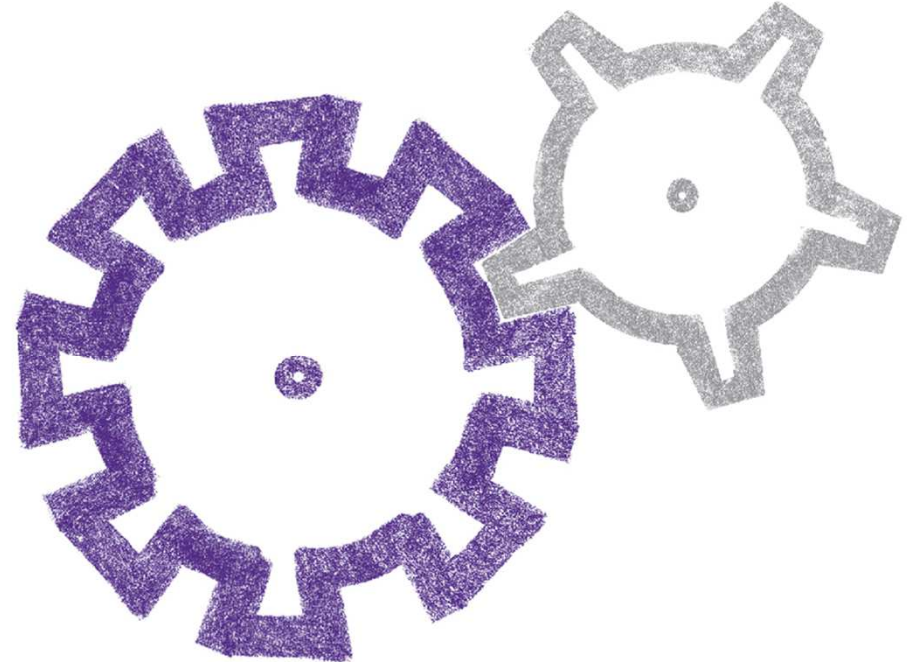


# Newcastle-under-Lyme Borough Council

## Review of the Council's Arrangements for Securing Financial Resilience

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September 2013



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# Executive Summary

## Our approach

### Value for Money Conclusion

Our work supporting our Value for Money (VfM) conclusion, as part of the statutory external audit, includes a review to determine if the Council has proper arrangements in place for securing financial resilience.

In so doing we have considered whether the Council has robust financial systems and processes in place to manage its financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. We have carried out our work in discussion and agreement with officers and completed it in such a way as to minimise disruption to them.

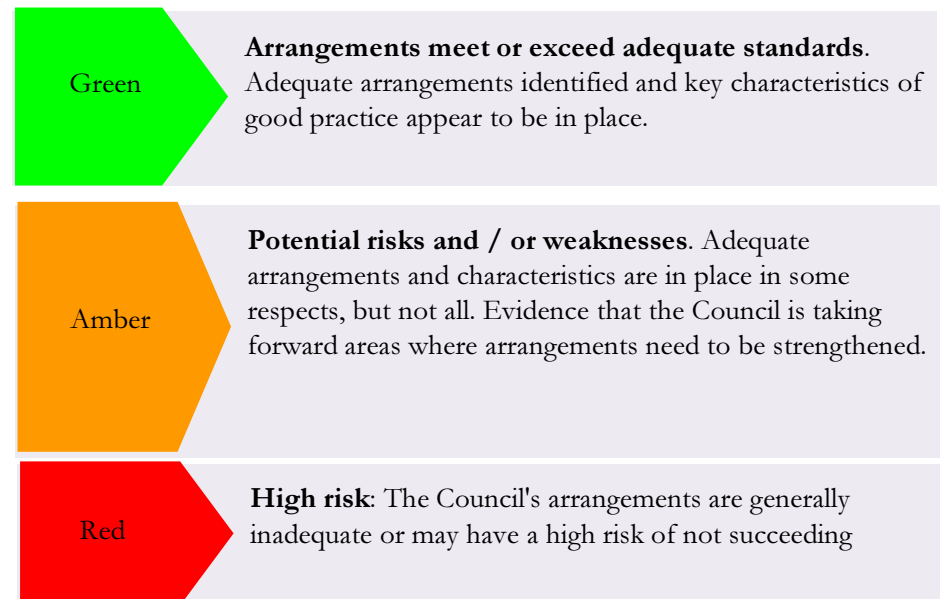
The definition of foreseeable future for the purposes of this financial resilience review is 12 months from the date of this report.

