

# Public Document Pack

**Date of meeting** Monday, 11th February, 2019  
**Time** 7.00 pm  
**Venue** Astley Room - Castle House  
**Contact** Geoff Durham



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

Castle House  
Barracks Road  
Newcastle-under-Lyme  
Staffordshire  
ST5 1BL

## **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 CORPORATE RISK MANAGEMENT REPORT FOR THE PERIOD** (Pages 7 - 22)  
**October to December 2018 (Quarter 3 (Q3))**
- 5 INTERNAL AUDIT PROGRESS REPORT - QUARTER 3 2018/19** (Pages 23 - 26)
- 6 QUARTERLY REPORT : ADOPTION OF INTERNAL AUDIT HIGH RISK RECOMMENDATIONS AND SUMMARY OF ASSURANCE** (Pages 27 - 60)  
**1 OCTOBER TO 31 DECEMBER 2018**
- 7 ANNUAL CERTIFICATION LETTER 2017-18** (Pages 61 - 62)
- 8 EXTERNAL AUDIT PLAN 2018-19** (Pages 63 - 78)
- 9 INFORMING THE AUDIT RISK ASSESSMENT FOR** (Pages 79 - 102)  
**NEWCASTLE UNDER LYME BOROUGH COUNCIL 2018-19**
- 10 ARRANGEMENTS WITH STOKE ON TRENT CITY COUNCIL**  
A verbal report will be given.
- 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 P Waring (Chair), S. Dymond (Vice-Chair), S. Pickup, S. Burgess, M. Stubbs, G. Burnett and B. Panter

**Members of the Council: If you identify any personal training/development requirements from any of the items included in this agenda or through issues raised during the meeting, please bring them to the attention of the Democratic Services Officer at the close of the meeting.**

**Meeting Quorums :- 16+= 5 Members; 10-15=4 Members; 5-9=3 Members; 5 or less = 2 Members.**

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

**NOTE:** THERE ARE NO FIRE DRILLS PLANNED FOR THIS EVENING SO IF THE FIRE ALARM DOES SOUND, PLEASE LEAVE THE BUILDING IMMEDIATELY THROUGH THE FIRE EXIT DOORS.

ON EXITING THE BUILDING, PLEASE ASSEMBLE AT THE FRONT OF THE BUILDING BY THE STATUE OF QUEEN VICTORIA. DO NOT RE-ENTER THE BUILDING UNTIL ADVISED TO DO SO.

## AUDIT AND STANDARDS COMMITTEE

Monday, 12th November, 2018  
Time of Commencement: 7.00 pm

<b>Present:-</b>	Councillor Paul Waring – in the Chair
Councillors	S. Dymond, S. Burgess, M. Stubbs, G. Burnett, B. Panter and A. Fox-Hewitt
Officers	Geoff Durham - Mayor's Secretary / Member Support Officer, Simon Sowerby- Business Improvement Manager, Interim Executive Director - Resources and Support Services - Jan Willis, Nesta Barker - Head of Environmental Health Services and John Tradewell - Acting Chief Executive / Head of Paid Service
Also in Attendance	Mr P Jones (Grant Thornton) Ms T Barker-Phillips (Grant Thornton)

### 1. APOLOGIES

Apologies were received from Councillor Pickup

### 2. MINUTES OF PREVIOUS MEETINGS

**Resolved:** That the minutes of the meeting held on 24 September, 2018 be agreed as a correct record.

### 3. DECLARATIONS OF INTEREST

There were no declarations of interest stated.

### 4. CORPORATE RISK MANAGEMENT REPORT FOR THE PERIOD JULY TO SEPTEMBER, 2018 (QUARTER 2)

Consideration was given to a report informing Members of the progress made by the Council in enhancing and embedding risk management for the period July to September, 2018.

Members were advised that there were no overdue risk reviews. There had been three risk level increases and these were outlined in Appendix A (number 7). There had been no new risks identified and no issues since the last meeting.

Councillor Stubbs enquired about a risk in relation to 'EE' that had been identified at a previous meeting and was advised that this had been a billing issue and was now resolved.

**Resolved:** (i) That point 2.1.1 showing the number of overdue risks be noted.

- (ii) That point 2.2.1 advising of the risk level increases be noted.
- (iii) That point 2.2.2 regarding the new risks identified between July to September, 2017 be noted.
- (iv) That point 4 be noted.
- (vi) That Appendix A be noted.

**5. HEALTH AND SAFETY SIX MONTH REPORT, 2018-19**

Consideration was given to a report informing Members of issues and trends regarding health and safety at the Council.

A copy of the health and safety report was attached to the agenda.

Members were advised of the updates to Council Policies that had now been updated. These were listed at paragraph 2.2 of the report.

The Health and safety Policy had now been implemented for Castle House.

Members attention was drawn to section 5 of the Health and Safety Six Month Report which showed that there had been 95 non-reportable accidents and three RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations, 2013). None of the three reported incidents were investigated by the Health and Safety Executive.

Members were shown a lone worker device which had been rolled out to staff members who had been identified as lone workers.

Councillor Burgess asked if there was a 'safe-room' within Castle House. The Council's Head of Environmental Health Services, Mrs Nesta Barker advised that there was an evacuation policy and that an 'invacuation' procedure and lock-down was currently being investigated.

Councillor Panter enquired about the two periods of long absence and was advised that these were RIDDOR incidents.

Councillor Stubbs queried why the number of days' absence were increasing and made reference to four long absences. Mrs Barker advised that due to the number of accidents, the reporting arrangements had been altered.

**Resolved:** That the report be noted.

**6. TREASURY MANAGEMENT HALF YEARLY REPORT 2018/19**

Consideration was given to a report regarding the Treasury Management Half Yearly report for 2018-19.

The Council's Interim Executive Director – Resources and Support Services, Ms Jan Willis advised Members that it had been a relatively quiet period and everything had been carried out in line with Policy.

Members' attention Was drawn to Appendix 1, paragraph 3. The target rate for returns had been exceeded. The first half of the year had been better where it had been below the budgeted figure.

Paragraph 7, referring to the 'borrowing position' showed that some short-term borrowing would be necessary to cover short-term cash flow defecits.

**Resolved:** That the Treasury Management Half-Yearly report for 2018-19 be received.

**7. ANNUAL AUDIT INSPECTION LETTER**

The Annual Audit Inspection Letter was considered and received by this Committee at its meeting in September.

Mr Phil Jones of Grant Thornton advised that the 'significant asset' referred to on page 37 of the agenda related to J2.

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

**8. QUARTERLY REPORT : ADOPTION OF INTERNAL AUDIT HIGH RISK RECOMMENDATIONS AND SUMMARY OF ASSURANCE 1 JULY TO 30 SEPTEMBER 2018**

Consideration was given to a report regarding any outstanding high risk recommendations for Quarter 2 – July to September, 2018 and requesting approval to requested actions and target dates. Also to provide Members with an assurance opinion on internal controls.

Ms Willis apologised that the chart at Appendix 1 had printed in portrait and not landscape and handed a sheet to Members containing the information.

At a previous meeting, Members had requested the more detailed information in relation to Outstanding Audit Recommendations. Members' attention was drawn to the high risk item relating to the new refuse service – sickness management. There was a need to review the trigger points and how sickness management could be handled.

In addition, the time recording system was overdue.

The other risks were low to medium and the majority of the risks listed were not due for implementation yet

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

**9. INTERNAL AUDIT PROGRESS REPORT - QUARTER 2 2018/19**

Consideration was given to a report updating Members on the work undertaken by the Internal Audit section during July to September, 2018.

Members were advised that the delivery of the Audit Plan was on schedule and that there were no major concerns.

Councillor Stubbs asked that updates be brought back to this Committee.

The Acting Chief Executive, John Tradewell picked up on 'varied risks' advising that there had been a lot of HR issues recently and that an Interim Head of Human resources was to be brought in.

Councillor Stubbs suggested that the way in which reports were produced was slightly flawed in that if areas weren't risks 'as yet' why were they being flagged up. The Chair agreed and suggested that, if Members felt that there was no need to see risks until they were overdue then this could be applied to future reports.

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

10. **URGENT BUSINESS**

Councillor Stubbs enquired as to whether the Chair/Vice-Chair of this Committee had received notice of the change of Section 151 Officer.

Mr Tradewell explained that the suspension of the current Section 151 Officer had resulted in the Deputy Section 151 Officer picking up this role. Resources needed to be brought in and Ms Willis would be formally appointed at the next meeting of Full Council. Mr Tradewell apologised for the Chair/Vice- Chair not being notified.

**COUNCILLOR PAUL WARING**  
**Chair**

Meeting concluded at 7.32 pm

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

**11 February 2019**

**CORPORATE RISK MANAGEMENT REPORT FOR THE PERIOD October to  
December 2018 (Quarter 3 (Q3))**

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

**Portfolio: Corporate and Service Improvement, 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 October – December 2018 (Q3), including progress made in managing identified corporate risks.

**Recommendations**

**The Committee is asked to:-**

- (a) Note the point 2.1.1 showing the number of overdue risk reviews.**
- (b) Note the point 2.2.1 advising of the risk level increases.**
- (c) Note the point 2.2.2 regarding the new risks identified between October and December 2018.**
- (d) Note point 2.2.4.**
- (e) Note Appendix A and scrutinise the progress that has been made in managing the risks identified within the Strategic, Operational, Project and Partnership Risk Registers, where applicable.**
- (f) 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 (Q2 2018) was reported to the Council's Audit & Standards Committee in November 2018.
- 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 were a number of risk level increases. The majority of these increases range between Low 1 to Medium 6 ratings.
  - 2.2.2 There have been 6 new risks added to profiles during October to December 2018, with ratings between Medium 7 to High 9, and these are now included in Appendix A.
  - 2.2.3 Should there be any changes or increases during January to March 2019 these will be reported to the next relevant meeting of the Committee.
  - 2.2.4 There are no outstanding issues from the last meeting.

