priorities

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

5. Legal and Statutory Implications

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

6. Equality Impact Assessment

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

7. Financial and Resource Implications

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

8. Major Risks

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

9. Key Decision Information

- 9.1 Not applicable

10. Earlier Cabinet/Committee Resolutions

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

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

11. List of Appendices

Summary of Outstanding Audit Recommendations and level of Assurance for quarter 2

12. Background Papers

Pentana Audit Management system.

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Summary of Outstanding Audit Recommendations and Level of Assurance – Quarter 2 2017-18

Directorate	Total Number of Recommendations	Number of Recommendations completed	Number of outstanding recommendations				Assurance level
			High	Medium	Low	Total	
Chief Executives	23	20	0	1	2	3	Adequately Controlled
Resources & Support Services	33	18	0	9	6	15	Adequately Controlled
Regeneration & Development Services	23	15	0	6	2	8	Adequately Controlled
Operational Services	22	16	0	2	4	6	Adequately Controlled
Corporate Reviews	20	14	0	6	0	6	Adequately Controlled
Total	121	83	0	24	14	38	

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