We have reviewed the financial resilience of the Council by looking at:

- Key indicators of financial performance;
- Its approach to strategic financial planning;
- Its approach to financial governance; and
- Its approach to financial control.

Further detail on each of these areas is provided in the sections of the report that follow. Our overall conclusion is that, whilst the Council faces challenges during 2012/13 and beyond, its current arrangements for achieving financial resilience are adequate.

We have used a red / amber / green (RAG) rating with the following definitions.



# Executive Summary

## National and Local Context

### National Context

The Chancellor of the Exchequer announced the current Spending Review (SR10) to Parliament on 20 October 2010. SR10 represented the largest reductions in public spending since the 1920s. Revenue funding to local government was to reduce by 19% by 2014-15 (excluding schools, fire and police). After allowing for inflation, this equates to a 28% reduction in real terms with local government facing some of the largest cuts in the public sector. In addition, local government funding reductions were frontloaded, with 8% cash reductions in 2011-12. This followed a period of sustained growth in local government spending, which increased by 45% during the period 1997 to 2007.

The Chancellor of the Exchequer, in his Autumn Statement in November 2011, announced further public spending reductions of 0.9% in real terms in both 2015-16 and 2016-17. In his Autumn Statement on 5 December 2012, the Chancellor reinforced austerity measures announcing a further £6.6bn of savings during 2013-14 and 2014-15. Whilst health and schools will be continue to be protected in line with the Government's policy set out in SR10, local government will continue to face significant funding reductions. The Department for Communities and Local Government will contribute £470m of these additional savings, £445m of which will come from local authority funding during 2014-15, with local authorities being exempt from additional savings in 2013-14. In his March 2013 Budget the Chancellor announced further departmental 1% savings during each of 2013-14 and 2014-15. The NHS and schools remain protected, but police and local government will need to find an additional 0.5% over both years.

The next spending round period, 2015-16, was announced by the Chancellor on 26 June 2013. Local government will face at least a further 10% funding reduction for this period.

These funding reductions come at a time when demographic and recession based factors are increasing demand for some services, and there is a decreasing demand for some services, such as car parking, where customers pay a fee or charge.

Financial austerity is expected to continue until at least 2017.

### Local Context



Newcastle-under-Lyme sits in the North West of Staffordshire County in the West Midlands. The Borough comprises Newcastle-under-Lyme, where the council is based, but includes the town of Kidsgrove, the villages of Silverdale and Keele, and the rural area surrounding Audley.

The Borough is essentially rural in character. It has a population of some 124,000 people, which is predicted to experience an average population increase. The area's population is ageing. Between 2001 and 2011 the number of residents above the age of 60 increased by 14 per-cent and the number of residents above the age of 85 increased by 26 per-cent. Newcastle-under-Lyme is averagely diverse with a BME population of 6.7 per-cent in 2011, compared to 6.4 per-cent county-wide.

The Council has, along with other councils in England, been affected by the spending cuts at a time of increased demand for public services. During the four year period from 2008/09, it has found over £6m of savings.