**3. Options Considered**

- 3.1 No options to be considered. EMT, Heads of Service, Business Managers and Officers continue to review risks with the support of Risk Champions (where required).
- 3.2 The Business Improvement Officer (Risk and Insurance) continues to offer support and direction as part of this process.

**4. Proposal - Strategic, Operational, Project and Partnership Risk Registers (Appendices)**



- 4.1 The Council regularly reviews and refreshes its risk registers in accordance with the Risk Management Strategy.
- 4.2 These reviews are co-ordinated by the Strategic Risk Champion who works closely with Directors, Operational Risk Champions and Risk Owners.
- 4.3 The risk map below shows the descriptions of the ratings, for ease of use.

<b>L I K E L I H O O D</b>	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
<b>IMPACT</b>				

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

**5. Reasons for Preferred Solution**

- 5.1 To offer a continual review process to minimise and mitigate risks.

**6. Outcomes Linked to Corporate and Sustainable Community Priorities**

- 6.1 Good risk management is a key part of the overall delivery of the Council’s four corporate priorities of:

- Local Services that Work for Local People.
- Growing our People and Places.
- A Healthy, Active and Safe Borough.
- A Town Centre for all.

**7. Legal and Statutory Implications**

- 7.1 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”*

**8. Equality Impact Assessment**

- 8.1 There are no differential equality impact issues in relation to this report.

**9. Financial and Resource Implications**

9.1 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.

**10. Major Risks**

10.1 As highlighted in Section 4.

**11. Sustainability and Climate Change Implications**

11.1 Officers assess sustainability and climate change implications as part of their local services.

**12. Key Decision Information**

12.1 This report is for information and there are no key decision requirements pertaining to the information contained within the report.

**13. Earlier Cabinet/Committee Resolutions**

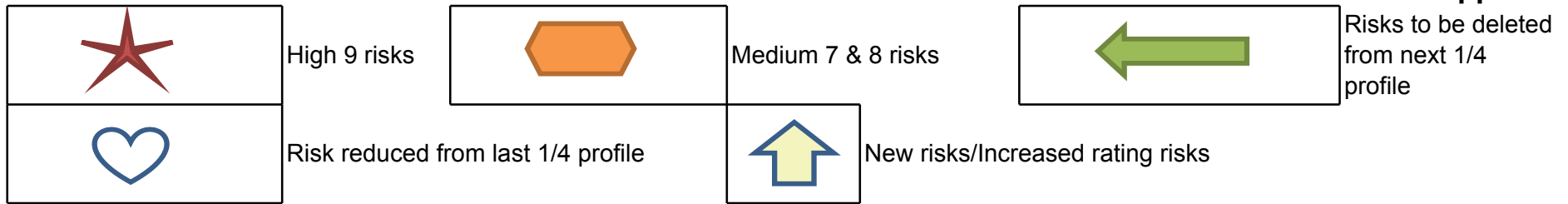
13.1 Previous Minutes from Committee meeting held on 12 November 2018.


**14. List of Appendices**

14.1 Appendix A – Notable High and Medium risks

**15. Background Papers**

15.1 Previous Minutes and reports have been circulated to relevant Members and Officers.



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		in order to reduce the risk	for action completion	Strategic, Operational, Project	as at 18/01/2019	as at June 18	as at Sept 18	as at Dec 18
 <p>Potential Claims growth - a trend towards greater public awareness and 'claims culture' and the impact of the economic climate means claims may increase</p>	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	Risk reviewed and noted that this area is of growing significance with the number and value of claims increasing. The risk is somewhat outside of the Council's control, however the internal management of processes and procedures can provide a defence should the need arise.	I = H L = H High 9	I = H L = H High 9	I = H L = H High 9

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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 18/01/2019	Status  as at June 18	Status  as at Sept 18	Current Rating  as at Dec 18
Financial consequences of adverse planning decisions	Regeneration and Development	Production of Emerging Joint Local Plan – completion of Preferred Options stage	Jul-19	Strategic	The action required is still ongoing. The likelihood of an adverse challenge occurring due to progress made and any occurrence in the past 12 months, with any future challenges has allowed the final rating to be reduced.	I = H L = H High 9	I = H L = M Medium 6	I = H L = M Medium 6
Fire risk occurrence	Corporate Health and Safety			Operational	Risk will remain high due to 2 occurrences in the past 12 months. May reduce on the next report.	I = H L = H High 9	I = H L = H High 9	I = H L = H 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 18/01/2019	as at June 18	as at Sept 18	as at Dec 18
 4	Regeneration and Development and Chief Executive	Corporate mandate for scheduled diary dates to update Target100 (Health and Safety system)	Ongoing	Strategic	There have been RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrence Regulations 1995 as amended) reportable incidents over the past six months. A focussed effort upon reviewing risk assessments is expected to improve the Council resilience.	I = 3 L = 1 Medium 3	I = H L = H High 9	I = H L = H High 9
 5	Recycling and Waste	Continue to monitor the current global downturn in recycled material values	Ongoing	Operational	The potential market changes mean that the income derived from this is reducing significantly and is primarily outside of the Council's control, however markets are constantly reviewed	I = H L = H High 9	I = H L = H High 9	I = H L = H High 9



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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 18/01/2019	as at June 18	as at Sept 18	as at Dec 18
Failure to deliver Local Air Quality Management action plans function in line with statutory requirements - annual reporting	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.	Jan-19	Operational	New report to go to Public protection by July 2019. Further submission to DEFRA in April 2019. The rating has since reduced and will appear on the next report.	I = H L = H High 9	I = H L = H High 9	I = H L = H Low 2
Cost of service may exceed budget	Recycling and Waste	Continual monitoring of the market for companies to obtain the best off-take prices	Ongoing	Operational		I = H L = M Medium 6	I = H L = H High 9	I = H L = H High 9



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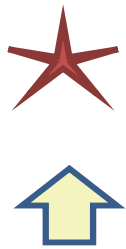
Risks and Action Plan Risk Identified	Risk Owner	Action Required to Address Risk	Target Date	Risk Category	Current position / progress	Status as at June 18	Status as at Sept 18	Current Rating as at Dec 18
		in order to reduce the risk	for action completion	Strategic, Operational, Project	as at 18/01/2019			
Loss of Mobile phones and mobile phone network	ICT Business Impact Assessment			Operational	Work undertaken with EE to ensure that backup plans for continuity are in place to reduce the likelihood of similar occurrence	I = L L = L Low 1	I = L L = H Medium 7	I = L L = M Low 4
Work priorities take over completion of the audit plan	Audit	The final risk rating was increased due to the absence of the Audit Manager		Operational	Collaboration with local council for reporting and support in the audit plans	I = M L = M Medium 5	I = M L = H Medium 8	I = M L = H Medium 8



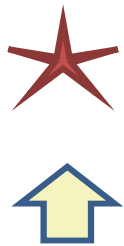
Risks and Action Plan Risk Identified	Risk Owner	Action Required to Address Risk	Target Date	Risk Category	Current position / progress	Status	Status	Current Rating
		in order to reduce the risk	for action completion	Strategic, Operational, Project	as at 18/01/2019	as at June 18	as at Sept 18	as at Dec 18
<p>Ministerial Direction served on NULBC ON 5th October 2018 requiring buses running on specified census ID's equating to (A53 between Sandy Lane and Etruria/A500 roundabout) to be either retrofitted to bring upto Euro 6 or Euro 6 buses to be used no later than 1st Jan 2021 or in the shortest possible time. Reliant on First Bus and First Group fully engaging and supporting project.</p>	Environmental Protection Service	<p>Bus operator engagement and support required.</p> <p>Explore powers of a TRO to promote EURO 6 buses on affected stretch.</p> <p>Retrofit project plan to be developed.</p> <p>Viability of bus service may be affected by forced retrofit.</p>	Mar-19	Operational	<p>Spreadsheet received from PMT with full fleet profile. Current buses not eligible. First Group has verbally indicated support. Fleet renewal for affected services dependant on 40% public subsidy and 60% funding from First. First will need to review allocation in 19/20 budget as budget already set and no funds identified. JAQU contacted re 40% public subsidy from different funding pots.</p> <p>Discussions on-going with County and City re TRO. Also being considered under further measures direction.</p> <p>Retrofit does not appear a viable option - operator will not commit at this stage based on fleet profile and being unsuitable for retrofit. In discussions with JAQU about reallocation of monies towards purchase of new compliant buses and public subsidy from HE fund and Bus bid in Summer 2019.</p> <p>Discussion on going with all partners concerning alternatives</p>			<p>I = H L = H High 9</p>





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 18/01/2019	as at June 18	as at Sept 18	as at Dec 18
<p>Failure of the Borough Council (both officers and Members) to recognise both a moral and legal obligation to ensure a duty of care for children and adults across its services. The Borough Council is committed to ensuring that all children and adults are protected and kept safe from harm whilst engaged in services organised and provided by the Council. Safeguarding is everybody's responsibility.</p>	Safeguarding	<p>To drive across the Council business support by the Executive Management Team, the need for strengthening safeguarding through training and awareness of staff, Members and partners; recording any training on personal files; providing safeguarding champions and the support of; inclusion in Service planning; use of Communications and social media to raise awareness; further HR awareness support in the recruitment process; support for Whistleblowing situations; inclusion in appraisal process and Team Meetings.</p>	Mar-19	Operational				<p>I = H L = H High 9</p>