# Executive Summary

## Overview of Arrangements

Risk area	Summary observations	High level risk assessment
<p><b>Key Indicators of Performance</b></p>	<p>The Council reported a surplus in 2012/13 of £3,000. The Council had £3.7m of revenue balances at 31 March 2013. Of this balance £2m is earmarked to particular schemes leaving unallocated general fund balances and contingency funds of £1.7m.</p> <p>The Council has allocated £1.2m as working capital, identified by a risk-based review, and has a contingency fund of £0.5m to meet any budget shortfalls in the coming years. We consider that the £1.7m of working capital and contingency is a sufficient level of reserves. The Council has managed to achieve a balanced outturn and is ensuring its savings plans for the year are in place and signed off before the update of the Medium Term Financial Strategy (MTFS) and the start of the year. In previous years, the budget support fund has been used to smooth savings required and cope with lower than anticipated levels of income. However, additional reviews of income assumptions have been made leading to reductions in budgeted assumptions.</p> <p>The percentage of Council Tax and NNDR due that was collected by the Council in respect of the year 2013/13 was respectively 97.3 per-cent and 97.6 per-cent, which are the lowest of the Staffordshire Districts and in the lowest 25 per-cent for English District Councils.</p> <p>Strengthened policies and procedures, including the introduction of a revised Attendance Management Policy and Capability Procedures, have helped in reducing overall sickness absence levels to 8 days per FTS currently from 12.16 days in 2006/07.</p>	<p> Green</p>
<p><b>Strategic Financial Planning</b></p>	<p>The Council's MTFS responds to changes and ensures that other corporate documents are aligned to it, to enable the Council to respond swiftly to external factors.</p> <p>The Plan is focussed on finding recurrent savings and creating long-term changes in service delivery to continue to achieve a sustainable balanced budget.</p>	<p> Green</p>

# Executive Summary

## Overview of Arrangements

Risk area	Summary observations	High level risk assessment
<p><b>Financial Governance</b></p>	<p>The Council has a good track record in delivering efficiencies. Savings are planned in detail following service reviews and delivery of these savings is underpinned by effective monitoring by budget holders and the finance team.</p> <p>The management team is small, consisting of the Chief Executive and three directors of service. The team understand the key financial issues and the Council has been pro-active in taking action to mitigate financial challenges it is facing. Increasingly, required savings are made in the year prior to the year they are required and alternatives considered several years in advance of need.</p> <p>Summary monthly financial reports are circulated to the Executive Management Team. These reports are summarised at Directorate level. All members receive appropriate reports, quarterly at the start of the year, moving to monthly by the year end. The finance portfolio holder reviews performance on a monthly basis on an exception basis. This moves to full monthly reporting at the year end.</p>	<p> Green</p>
<p><b>Financial Control</b></p>	<p>The Council has strong financial performance management and budgeting systems with an inclusive approach to stakeholders. This underpins its financial control.</p> <p>Internal audit arrangements are strong with clear workplans which are aligned to the risk profile of the Council.</p>	<p> Green</p>

## Executive Summary

### Next Steps

Area of review	Key points for consideration	Responsibility	Timescale	Management response
<b>Key Indicators of Performance</b>	<ul style="list-style-type: none"><li>The Council should review procedures for the collection of Council Tax and NNDR to see if improvements can be made to the percentage recovered.</li></ul>	Chief Financial Officer	Ongoing	

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# Key Indicators

## Introduction



This section of the report includes analysis of key indicators of financial performance, benchmarked where this data is available. These indicators include:

- Working capital ratio
- Useable Reserves: Gross Revenue Expenditure
- Long term borrowing to tax revenue
- Long term borrowing to long term assets
- Sickness absence levels
- Out-turn against budget




We have used the Audit Commission's listing of all English District Councils and statistical nearest neighbours for benchmarking group purposes.

# Key Indicators

## Overview of performance

Area of focus	Summary observations	Assessment
<p><b>Performance Against Budget</b></p>	<ul style="list-style-type: none"> <li>The Council reported a surplus in 2012/13 of £3,000.</li> <li>The Capital programme for 2012/13 was originally £4.45m but became £5.35m after slippage carried forward from 2011/12. The out-turn for the year was £2.53m, leaving £2.81m, most of which is carried forward to 2013/14. Capital receipts at 31/03/13 were £2.70m and not all of the carried forward expenditure will be financed from receipts, some will be from grants and contributions. The programme for 2013/14 only includes £0.615m new projects, which are to be financed from capital receipts, plus housing projects financed from new homes bonus and notified grant. The Council has a detailed Asset Management and Capital Strategy that links to the Council Plan.</li> </ul>	<p> Green</p>
<p><b>Reserve Balances</b></p>	<ul style="list-style-type: none"> <li>The Council had £3.7m of revenue balances at 31 March 2013. Of this balance, £2m is earmarked to particular schemes leaving unallocated general fund balances and contingency funds of £1.7m.</li> <li>The Council has allocated £1.2m as working capital and has a contingency fund of £0.5m to meet any budget shortfalls in 2014/15 and beyond. We consider that the £1.7m of working capital and contingency is a sufficient level of reserves. The Council has achieved a balanced outturn and ensuring its savings plans for the year are in place before the start of the year, avoiding the use of reserves.</li> </ul>	<p> Green</p>

## Key Indicators

Area of focus	Summary observations	Assessment
<b>Liquidity</b>	<ul style="list-style-type: none"> <li>Working capital ratio is 2.54, against an average of 3.28. As your current assets exceed your current liabilities, this indicates that the Council has sufficient assets to meet its short term liabilities.</li> <li>The percentage of Council Tax due that is collected by the Council averaged 97.3%, which is the lowest in Staffordshire and in the lowest 25 per-cent in England for all District Councils and Statistical Nearest Neighbours group.</li> <li>Compared to all District Councils in England, the Council is below average for its percentage of NNDR due collected, at 97.6%, however for the Statistical Nearest Neighbours group the collection rate was average.</li> <li>In terms of income streams as a percentage of total spend, Newcastle-under-Lyme is average for income from sales and fees and charges.</li> <li>At the year end £0.228m was held in cash and cash equivalent balances with a further £5.1m in short term investments.</li> <li>The Council manages liquidity by adhering to the CIPFA code of practice.</li> </ul>	 <b>Green</b>
<b>Borrowing and other long term liabilities</b>	<ul style="list-style-type: none"> <li>The Council is long-term debt free, but will have to consider the option of taking borrowing in the medium term as its current capital receipts reserves are insufficient to fund its capital programme. The Council has evaluated its land holdings and has begun the process of consulting on significant disposals over the medium to long term.</li> <li>The Council's pension liability has risen from £55m to £63.5m. It is expected that the outcome of the triennial revaluation will lead to increased contribution rates, placing significant further pressure on the Council's general fund. However the expected level of increases have been built into financial modelling.</li> </ul>	 <b>Green</b>
<b>Workforce</b>	<ul style="list-style-type: none"> <li>Strengthened policies and procedures, including the introduction of a revised Attendance Management Policy and Capability Procedures, have helped in reducing overall sickness absence levels since 2006/07 when sickness rates were 12.16 days per FTE, to the current 8 days per FTE.</li> <li>The Council has a Workforce Development Strategy.</li> </ul>	 <b>Green</b>

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## Strategic Financial Planning



### Key indicators of good strategic financial planning

In conducting our review of strategic financial planning we have assessed the Council's performance against the following indicators:

- Focus on achievement of corporate priorities is evident through the financial planning process. The MTFS focuses resources on priorities and currently runs for five years.
- The MTFS links to Council Plan strategic priorities and numerous strategies. Feedback from residents was used to help determine priorities following the budget setting public consultation exercise and series of public meetings, enabling residents to feedback to the authority what they saw as budget priorities. Targets have been set for future periods in respect of reserve balances, prudential indicators etc.
- As part of the MTFS, the Council has a five year prediction with realistic assumptions around future funding levels and from this is driving service reviews and other initiatives to find the required longer term savings.
- There is an annual review of the MTFS and the assumptions made within it. The Council responds to changing circumstances during the year and manages its financial risks.
- The Council has performed stress testing on its model using a range of economic assumptions including Comprehensive Spending Review grant cuts.
- The MTFS is linked to and is consistent with other key strategies, including workforce.
- The Authority has a range of Key Performance Indicators for each service which are monitored on a quarterly basis.