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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 18/01/2019	as at June 18	as at Sept 18	as at Dec 18
<p>Criminal Exploitation - Failure to coordinate and contribute to the prevention and early intervention of any incident or pattern of incidents of controlling, coercive or threatening behaviour, violence or abuse of vulnerable people, forcing them to engage in various forms of criminal activity such as begging, gang activity and drugs supply; modern slavery and human trafficking etc.</p>	Safeguarding			Operational	<p>Work with Partners and Partnerships.</p> <p>Policies and Procedures in place.</p> <p>Training and awareness undertaken.</p> <p>Various working groups attended by various officers at the Council.</p>			<p>I = H L = H High 9</p>

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 18/01/2019	Status  as at June 18	Status  as at Sept 18	Current Rating  as at Dec 18
  <p>13</p> <p>Safeguarding Children - the safeguarding duties apply to any child who is experiencing, or at risk of, abuse or neglect.</p>	Safeguarding			Operational	<p>Work with Partners and Partnerships.</p> <p>Commissioned Support Services.</p> <p>Dedicated Personnel.</p> <p>Policies and Procedures in place.</p> <p>Training and awareness undertaken.</p> <p>Various working groups attended by various officers at the Council.</p>			<p>I = H</p> <p>L = H</p> <p>High 9</p>



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 18/01/2019	as at June 18	as at Sept 18	as at Dec 18
Partners failing to share relevant information to assist the council in their Safeguarding obligations.	Safeguarding			Operational	Work with Partners and Partnerships. Dedicated Personnel. Policies and Procedures in place. Training and awareness undertaken. Various working groups attended by various officers at the Council.			I = H L = H High 9



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 18/01/2019	Status  as at June 18	Status  as at Sept 18	Current Rating  as at Dec 18
The accidental loss of information containing personal details of a data subject that do not fall within a non specialist category	Revenue Services	Staff awareness training.  Review of Procedures	Dec-18	Operational	All actions completed and risk closed as per Business Managers			I = M L = H Medium 8

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Classification: NULBC UNCLASSIFIED

**NEWCASTLE-UNDER-LYME BOROUGH COUNCIL**

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

**Date: 11 February 2019**

**HEADING**                    **INTERNAL AUDIT PROGRESS REPORT – Quarter 3 2018/19**

**Submitted by:**            Executive Director – Resources & Support Services

**Portfolio**                    Finance and Efficiency

**Ward(s) affected**        All

**Purpose of the Report**

To report on the work undertaken by the Internal Audit section during the period 1<sup>st</sup> October to 31<sup>st</sup> December 2018. 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 2018/19 allows for 435 days of audit work.

1.2 This is the third 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 second 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 10% in the first quarter. Achievement of the 10% is dependent on a full complement of staff from 1st April, fully qualified and trained to complete work with minimum supervision. A full 25% of the plan is not normally achieved due to slippage of the previous years plan, 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.

Classification: NULBC UNCLASSIFIED

## 2 Issues

### 2.1 Performance Indicators

The indicators reported below relate to the end of the third quarter (December 2018).

### 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 December 2018, 188 recommendations had been made, of which 127 have been implemented, 68%; the target for the implementation of all recommendations is 96% by the end of the financial year.

### 2.3 Audit reviews completed and final reports issued between 1 October and 31 December 2018

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:

<b>Well Controlled</b>	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)
<b>Adequately controlled</b>	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.
<b>Less than adequately controlled</b>	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.
<b>Poorly controlled</b>	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 1<sup>st</sup> October 2018.

Audit Area	Risk Category	Level of Assurance	Number of Recommendations and Classification			Total
			High	Medium	Low	
<b>Resources and Support Services</b>						
Payroll	A	Less than adequately controlled	2	6	0	8
Creditors – Key Controls	A	Well controlled	0	0	0	0
Council Tax – Key Controls	A	Well controlled	0	2	0	2



<b>Operational Services</b>						
Jubilee 2	B	Adequately controlled	0	10	3	13
Contract Management	B	Adequately controlled	0	4	0	4
<b>Regeneration &amp; Development Services</b>						
Contract Management	B	Well controlled	0	0	0	0

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.

### **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**

Classification: NULBC **UNCLASSIFIED**

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 2018/19 (Audit and Standards Committee 25 June 2018).

**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

Classification: NULBC UNCLASSIFIED

**QUARTERLY REPORT : ADOPTION OF INTERNAL AUDIT HIGH RISK  
RECOMMENDATIONS AND SUMMARY OF ASSURANCE 1 OCTOBER TO 31  
DECEMBER 2018**

**Submitted by:** Executive Director – Resources & Support Services

**Portfolio** Finance and Efficiency

**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 three there were 3 outstanding high risk recommendations, 2 of which have recently been added in respect of the payroll audit. The other high risk recommendation has recently been reallocated to the interim Head of Human Resources for actioning.
- 2.2 A summary of the number of outstanding recommendations and assurance levels for each of the 4 directorates during quarter 3 can be found at Appendix A.
- 2.3 Given these results at the end of the third 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

Classification: NULBC **UNCLASSIFIED**

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 3 2018-19**

Directorate	Total Number of Recommendations	Number of Recommendations completed	Number of outstanding recommendations				Assurance level
			High	Medium	Low	Total	
Chief Executives	52	44	0	6	2	8	Well controlled
Resources & Support Services	62	29	3	26	4	33	Adequately controlled
Regeneration & Development Services	11	7	0	2	2	4	Well Controlled
Operational Services	40	29	0	6	5	11	Well controlled
Corporate Reviews	23	18	0	5	0	5	Well controlled
<b>Total</b>	<b>188</b>	<b>127</b>	<b>3</b>	<b>45</b>	<b>13</b>	<b>61</b>	

**\*NB – HR has now been moved back from the Chief Executive’s Directorate to Resources Directorate, hence the discrepancy in the figures against the Q2 report whereby HR recommendations previously allocated to the Chief Executive are now detailed under the Resources directorate.**





Audit
2017-18-14 - New Refuse Service - Operational Services
2018-19-12 - Payroll
2018-19-12 - Payroll
2017-18-16 - Payroll - Resources & Support Services
2018-19-11 - Council Tax
2018-19-12 - Payroll
2018-19-09 - Time Management
2018-19-09 - Time Management
2018-19-03 - Jubilee 2
2018-19-12 - Payroll

2018-19-09 - Time Management
2018-19-12 - Payroll
2018-19-03 - Jubilee 2
2018-19-03 - Jubilee 2
2018-19-09 - Time Management
2018-19-09 - Time Management
2018-19-12 - Payroll
2018-19-09 - Time Management
2018-19-12 - Payroll

2018-19-09 - Time Management
2018-19-12 - Payroll
2017-18-16 - Payroll - Resources & Support Services
2018-19-09 - Time Management
2018-19-11 - Council Tax
300 - 2015-16 - Sundry Debtors
326 - 2015-16 - Human Resources
402 - 2015-16 - Bailiff Contract
504 - 2015-16 - Information at Work
504 - 2015-16 - Information at Work
2018-19-15 - General Ledger, main accounts
504 - 2015-16 - Information at Work
504 - 2015-16 - Information at Work

504 - 2015-16 - Information at Work

Action
03.1 - Sick management procedure
35.1 - Correction of errors
35.2 - Additional Payroll resources required.
01.1 - Procedures to be updated
04.1 - Officers to be removed from Northgate
06.1 - leaver forms outstanding
06.1 - Staff reminder
07.1 - Staff reminder
08.2 - BACS imports - cancellations
09.1 - Overtime pay discrepancy

09.1 - Staff reminder
13.1 - Advance payment corrections
13.1 - Mitrefinch upgrade
13.2 - Mitrefinch shift patterns
14.1 - Reminder to Managers/Supervisors
15.1 - Reminder to Managers/Supervisors
15.1 - Union fee corrections
17.1 - Reminder to Managers/Supervisors
19.1 - PEN LV1 forms.

20.1 - Leave to be allocated
21.1 - Administrator access
24.1 - Job titles to be updated
28.1 - Investigate System Discrepancies
35.1 - Procedure notes to be compiled
59 - Procedure notes to be completed
68 - Full Roll Out
73 - Recovery procedures compliance checked
83 - System ownership
84 - Amendments documented
14.1 - Civica user to be removed
86 - Consistent application of document security levels
89 - Full recovery test

90 - Audit monitoring



Description
The Council should review the point at which the various stages of the sick management disciplinary procedure commence and review the Bradford Scores applicable to each, in order that they are set at an appropriate level. Further, attendance management policy should include distinct disciplinary procedures for sporadic and regular unpaid leave occurrences.
All discrepancies flagged up by the finance section should be corrected at the earliest opportunity.
Additional experienced Payroll resource is required in the Payroll section to ensure the efficient operation of day to day processes.
Payroll procedures should be updated to ensure that they are current.
The following officers should be removed as users from the Northgate system:  i) Alan Leach. ii) Anita Thorley. iii) Christopher Boulton. iv) Susan Parry. v) Rebecca Stone
All leaver forms should be checked to ensure that all are approved and that the dates on the form tally with those entered onto CHRIS21. Outstanding leaver forms should be recorded at the earliest opportunity in the I@W system.
Staff should be reminded of the following: Ø All staff who record their time on Mitrefinch should be reminded of the need to clock in and out at the start and end of each day. Ø Wherever possible, staff should clock in and out to record their lunch break. (It is acknowledged that in some jobs, especially jobs which are not office based, that this is not always possible). Ø Unless there is a valid reason, no more than 5 days annual leave should be carried over at the end of each financial year.
Staff should be reminded of the following: Ø All staff who record their time on Mitrefinch should be reminded of the need to clock in and out at the start and end of each day. Ø Wherever possible, staff should clock in and out to record their lunch break. (It is acknowledged that in some jobs, especially jobs which are not office based, that this is not always possible). Ø Unless there is a valid reason, no more than 5 days annual leave should be carried over at the end of each financial year. Ø The maximum positive flexi balance at the end of each flexi period should not exceed plus 15 hours. The maximum permitted negative balance is minus 4 hours.
An ICT solution should be investigated to allow for the automated importing of BACS files in regard of cancellations into the Gladstone system.
Actions should be taken to address the issues discovered as a result of the incorrect overtime claim submitted by employee 75841, D McCormack, as follows; 1) A 20 minute deduction should be made for each day where in excess of 6 hours has been worked. 2) Overtime for part time staff should be paid at single rate up to 37 hours and 1.5 times single rate above 37 hours. 3) Entries relating to hours worked should be input to CHRIS in decimal format and not temporal format

<p>Staff should be reminded of the following:</p> <ul style="list-style-type: none"><li>ØAll staff who record their time on Mitrefinch should be reminded of the need to clock in and out at the start and end of each day.</li><li>ØWherever possible, staff should clock in and out to record their lunch break. (It is acknowledged that in some jobs, especially jobs which are not office based, that this is not always possible).</li><li>ØUnless there is a valid reason, no more than 5 days annual leave should be carried over at the end of each financial year.</li><li>ØThe maximum positive flexi balance at the end of each flexi period should not exceed plus 15 hours. The maximum permitted negative balance is minus 4 hours.</li></ul>
<p>Updates should be made in the CHRIS / Civica systems to ensure that all pay advances are being administered correctly.</p>
<p>J2 staff should be issued with the relevant contact cards to allow access and clockings on the Mitrefinch system once it has been upgraded at the site. Staff should record working hours on the Mitrefinch system once upgraded.</p>
<p>The Mitrefinch system should be updated at the earliest opportunity to reflect shift patterns for J2 staff in order that full monitoring of absence, sick leave, overtime and annual leave may be undertaken.</p>
<p>All managers &amp; supervisors should be reminded of the following:</p> <ul style="list-style-type: none"><li>ØWherever possible, any anomalies on Mitrefinch should be reviewed and approved/corrected as necessary before the end of each 4 week flexi period.</li><li>ØCompensatory leave should only be approved where there has been a genuine business need for the hours to be worked. The approval of compensatory leave should not happen on a regular basis.</li></ul>
<p>All managers &amp; supervisors should be reminded of the following:</p> <ul style="list-style-type: none"><li>ØWherever possible, any anomalies on Mitrefinch should be reviewed and approved/corrected as necessary before the end of each 4 week flexi period.</li><li>ØCompensatory leave should only be approved where there has been a genuine business need for the hours to be worked. The approval of compensatory leave should not happen on a regular basis.</li></ul>
<p>Union fees should be reviewed to ensure that Officers are paying the correct membership fees in line with their current salaries. The Unison contributions collected for September 2018 should be paid over at the earliest opportunity.</p>
<p>All managers &amp; supervisors should be reminded of the following:</p> <ul style="list-style-type: none"><li>ØWherever possible, any anomalies on Mitrefinch should be reviewed and approved/corrected as necessary before the end of each 4 week flexi period.</li><li>ØCompensatory leave should only be approved where there has been a genuine business need for the hours to be worked. The approval of compensatory leave should not happen on a regular basis.</li></ul>
<p>PENLV1 forms to be completed for all retirement leavers and filed.</p>

<p>The sections which have staff with no leave allocated (Recycling, Neighbourhood Management, Streetscene &amp; Waste Management) should liaise with HR/Payroll to ensure that the correct leave allocations are put onto the Mitrefinch system.</p>
<p>An additional Officer should be given the permissions to administer users and reset passwords on the CHRIS system.</p>
<p>The DBS list should be updated to ensure that all job titles requiring checks are accurate.</p>
<p>58 members of staff within the Operational Services Directorate had instances where they had no clockings on at least 1 day. These omissions did not show up as anomalies on Mitrefinch. These system discrepancies should be investigated.</p>
<p>Procedure notes should be compiled detailing the main day-to-day processes of the Council Tax function.</p>
<p>The main day to day procedures within the Debtors section should be documented to ensure the uninterrupted operation of the service should key members of staff become</p>
<p>Those departments where employees are not fully utilising the Mitrefinch system should be identified and subsequent actions taken to ensure that this is possible. Where shifts are worked then these should be entered within the system. This will ensure that the reasoning for purchasing an electronic time management system shows the required efficiencies that the previous paper based method lacked.</p>
<p>The Council Tax and Business Rates Recovery Procedure should be checked to ensure it is up to date and compliant with the latest legislation (Taking Control of Goods Act 2013).</p>
<p>It should be dated, show the next review date and be made available on the Councils intranet.</p>
<p>System ownership and associated data responsibilities should be formally agreed and documented with the primary users responsible for system functions and data to be documented and agreed by all services using the system. This should include a clear definition of data ownership to ensure all data within the system is properly included and risk assessed within the Council's Information Asset Register as may be necessary.</p>
<p>Any amendments to the base set of functionality associated with the four pre-set user profiles which are applied to a user at a local level by a file system administrator should be documented in an access control document. This should be documented as a responsibility within the System Ownership documents.</p>
<p>Rob Roche should be removed as a user of the Civica system.</p>
<p>A process for the consistent application of document security levels within the system should be considered.</p>
<p>ICT should undertake a full recovery test of the Information@Work system within an IT disaster recovery testing schedule.</p>

Audit monitoring should be addressed as a responsibility of the file system owner within the systems ownership document recommended at 1.1.

Resolution Comments	Sign Off State
	Open
	Open
	Open
	Open
	Open
	Open
	Open
	Open
	Open
	Open

	Open
	Open
	Open
	Open
	Open
	Open
	Open
	Open
	Open
	Open

Discussed at Ops Directorate DMT 29th Nov 18 and included in minutes for cascading to teams. However, there is still an issue as teams that book leave on an hourly basis such as Streetscene, Recycling and Waste and Leisure are still not set up on Mitrefinch for managing leave for these teams. Phil E picked this up again recently in his J2 audit report. This needs to be picked and resolved by HR in conjunction with relevant Business Managers.	Open
	Open
	Open
	Open
	Open
unable to complete at present due to resource pressure	Open
Leisure is the only service area that does not have the shifts set up, this is due to the service commencing the consultation process to change the staffs hours of work and should be completed by the end of Dec 2017.	Open
contract discussions for bailiff contract ongoing between Simon Sowerby and Stoke CC still ongoing	Open
ICT do have some system ownership information but it does require updating. I have moved this on because: a. its quite a substantial piece of work which will require support from all areas of the council to complete. b timetable for migration to Castle House	Open
	Open
	Open
	Open
Will be planned to take place after Year End & moves to Castle House	Open

To be put in place once GRPR processes in place and move to Castle house complete	Open
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Priority	Original Due Date	Current Due Date	Current Due Date State
High	31/03/2018	30/09/2018	Overdue/Late
High	31/12/2018	31/01/2019	Not Due/Early
High	31/12/2018	31/01/2019	Not Due/Early
Medium	11/09/2018	31/12/2018	Overdue/Late
Medium	10/03/2019	10/03/2019	Not Due/Early
Medium	31/01/2019	31/01/2019	Not Due/Early
Medium	24/12/2018	24/12/2018	Overdue/Late
Medium	24/12/2018	24/12/2018	Overdue/Late
Medium	31/01/2019	31/01/2019	Not Due/Early
Medium	31/01/2019	31/01/2019	Not Due/Early

Medium	24/12/2018	24/12/2018	Overdue/Late
Medium	31/12/2018	31/01/2019	Not Due/Early
Medium	31/01/2019	31/01/2019	Not Due/Early
Medium	31/03/2019	31/03/2019	Not Due/Early
Medium	24/12/2018	24/12/2018	Overdue/Late
Medium	24/12/2018	24/12/2018	Overdue/Late
Medium	31/12/2018	31/01/2019	Not Due/Early
Medium	31/01/2019	31/01/2019	Not Due/Early
Medium	31/12/2018	31/01/2019	Not Due/Early

Medium	24/12/2018	24/03/2019	Not Due/Early
Medium	31/12/2018	31/01/2019	Not Due/Early
Medium	12/09/2018	31/12/2018	Overdue/Late
Medium	24/12/2018	24/12/2018	Overdue/Late
Medium	10/03/2019	10/03/2019	Not Due/Early
Medium	02/05/2017	30/06/2019	Not Due/Early
Medium	02/05/2017	30/09/2018	Overdue/Late
Medium	02/05/2017	30/09/2019	Not Due/Early
Medium	02/05/2017	31/07/2018	Overdue/Late
Medium	02/05/2017	30/04/2018	Overdue/Late
Low	31/01/2019	31/01/2019	Not Due/Early
Low	02/05/2017	31/05/2018	Overdue/Late
Low	02/05/2017	30/06/2018	Overdue/Late

Low	02/05/2017	30/06/2018	Overdue/Late
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Original Due Date Variance	Updates	Action Update State	Category
-283	2	Pending	Written Procedures and Standards
-8	1	Pending	Information Correction
-8	1	Pending	Staffing issues
-119	2	Pending	Written Procedures and Standards
61	0		Information Security/Assurance
23	0		Written Procedures and Standards
-15	1	Pending	Written Procedures and Standards
-15	1	Pending	Written Procedures and Standards
23	0		Process Improvement
23	0		Written Procedures and Standards