# Strategic Financial Planning

## Medium Term Financial Strategy

Area of focus	Summary observations	High level risk assessment
<p><b>Review processes</b></p>	<ul style="list-style-type: none"> <li>• The Budget process involves appropriate scrutiny and challenge from senior officers and members.</li> <li>• The Council officers and members are made aware of key financial matters, receive quarterly budget updates, and are aware of the main risks facing them.</li> <li>• Feedback from residents was used to help determine priorities following the budget setting public consultation exercise and series of public meetings, enabling residents to feedback to the authority what they saw as budget priorities.</li> <li>• All members receive regular budget briefing each autumn in advance of the annual process and the scale of the challenges is clearly articulated within the MTFS.</li> <li>• The Council continues to ensure that it keeps the MTFS updated to reflect current conditions. It is updated annually ahead of the budgeting process.</li> </ul>	<p style="text-align: center;">   <b>Green</b> </p>
<p><b>Responsiveness of the Plan</b></p>	<ul style="list-style-type: none"> <li>• The Council continues to ensure it keeps the MTFS updated to reflect current conditions.</li> <li>• The MTFS is focussed on the Council achieving savings necessary to meet the financial challenges of the Comprehensive Spending Review, and the Council has so far been able to make the required savings, using the budget support fund to smooth the process of finding savings. The Council has been making savings in advance of the period for which they were required and since 2008/9 has made £8.3m of savings. The MTFS has identified that further significant savings need to be made, but these are being worked on as separate projects and significant additional savings are being found. Looking further ahead a process of more fundamental service review is about to take place with managers considering options in case they need to fundamentally re-engineer services.</li> <li>• Financial risks are therefore managed in the short, medium and long term, with a strong emphasis on finding recurrent, long term savings.</li> </ul>	<p style="text-align: center;">   <b>Green</b> </p>


# Strategic Financial Planning

## Medium Term Financial Strategy

Area of focus	Summary observations	High level risk assessment
<p><b>Focus of the MTFS</b></p>	<p>The Council has considered the uncertainty surrounding its financial resources and future government funding. Given the forecast reductions in central government funding the Council has sought to re-engineer current services by efficiency improvements, contract savings and re-structuring efficiencies without reducing priority services at the point of delivery. There is a recognition that service funding is reaching a point where reductions in services delivered may be required and such eventualities are being explored.</p> <p>During the year, an extensive public consultation exercise was carried out, beginning with a special budget edition of the council paper, the “Reporter”, which invited readers to complete a brief questionnaire setting out their views concerning options for the 2013/14 budget. There were also pages within the Council’s website devoted to the budget consultation, including an online version of the questionnaire. Following on from this, a number of meetings were held at various locations across the Borough, giving opportunities for residents to contribute their views. In addition, Cabinet members and officers were available on a number of days, situated in gazebos in the town centres, to answer questions concerning the 2013/14 budget and to receive the views of the public. The Council’s e-Panel of residents was also consulted.</p>	<p> Green</p>
<p><b>Scope of the MTFS and links to annual planning</b></p>	<p>The proposals within the MTFS and the budget set for 2013/14 are adequately reflected in strategies to ensure delivery. There are clear links within the MTFS to the Councils main strategic vehicle which is the Council Plan as well as detailed supporting strategies.</p>	<p> Green</p>
<p><b>Adequacy of planning assumptions</b></p>	<p>Assumptions made within the MTFS include nationally expected ones. Reference is made to policies for income-generating activities, inflation, managing assets effectively to help deliver strategic priorities and service need.</p> <p>For 2014/15 there was a projected shortfall of £2.2m. However, the Council has been working on delivering on-going savings to address this, with substantial savings or income of over £1.9m already identified.</p>	<p> Green</p>

# Strategic Financial Planning

## Medium Term Financial Strategy

Area of focus	Summary observations	High level risk assessment
<b>Review processes and responsiveness of plan</b>	The MTFS is kept up to date and reviewed annually in the light of changing events and this is reflected in the reporting which has been taking place in 12/13. The Council is able to react quickly to movements in the savings plan allowing members to react to positive and adverse movements in progress during the year. The Leader and Cabinet model enables the Council to take rapid and decisive action if needed.	 <b>Green</b>

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## Financial Governance

### Key indicators of effective financial governance

In conducting our review of financial governance we have assessed the Council's performance against the following indicators:

#### Understanding

- There is a clear understanding of the financial environment the Council is operating within:
  - Regular reporting to Members.
  - Actions have been taken to address key risk areas.
  - Officers and managers understand the financial implications of current and alternative policies, programmes and activities.