-15	1	Pending	Written Procedures and Standards
-8	1	Pending	Compliance with Financial Regulations
23	0		Physical Action
82	0		Physical Action
-15	1	Pending	Written Procedures and Standards
-15	1	Pending	Written Procedures and Standards
-8	1	Pending	Compliance with Financial Regulations
23	1	Pending	Written Procedures and Standards
-8	1	Pending	Written Procedures and Standards

-15	1	Accepted	Written Procedures and Standards
-8	1	Pending	Information Security/Assurance
-118	2	Pending	Written Procedures and Standards
-15	1	Pending	Written Procedures and Standards
61	0		Written Procedures and Standards
-616	3	Accepted	Written Procedures and Standards
-616	4	Pending	
-616	4	Accepted	Written Procedures and Standards
-616	4	Pending	Written Procedures and Standards
-616	3	Pending	Written Procedures and Standards
360	0		Information Security/Assurance
-616	3	Pending	Information Security/Assurance
-616	3	Pending	Business Continuity

-616	3	Pending	Written Procedures and Standards
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Owner
Alyson Podmore
Barbara Yates
Jan Willis
Barbara Yates
Karen Hollinshead
Barbara Yates
John Tradewell
Jan Willis
David Elkington
Barbara Yates

Neale Clifton
Barbara Yates
David Elkington
David Elkington
John Tradewell
Jan Willis
Barbara Yates
Neale Clifton
Barbara Yates

Alyson Podmore
Barbara Yates
Barbara Yates
Alyson Podmore
Karen Hollinshead
Karen Hollinshead
Alyson Podmore
Karen Hollinshead
David Elkington
David Elkington
Dave Roberts
David Elkington
David Elkington

David Elkington



**Grant Thornton**

An instinct for growth™

Our ref:  
Your ref:

Jan Willis  
Executive Director (Resources and Support Services)  
Newcastle-under-Lyme Borough Council  
Castle House  
Barracks Road  
Newcastle-under-Lyme  
ST5 1BL

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**Grant Thornton UK LLP**

The Colmore Building  
20 Colmore Circus  
Birmingham  
B4 6AT

T +44 (0)121 212 4000  
F +44 (0)121 212 4014

1 February 2019

Dear Jan

**Certification work for Newcastle Under Lyme Borough Council for year ended 31 March 2018**

We are required to certify the Housing Benefit subsidy claim submitted by Newcastle Under Lyme Borough Council ('the Council'). This certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

The Local Audit and Accountability Act 2014 gave the Secretary of State power to transfer Audit Commission responsibilities to other bodies. Public Sector Audit Appointments (PSAA) took on the transitional responsibilities for HB COUNT issued by the Audit Commission in February 2015.

We have certified the Housing Benefit subsidy claim for the financial year 2017/18 relating to subsidy claimed of £29.23 million. We identified a number of issues from our certification work and, as a result of the errors identified, the claim was amended and qualified, and we reported our findings to the DWP in our Qualification Letter dated 31 October 2018.

Further details of the matters we reported upon are set out in Appendix A. Those which we particularly wish to highlight for your attention are that there:

- were two errors from the extended testing that we carried out on this year's subsidy return which recurred from 2016/17, and
- one new error was identified as a result of the testing undertaken.

The indicative fee for 2017/18 for the Council was based on the final 2015/16 certification fees, reflecting the amount of work required by the auditor to certify the Housing Benefit subsidy claim that year. The indicative scale fee set by PSAA for the Council for 2017/18 was £7,552.

Yours sincerely

*Grant Thornton UK LLP*

Grant Thornton UK LLP

**Appendix A - Details of claims and returns certified for 2016/17**

<b>Claim or return</b>	<b>Value</b>	<b>Amended?</b>	<b>Amended value</b>	<b>Qualified?</b>	<b>Comments</b>
Housing benefits subsidy claim	£29,225,445	Yes	£29,225,445	Yes	See below

**Findings from certification of housing benefits subsidy claim**

There were two errors that had also been identified in prior years, these were as follows;

- Testing of rent allowances identified one error was identified where the claimant's earnings had been incorrectly calculated, resulting in an overpayment of benefit. This was included within the Qualification Letter as required.
- Testing of rent allowances identified four errors where there had been an incorrect application of child tax and working tax credits in the entitlement calculation. In all cases this resulted in an overpayment of benefit. This was included within the Qualification Letter as required.

**Appendix B: Fees for 2017/18 certification work**

<b>Claim or return</b>	<b>2015/16 fee (£)</b>	<b>2017/18 indicative fee (£)</b>	<b>2017/18 actual fee (£)</b>	<b>Variance (£)</b>	<b>Explanation for variances</b>
Housing benefits subsidy claim (BEN01)	£8,052	£7,552	£7,552	£0	N/A

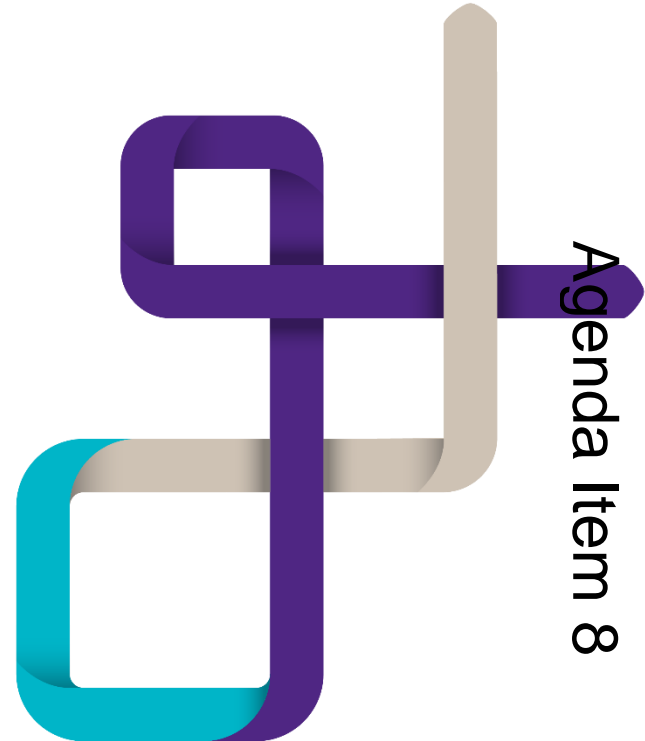
# External Audit Plan

*Year ending 31 March 2019*

**DRAFT**

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report. This draft has been created from the template dated DD MMM YYYY

Newcastle-under-Lyme Borough Council  
January 2019





**Your key Grant Thornton team members are:**

**Phil Jones**  
**Director**

T: 0121 232 5232  
E: phil.w.jones@uk.gt.com

**Tess Barker-Phillips**  
**Manager**

T: 0121 232 5428  
E: tess.s.barker-phillips@uk.gt.com

**Matthew Berrisford**  
**Executive**

T: 0121 232 5352  
E: matthew.j.Berrisford@uk.gt.com

**Section**

1. Introduction & headlines
2. Key matters impacting our audit
3. Significant risks identified
4. Other matters
5. Materiality
8. Value for Money arrangements
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**Appendices**

- A. Audit Approach

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Introduction & headlines

## Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Newcastle-under-Lyme Borough Council ('the Authority') for those charged with governance.

## Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Newcastle-under-Lyme Borough Council. We draw your attention to both of these documents on the [PSAA website](#).

## Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the :

- Authority's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Standards Committee); and
- Value for Money arrangements in place at the Authority for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit and Standards Committee of your responsibilities. It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Authority's business and is risk based. We will be using our new audit methodology and tool, LEAP, for the 2018/19 audit. It will enable us to be more responsive to changes that may occur in your organisation.

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## Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management over-ride of controls
- Valuation of property, plant and equipment (land and buildings)
- Valuation of pension fund net liability

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

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## Materiality

We have determined planning materiality to be £1,250k (PY £1,243k) for the Authority, which equates to approximately 2% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £62k (PY £62k).

---

## Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks:

- Financial sustainability
- Governance and capacity

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## Audit logistics

Our interim visit will take place in January, February and March and our final visit will take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A.

Our fee for the audit will be £42,352 (PY: £55,002) for the Authority, subject to the Authority meeting our requirements set out on page 12.

---

## Independence

We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements..

## Factors

### The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents.

Newcastle-under-Lyme Borough Council is currently forecasting a slight overspend to budget, although there are plans in place to address this including the flexible use of capital receipts. The Authority is also planning to increase its reserves. The majority of savings within the 2018/19 budget are reported as on target to be achieved.

For 2019/20, the Authority has identified a £2.2m funding gap in the budget and has identified £2.5m of savings in order to achieve this. The Authority has been successful in its application for undertaking a pilot of 75% business rates retention in 2019/20 and this is estimated to generate an additional £200k of resources.

At a national level, the government continues its negotiation with the EU over Brexit, and future arrangements remain clouded in uncertainty (update as appropriate). The Authority will need to ensure that it is prepared for all outcomes, including in terms of any impact on contracts, on service delivery and on its support for local people and businesses.

### Changes to the CIPFA 2018/19 Accounting Code

The most significant changes relate to the adoption of:

- IFRS 9 Financial Instruments which impacts on the classification and measurement of financial assets and introduces a new impairment model.
- IFRS 15 Revenue from Contracts with Customers which introduces a five step approach to revenue recognition.

The Authority will need to review these changes and identify any potential impact on the 2018/19 accounts.

### Changes in senior management

The Authority has experienced a number of changes in senior management during the last two financial years.

## Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to material uncertainty about the going concern of the Authority and will review related disclosures in the financial statements.

- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2018/19 CIPFA Code.

- We will consider your arrangements for ensuring that sufficient management capacity is maintained as part of our work in reaching our Value for Money conclusion.

# Significant risks identified

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Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Revenue includes fraudulent transactions</b>	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA (UK) 240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• The culture and ethical frameworks of local authorities, including Newcastle-under-Lyme Borough Council, mean that all forms of fraud are seen as unacceptable</li> </ul> <p>Therefore we do not consider this to be a significant risk for Newcastle-under-Lyme Borough Council.</p>
<b>Management over-ride of controls</b>	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>Management over-ride of controls is a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate the design effectiveness of management controls over journals</li> <li>• analyse the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>• test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>• gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence</li> <li>• evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p><b>Valuation of property, plant and equipment (land and buildings)</b></p>	<p>The Authority revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li> <li>• evaluate the competence, capabilities and objectivity of the valuation expert             <ul style="list-style-type: none"> <li>▪ contact the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the CIPFA Code are met</li> <li>▪ challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding</li> <li>▪ test revaluations made during the year to see if they had been input correctly into the Authority's asset register and accounted for correctly</li> </ul> </li> <li>• evaluate the assumptions made by management for those assets not revalued during the year, as well as any assets revalued during the year but prior to the year end, and how management has satisfied themselves that these are not materially different to current value at year end.</li> </ul>

# Significant risks identified

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Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Valuation of pension fund net liability</b>	<p>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement,</p>	<p>We will:</p> <ul style="list-style-type: none"><li>• update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls;</li><li>• evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li><li>• assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;</li><li>• assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;</li><li>▪ test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;</li><li>• undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and</li><li>• obtain assurances from the auditor of Staffordshire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.</li></ul>

## Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Authority.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - Giving electors the opportunity to raise questions about your 2018/19 financial statements, consider and decide upon any objections received in relation to the 2018/19 financial statements;
  - issue of a report in the public interest or written recommendations to the Authority under section 24 of the Act, copied to the Secretary of State.
  - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
  - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

## Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

## Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the Authority's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

# Materiality

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## The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

## Materiality for planning purposes

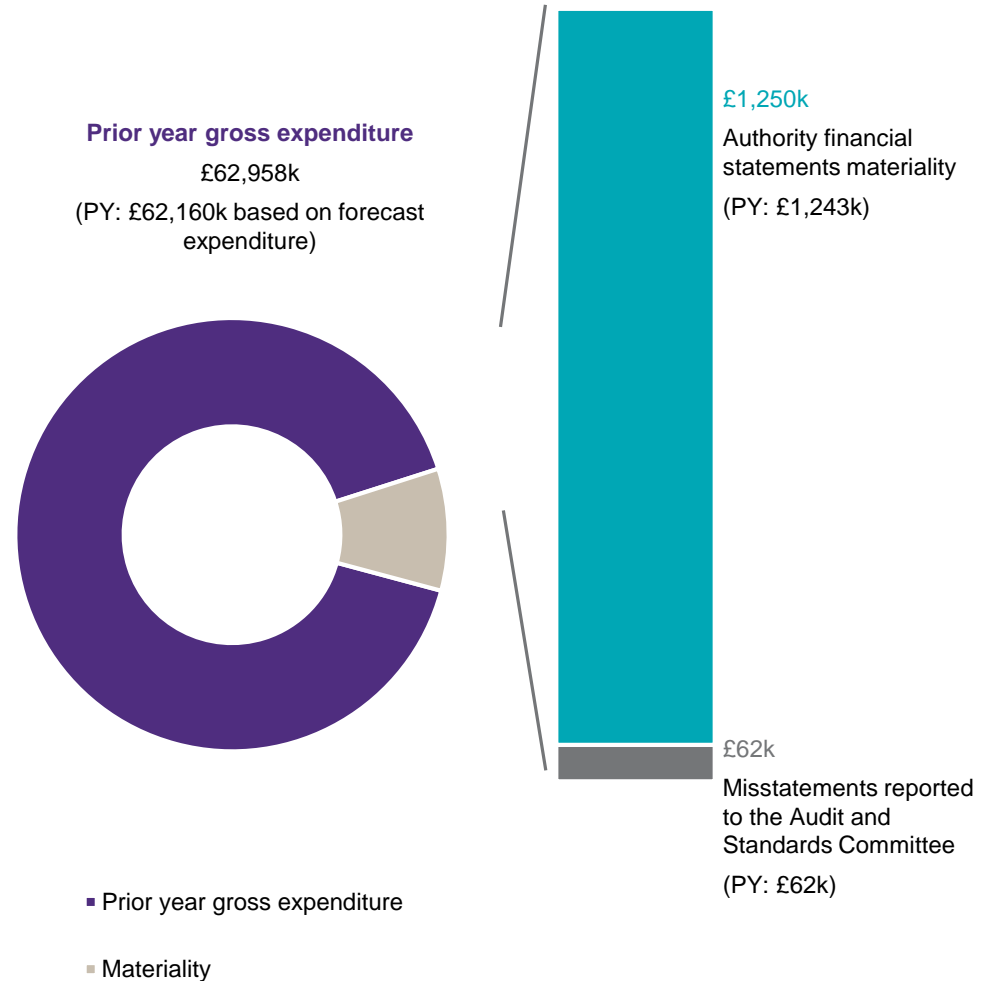
We have determined financial statement materiality based on a proportion of the gross expenditure of the Authority for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £1,250k (PY £1,243k) for the Authority, which equates to approximately 2% of your prior year gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £100k for the disclosure of senior officer remuneration.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

## Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £62k (PY £62k).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Standards Committee to assist it in fulfilling its governance responsibilities.



# Value for Money arrangements

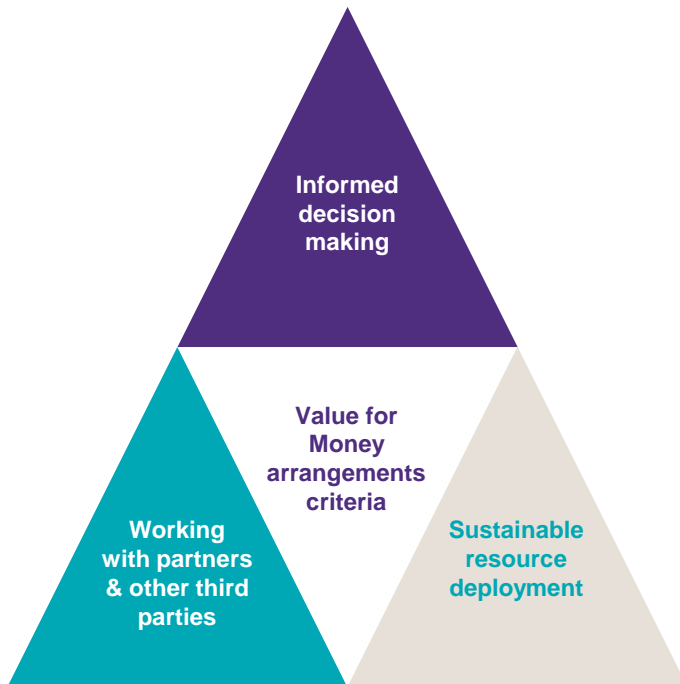
## Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

The guidance identifies one single criterion for auditors to evaluate:

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

This is supported by three sub-criteria, as set out below:



## Significant VFM risks

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Authority to deliver value for money.



### Financial sustainability

The Medium Term Financial Strategy approved in October 2018 identified budgetary shortfalls of £1.9m in 2019/20 with further shortfalls in the years to 2023/24 totalling £3m. The 2019/20 budget has since been revised and now indicates an increased forecast shortfall of £2.2m, with £2.5m of potential savings identified in order to meet this.

We will review the MTFs and the 2019/20 budget and assess the Authority's savings/income generation plans. We will review the outturn for 2017/18 and the Authority's track record of addressing budget shortfalls.



### Governance and capacity

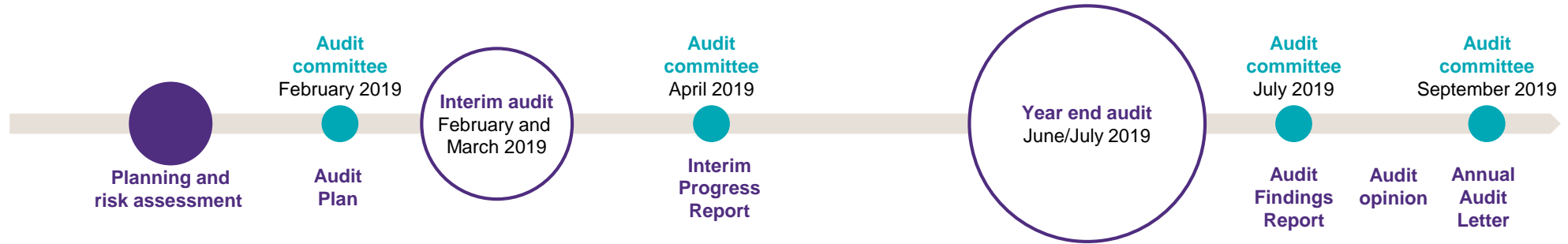
There has been an independent investigation into the arrangements at the last general election, and a cross-party investigation and disciplinary panel was set up to review the arrangements in place. Due to an unrelated matter the Executive Director (Resources and Support Services) is also currently suspended. The Authority needs to ensure such investigations are concluded in a timely manner, as well as ensuring that sufficient management capacity is maintained within the Authority to ensure effective and appropriate governance is maintained.