#### Engagement




- There is significant engagement with members and officers, including budget consultations. There has also been significant engagement with the local residents discussed earlier.

#### Monitoring and review

- There are comprehensive policies and procedures in place for members, officers and budget holders which clearly outline responsibilities.
- Scrutiny Committees and Cabinet regularly review performance which is reported via performance indicators and it is subject to appropriate levels of scrutiny.



# Financial Governance

## Understanding and engagement

Area of focus	Summary observations	High level risk assessment
<p><b>Understanding the Financial Environment</b></p>	<p>The Cabinet is made aware of key financial matters. The information made available is timely, complete and reliable.</p> <p>There are clear financial instructions and standing orders to govern financial management responsibilities.</p> <p>There is a clear understanding of the risks that face the Council both legal and regulatory and the Council acts promptly to make sure all such matters are addressed.</p>	<p> Green</p>
<p><b>Executive and Member Engagement</b></p>	<p>The senior management structure is a tight group of four officers. The structure has successfully implemented savings plans and significant changes to structures.</p> <p>For the year under review, the Budget Review Group has continued to drive forward reductions in expenditure. Presentations to members have kept them informed of the financial challenges and they are given updates quarterly. Reports on Risk Management go to the Executive Management Team and are discussed in the Audit and Risk Committee. The MTFs and other strategic documents make the severity of the financial and other pressures the council will be under in the coming years clear.</p>	<p> Green</p>
<p><b>Overview for controls over key cost categories</b></p>	<p>Effective monitoring of unit costs is enabled through the budget monitoring process by budget holders. Budgets are formally assigned to managers with responsibility for them. The Council has demonstrated over the last few years that it is able to successfully make the savings that have been identified, and over the five years from 2008/09 to 2012/13 some £8.344m of net savings and efficiencies has been made.</p>	<p> Green</p>

# Financial Governance

## Understanding and engagement

Area of focus	Summary observations	High level risk assessment
<p><b>Budget reporting: revenue and capital</b></p>	<p>The Council's leadership team are well briefed and have an understanding of the current financial position and future implications.</p> <p>In year forecasting is good, with no significant or unexpected overspends. Information is provided that is at the right level of detail to enable Cabinet to make decisions.</p> <p>Decision making is open and transparent and based on information supplied by management . Cabinet proposals made are based on relevant financial information.</p>	<p> Green</p>
<p><b>Adequacy of other Committee/Cabinet Reporting</b></p>	<p>The Council is aware of the financial implications of delivering statutory responsibilities and the MTFS allows for this delivery. There is a clear investment strategy and cash is being managed appropriately. Decision-making is based on appropriate and adequate information</p> <p>There are currently adequate arrangements to monitor the achievement of efficiencies and the impact on service quality and provision. The Council has a number of performance monitoring Scrutiny Committees which monitor performance and challenge areas where targets are not met. Performance reports are produced in summary and in detail. The information enables managers and members to manage their services appropriately.</p> <p>Summary quarterly performance reports are produced for Cabinet where overall performance is monitored. Detailed monitoring of key indicators enables members to review Council performance against indicators which are linked to strategic priorities.</p>	<p> Green</p>

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## Financial Control

### Key indicators of effective financial control

In conducting our review of financial control we have assessed the Council's performance against the following indicators:

#### Budget setting and budget monitoring

- Budgets are robust and prepared in a timely fashion.
- Budgets are monitored at an officer, member and Cabinet level and officers are held accountable for budgetary performance.
- Financial forecasting is well-developed and forecasts are subject to regular review.

#### Finance Department

- The capacity and capability of the Finance Department is fit for purpose.

#### Financial Systems




- Key financial systems have received satisfactory reports from internal and external audit.
- Financial systems are adequate for future needs.

#### Internal Control

- Strength of internal control arrangements - there is an effective internal audit which has the proper profile within the organisation. Agreed Internal Audit recommendations are routinely implemented in a timely manner.
- There is an assurance framework in place which is used effectively by the Council and is how business risks are managed and controlled.
- The Annual Governance Statement gives a true reflection of the organisation.