We will monitor the investigations and the Council response to determine whether there are any implications for our VFM conclusion.



# Audit logistics, team & fees

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**Phil Jones, Engagement Lead**



**Tess Barker-Phillips, Audit Manager**



**Matthew Berrisford, Audit Incharge**

## Audit fees

The planned audit fees are £42,352 (PY: £55,002) for the financial statements audit completed under the Code, which are in line with the scale fee published by PSAA. £9,000 of fees are planned for the housing benefit subsidy certification, which constitutes non Code work by PSAA. In setting your fee, we have assumed that the scope of the audit, and the Authority and its activities, do not significantly change.

## Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

## Meeting the 31 July audit timeframe

In the prior year, the statutory date for publication of audited local government accounts was brought forward to 31 July, across the whole sector. This was a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts was curtailed, while, as auditors we had a shorter period to complete our work and faced an even more significant peak in our workload than previously.

The Authority achieved early close in 2017/18 and the accounts were published in line with the new deadline.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

## Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 11). Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

## Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we will share with you in advance of each visit
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

# Independence & non-audit services

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## Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

## Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. The following other services were identified.

Service	£	Threats	Safeguards
<b>Audit related</b>			
Housing benefit subsidy certification	9,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £9,000 in comparison to the total fee for the audit of £42,352 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
<b>Non-audit related</b>			
None	n/a	n/a	n/a

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Authority's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit and Standards Committee. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

## A. Audit Approach

# Audit approach

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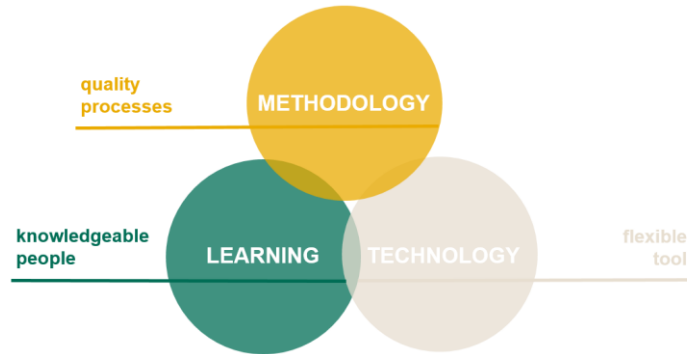
## Use of audit, data interrogation and analytics software

### LEAP



Audit software

- A globally developed ISA-aligned methodology and software tool that aims to re-engineer our audit approach to fundamentally improve quality and efficiency
- LEAP empowers our engagement teams to deliver even higher quality audits, enables our teams to perform cost effective audits which are scalable to any client, enhances the work experience for our people and develops further insights into our clients' businesses
- A cloud-based industry-leading audit tool developed in partnership with Microsoft



### IDEA



- We use one of the world's leading data interrogation software tools, called 'IDEA' which integrates the latest data analytics techniques into our audit approach
- We have used IDEA since its inception in the 1980's and we were part of the original development team. We still have heavy involvement in both its development and delivery which is further enforced through our chairmanship of the UK IDEA User Group
- In addition to IDEA, we also other tools like ACL and Microsoft SQL server
- Analysing large volumes of data very quickly and easily enables us to identify exceptions which potentially highlight business controls that are not operating effectively

### Appian



Business process management

- Clear timeline for account review:
  - disclosure dealing
  - analytical review
- Simple version control
- Allow content team to identify potential risk areas for auditors to focus on

### Inflo



Cloud based software which uses data analytics to identify trends and high risk transactions, generating insights to focus audit work and share with clients.



#### REQUEST & SHARE

- Communicate & transfer documents securely
- Extract data directly from client systems
- Work flow assignment & progress monitoring



#### ASSESS & SCOPE

- Compare balances & visualise trends
- Understand trends and perform more granular risk assessment



#### VERIFY & REVIEW

- Automate sampling requests
- Download automated work papers



#### INTERROGATE & EVALUATE

- Analyse 100% of transactions quickly & easily
- Identify high risk transactions for investigation & testing
- Provide client reports & relevant benchmarking KPIs



#### FOCUS & ASSURE

- Visualise relationships impacting core business cycles
- Analyse 100% of transactions to focus audit on unusual items
- Combine business process analytics with related testing to provide greater audit and process assurance



#### INSIGHTS

- Detailed visualisations to add value to meetings and reports
- Demonstrates own performance and benchmark comparisons

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# Informing the audit risk assessment for Newcastle-under-Lyme Borough Council

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**Year ended**

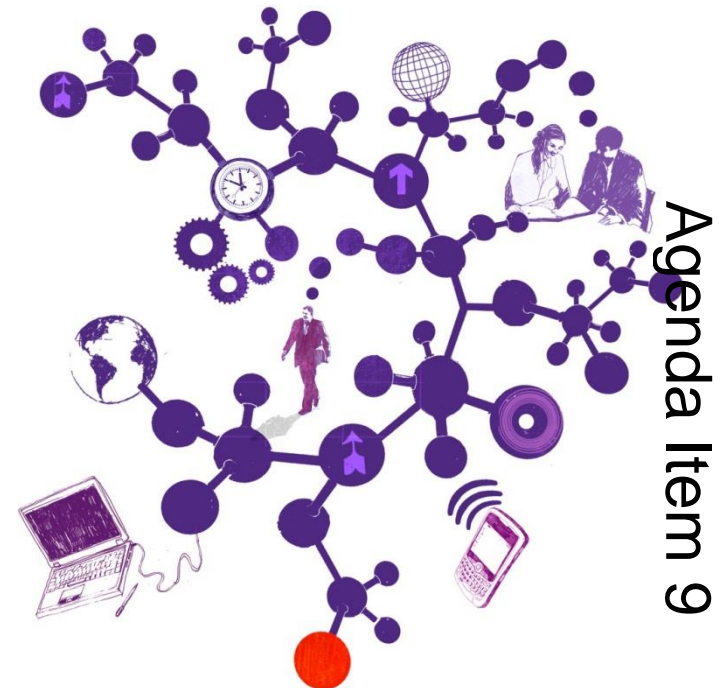
31 March 2019

**Phil Jones**  
Engagement Lead  
T 0121 232 5232  
E [phil.w.jones@uk.gt.com](mailto:phil.w.jones@uk.gt.com)

**Tess Barker-Phillips**  
Engagement Manager  
T 0121 232 5428  
E [tess.barker-phillips@uk.gt.com](mailto:tess.barker-phillips@uk.gt.com)

**Matthew Berrisford**  
Executive  
T 0121 232 5352  
E [matthew.j.berrisford@uk.gt.com](mailto:matthew.j.berrisford@uk.gt.com)

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Agenda Item 9

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.



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The purpose of this report is to contribute towards the effective two-way communication between external auditors and Newcastle under Lyme Borough Council's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

### Background

Under International Standards on Auditing (UK and Ireland) (ISA(UK&I)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK&I) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

### Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Audit Committee's oversight of the following areas:

- Fraud
- Laws and regulations
- Going concern.
- Related Parties
- Accounting estimates

This report includes a series of questions on each of these areas and the responses we have received from the Council's management. The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

# Fraud

Issue
<p data-bbox="64 382 437 411"><b>Matters in relation to fraud</b></p> <p data-bbox="64 462 1317 491">ISA(UK&amp;I)240 covers auditors responsibilities relating to fraud in an audit of financial statements.</p> <p data-bbox="64 534 1466 562">The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management.</p> <p data-bbox="64 605 1777 705">Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.</p> <p data-bbox="64 748 1819 848">As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.</p> <p data-bbox="64 891 1804 948">As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:</p> <ul data-bbox="64 991 1541 1119" style="list-style-type: none"><li>• assessment that the financial statements could be materially misstated due to fraud</li><li>• process for identifying and responding to risks of fraud, including any identified specific risks</li><li>• communication with the Audit Committee regarding its processes for identifying and responding to risks of fraud</li><li>• communication to employees regarding business practices and ethical behaviour.</li></ul> <p data-bbox="64 1162 1804 1262">We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from the Council's management.</p>

# Fraud risk assessment

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Question	Management response
<p>Has the Council assessed the risk of material misstatement in the financial statements due to fraud or error? What are the results of this process?</p>	<p>Yes. Risk assessments are in place.</p>
<p>What processes does the Council have in place to identify and respond to risks of fraud</p>	<p>There is a Fraud Awareness guide for which requires managers to complete an assessment for their service area – these are then taken into consideration when formulating the audit plan.</p>
<p>Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?</p>	<p>No specific high risks have been identified. Cyber Security Risks have been identified, mandatory Information Security briefing sessions will be presented to all staff in 2019/20 which will cover the issue of Cyber Security to raise awareness amongst staff. Phishing emails are forwarded to Action Fraud and Sophos</p>
<p>Are internal controls, including segregation of duties, in place and operating effectively? If not, where are the risk areas and what mitigating actions have been taken?</p>	<p>All internal controls and segregation of duties are in place and operating effectively.</p>
<p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>No areas have been identified where there is a potential override of controls or inappropriate influence over the financial reporting process.</p>
<p>How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What arrangements are in place to report fraud issues and risks to the Audit Committee?</p>	<p>Quarterly reports are presented to the Audit and Risk Committee in relation to outstanding high risk recommendations and progress against the Audit Plan. These reports provide details of issues identified as part of the audits. Fraud issues and risks are also reported to the committee, the Fraud policies are presented annually to the committee for review.</p>