# Financial Control

## Internal arrangements

Area of focus	Summary observations	High level risk assessment
<p><b>Budget setting and monitoring – revenue and capital</b></p>	<p>In year forecasting is good, with no significant or unexpected overspends. Information is provided that is at the right level of detail to enable Cabinet to make decisions.</p> <p>Plans to secure savings for future years are started well in advance of the prior year and implemented before the sign-off of the budget. A scheme of savings has been drawn up and agreed by Cabinet for 2014/15. However for years further in advance of this, savings plans are being developed.</p>	<p> Green</p>
<p><b>Performance against Savings Plans</b></p>	<p>The Council has a good track record in achieving overall savings, and has been achieving them in advance of need. The Council is good at ensuring it has sufficient schemes in place to meet the savings required and is working on savings required years in advance. This "headroom" in the plan (i.e. extra projects already identified and worked-up so that the total programme value exceeds the total target value) means that the Council has been on budget in recent years. The one pressure on this has been a failure to meet income targets. This pressure has been relieved by a further review of income budgets for 2012/13 which saw some reduced to achievable levels. There are robust processes in place to monitor and report on in-year progress against plan and this does adequately cover progress to date and expected outcomes by year-end, including a discussion of the relevant factors and risks.</p>	<p> Green</p>
<p><b>Key financial accounting systems</b></p>	<p>Internal Audit undertake comprehensive reviews of financial systems each year, along with our reviews of procedures and controls. Neither Internal Audit or we had concerns over the operation of the key financial accounting systems. Accounting systems are appropriate to the business and its current requirements, and evidence obtained to date demonstrates the accuracy and reliability of accounting systems.</p>	<p> Green</p>

# Financial Control


## Internal and external assurances

Area of focus	Summary observations	High level risk assessment
<p><b>Finance Department resourcing</b></p>	<p>For the 2012/13 financial year, there has been sufficient skill and capability within the finance department and no changes are planned for 2013/14. There have been no changes to the Section 151 officer or Head of Finance for several years and the Finance Department has a number of strong recently qualified staff. The Authority has sufficient technical expertise to deal with the increased financial risks caused by the current economic climate.</p>	<p> Green</p>
<p><b>Internal audit arrangements including compliance with CIPFA Code of Practice for Internal Audit</b></p>	<p>The Council's Corporate Risk Register is reviewed regularly and mapped to services. Risks are allocated to specific individuals who are senior officers. Each risk has associated action required and a target date for action to be completed. The current risk position and progress is reported as is the historic as well as current risk rating.</p> <p>Internal Audit are compliant with the CIPFA Code of Practice for Internal Audit. Overall, we have concluded that the Internal Audit service continues to provide an independent and satisfactory service to the Council and that we can take assurance from their work in contributing to an effective internal control environment at the Council. The Internal Audit section are fully IA prepared for the new Public Sector Internal Audit Standards</p>	<p> Green</p>
<p><b>External audit arrangements and programme of activities</b></p>	<p>The Annual Governance Report last year highlighted the current and future funding uncertainties along with actions taken. The report had one recommendation, to ensure the establishment list reviewed by Heads of Service and collated by the payroll manager in a timely fashion. This recommendation was implemented during the year. We confirmed the effectiveness of your accountancy team in producing a sound set of accounts, free from significant error.</p>	<p> Green</p>



# Financial Control

## Internal and external assurances

Area of focus	Summary observations	Assessment
<b>Assurance framework/risk management</b>	<p>You have a comprehensive risk register with all Corporate risks now contained within a single assurance document. The Document is reviewed by the Executive Management Team with regular reports to the Audit and Risk Committee. The format allows the Cabinet / Executive and also the Audit and Risk Committee to assure itself that risks are being adequately monitored and managed. All risks are allocated to a named lead at a senior level and have a clear RAG rating. The Framework's size and number of risks reported is pitched appropriately to allow officers and members to keep the main risks under adequate review.</p> <p>Your Annual Governance statement gives a true reflection of the organisation.</p>	 <b>Green</b>

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