## Fraud risk assessment (continued)

Question	Management response
How does the Council communicate and encourage appropriate business practice and ethical behaviour of its employees and contractors?	CIPFA's Whistleblowing e-learning package has been delivered to all staff. In addition CIPFA's Bribery & Corruption package has been purchased and will be rolled out during 2019/20. Reminders are also issued through monthly Core Briefs
How do you encourage employees to report their concerns about fraud? Have any significant issues been reported?	A whistleblowing policy is in place, we also subscribe to Public Concern at Work and have posters displayed around our buildings to raise awareness.
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	We are not aware of any related party relationships or transactions that could give rise to instances of fraud. Board members are required to declare relevant interests at Board and Audit Committee meetings.
Are you aware of any instances of actual, suspected or alleged, fraud, either within the Council as a whole or within specific departments since 1 April 2018? If so how does the Audit Committee respond to these	No
Are you aware of any whistleblower reports or reports under the Bribery Act since 1 April 2018? If so how does the Audit Committee respond to these	No

# Laws and regulations

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## Issue

### Matters in relation to laws and regulations

ISA(UK&I)250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that the Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

# Impact of Laws and regulations

Question	Management response
What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?	<p>A range of policies exist which include the Code of Corporate Governance, Employee Code of Conduct, Anti Fraud &amp; Corruption, Anti Money Laundering , Whistle Blowing. Also Registers of Outside Interests, Gifts &amp; Hospitality.</p> <p>In addition the Council's Constitution incorporates Contract Procedures and Financial Regulations together with a Members Code of Conduct.</p> <p>We have risk registers in place for both operational and health and safety risk.</p>
How does management gain assurance that all relevant laws and regulations have been complied with?	<p>Risk based audit plan</p> <p>Corporate Governance Working Group</p> <p>Annual Assurance Statements completed by Heads of Service and Executive Directors</p> <p>Statutory Officers Group – bi monthly meeting of the CEO, Section 151 Officer and Monitoring Officer</p>
How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?	Regular audit reports
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2018 with an on-going impact on the 2018/19 financial statements?	No
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	Statutory Officers Group – bi monthly meeting of the CEO, Section 151 Officer amd Monitoring Officer.
Are there any actual or potential litigation or claims that would affect the 2018/19 financial statements?	No
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	HMRC carried out an audit of payments to individuals, the final report has still not yet been received. (January 2015)

# Going Concern

## Issue

### **Matters in relation to going concern**

ISA(UK&I)570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements for the Council. The accounting concept of going concern refers to the basis of measurement of an organisation's assets and liabilities in its accounts (that is the basis on which those assets and liabilities are recorded and included in the accounts)

Entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business. If the entity could not continue as a going concern, assets and liabilities would need to be recorded in the accounts on a different basis, reflecting their value on the winding up of the entity. Consequently, assets would be likely to be recorded at a much lower break-up value and medium – and long- term liabilities would become short-term liabilities.

The Council is not subject to the same future trading uncertainties as private sector entities. However, consideration of the key features of the going concern provides an indication of the Council's financial resilience. It may indicate that some classes of assets or liabilities should not be valued on an on going basis.

Going concern considerations have been set out below and management has provided its response.



# Going Concern Considerations

Question	Management response
Does the Council have procedures in place to assess the Council's ability to continue as a going concern?	Yes.
Is management aware of the existence of events or conditions that may cast doubt on the Council's ability to continue as a going concern?	No
Are arrangements in place to report the going concern assessment to the Audit Committee?	No
Are the financial assumptions in that report (e.g. future levels of income and expenditure) consistent with the Council's Business Plan and the financial information provided to the Council throughout the year?	Not applicable

# Going Concern Considerations (continued)

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Question	Management response
Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts?	Yes.
Have there been any significant issues raised with the Audit Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).	No.
Does a review of available financial information identify any adverse financial indicators including negative cash flow? If so, what action is being taken to improve financial performance?	Yes. Potential revenue budget overspend. Action plan in place to deal with this.
Does the Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives? If not, what action is being taken to obtain those skills?	Yes

# Accounting Estimates

## Issue

### Matters in relation to Accounting Estimates

Local Authorities need to apply appropriate estimates in the preparation of their financial statements. ISA (UK&I) 540 sets out requirements for auditing accounting estimates. This objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Council identified the transactions, events and conditions that may give rise to the need to an accounting estimate

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that the Council are using as part of their accounts preparation: these are detailed in appendix 1 to this report.

The audit procedures we conduct on the accounting estimate will demonstrate that:

- The estimate is reasonable
- Estimates have been calculated consistently with other accounting estimates within the financial statements.

# Accounting Estimates

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Question	Management response
Are the management aware of transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgment?	Yes
Are the management arrangements for the accounting estimates as detailed in Appendix 1 reasonable?	Yes
How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate?	Via statement of accounts

# Related Parties

## Issue

### Matters in relation to Related Parties

For local government bodies, the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires compliance with IAS 24:Related Party disclosures. The Code identified the following as related parties to local government bodies:

- Entities that directly, or indirectly through one or more intermediaries, control or are controlled by the authority (i.e. subsidiaries)
- Associates
- Joint Ventures in which the authority is a venturer
- An entity that has an interest in the authority that gives it significant influence over the authority
- Key management personnel, and close members of the family of key management personnel
- Post-employment benefit plan (Pension fund) for the benefit of employees of the authority, or of any entity that is a related party of the authority.

The Code notes that, in considering materiality, regard should be had to the definition of materiality, which requires materiality to be judged from the viewpoint of both the authority and the related party.

ISA (UK&I) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

# Related Parties

Question	Management response
What controls does the Council have in place to identify, account for and disclose related party transactions and relationships?	<p>Monitoring of a Register of Interests for Members, a register for pecuniary interests in contracts for Officers and Senior Managers requiring disclosure of related party transactions.</p> <ul style="list-style-type: none"><li>• Annual return of any known related party interests completed by members and senior officers</li><li>• Review if in-year income and expenditure transactions with known identified related parties from prior year of known history.</li><li>• Review of the accounts payable and receivable systems and identification of amounts paid to/from assisted or voluntary organisations.</li></ul>

# Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions : - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property, plant and equipment valuations	Valuations are made by senior valuation staff (RICS Members) inline with RICS guidance on the basis of 5 year valuations with interim reviews	Capital Accountant notifies the valuer of the program of rolling valuations or of any conditions that warrant an interim re-valuation	In-house valuer RICS Member	Valuations are made in-line with RICS guidance – reliance on expert	Changed valuation basis for non-charging car parks and community centres let to management organisations from DRC to Investment.
Estimated remaining useful lives of PPE	Other land & buildings – 60 years, unless the valuation basis is depreciated replacement cost, where individual lives apply to each asset concerned. Vehicles, Plant, Furniture & Equipment – 5 years for most items, 15 years to wheeled bins Infrastructure – no specific life. Depreciation is based on historical composite calculation Community Assets – 20 years	Consistent asset lives applied to each asset category	In-house valuer RICS Member	This life would be recorded in accordance with the qualified RICS Member’s valuation and this would be cross checked to ensure this accords with the accounting policy for the Council	No

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# Appendix A Accounting Estimates (continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions : - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation and amortisation	<p>The following asset categories have general asset lives: Dwellings and other buildings – straight line allocation over the useful life of the property as estimated by the valuer.</p> <p>Vehicles, Plant and Equipment – straight line allocation over estimated life of asset.</p> <p>Infrastructure Assets – straight line allocation over estimated life of asset.</p>	Charged in the year that the Council becomes aware of the obligation	No	<p>The length of the life is determined at the point of acquisition or revaluation according to:</p> <p>Assets acquired in the financial year are not depreciated until the following financial year.</p> <p>Assets that are not fully constructed are not depreciated until they are brought into use.</p>	No
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## Appendix A Accounting Estimates (continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions : - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Impairments	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.	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired	Use the in-house valuers, RICS Members	Valuations are made in line with RICS guidance – reliance on experts	No

Estimate Page 98	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Non-adjusting events – events after the BS date	<p>S151 Officer makes the assessment. If the event is indicative of conditions that arose after the balance sheet date then this is an un-adjusting event.</p> <p>For these events only a note to the accounts is included, identifying the nature of the event and where possible estimates of the financial effect.</p>	Heads of Service notify the S151 Officer	This would be considered in individual circumstances	This would be considered in individual circumstances	No
Overhead allocation	The total absorption costing principal is used – full cost of overheads and support services are shared between users in proportion to the benefits received. With the exception of Corporate and Democratic Core and Non-Distributed Costs	All support service cost centres are allocated according to agreed allocations	No	Apportionment bases are reviewed each year to ensure equitable.	No

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Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Measurement of Financial Instruments	Council Values financial instruments at fair value based on the advice of their external treasury consultants and other financial professionals	Take advice from finance professionals	Yes	Take advice from finance professionals	No
Bad debt provision	A provision is estimated using a proportion basis of an aged debt listing	Revenues provide the aged debt listing and Finance calculate the provision	No	Consistent proportion used across aged debt as per the SORP	No

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provision for liabilities	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. Provisions are charged as an expense to the appropriate service line in the CI&ES 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.	Charged in the year that the Council becomes aware of the obligation	No Reference is made to the Insurance Brokers Report for Insurance Provision.	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 by the Council.	No
Accruals	Finance collate accruals of expenditure and income. Activity is accounted for in the financial year that it takes place, not when money is paid or received.	Activity is accounted for in the financial year that it takes place, not when money is paid or received.	No	Accruals for income and expenditure have been principally based on known values. Where accruals have had to be estimated the latest information has been used.	No

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