



Meeting Agenda

**Audit Committee
Town Hall, St Annes
26 October 2006, 7:00 pm**

AUDIT COMMITTEE

COUNCILLORS

Christine Akeroyd

Deborah Clarke

Fabian Wilson

Elizabeth Oades

Stephen Mason

Eric Bamber

Keith Hyde

Paul Hayhurst

John Longstaff

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CORPORATE OBJECTIVES

The Council's investment and activities are focused on achieving our five key objectives which aim to :

- Conserve, protect and enhance the quality of the Fylde natural and built environment
- Work with partners to help maintain safe communities in which individuals and businesses can thrive
- Stimulate strong economic prosperity and regeneration within a diverse and vibrant economic environment
- Improve access to good quality local housing and promote the health and wellbeing and equality of opportunity of all people in the Borough
- Ensure we are an efficient and effective council.

CORE VALUES

In striving to achieve these objectives we have adopted a number of key values which underpin everything we do :

- Provide equal access to services whether you live in town, village or countryside,
- Provide effective leadership for the community,
- Value our staff and create a 'can do' culture,
- Work effectively through partnerships,
- Strive to achieve 'more with less'.



A G E N D A

PART I - MATTERS DELEGATED TO COMMITTEE

ITEM	PAGE
1. APPOINTMENT OF CHAIRMAN AND VICE CHAIRMAN: <i>To appoint a Chairman and Vice Chairman for this meeting of the Audit Committee.</i>	4
2. CONFIRMATION OF MINUTES: <i>To confirm as a correct record the minutes of the Audit Sub Committee held on 22 June 2006.</i>	4
3. DECLARATIONS OF INTEREST: <i>In accordance with the Council's Code of Conduct, members are reminded that any personal/prejudicial interests should be declared as required by the Council's Code of Conduct adopted in accordance with the Local Government Act 2000.</i>	4
4. SUBSTITUTE MEMBERS: <i>Details of any substitute members notified in accordance with council procedure rule 25.3</i>	4
5. INTERNAL AUDIT INTERIM REPORT 2006/07	5 – 11

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Report of	Meeting	Date	Item No
HEAD OF INTERNAL AUDIT	AUDIT COMMITTEE	26 Oct 2006	5

INTERNAL AUDIT INTERIM REPORT 2006/07

Public item

This item is for consideration in the public part of the meeting.

Summary

The report summarises the work undertaken by internal audit from April 2006 to September 2006 and performance information for the same period.

The report links principally to the Corporate Objective - "Deliver high quality services".

Recommendation

1. It is recommended that the Internal Audit Interim Report is considered and appropriate comments made.

Cabinet Portfolio

The item falls within the following Cabinet portfolio:

Finance & Efficiency

(Councillor Paul Rigby)

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Report

1 Introduction

1.1 The main purpose of this report is to provide the committee with the opportunity to review the service provided to the Council during the first half of the audit year.

2 Assurance on Internal Control

2.1 In the period from 1st April to 30th September 2006 eight (8) final reports have been completed and action plans agreed. Copies of the reports and action plans are placed in the Members Room on the completion of each review.

2.2 In the Action Plans arising from audit work we categorise recommendations as high, medium or low priority. High indicates a significant control weakness that may lead to material loss, exposure to fraud or failure to meet regulatory requirements. Medium suggests a less important vulnerability not fundamental to system integrity. Low priorities relate to good practice or enhancements to procedures.

2.3 We also measure the overall adequacy and effectiveness of internal control in a system on a five-point scale where a score of 5 means the system is performing particularly well and 1 that the level of control is unacceptable. A score of 4 reflects a system with satisfactory controls and scores of 3 and 2 reflect increasing degrees of the need to improve control.

2.4 Table One shows the category of recommendations identified for each audit completed, together with the assurance rating for the system reviewed.

Table One: Risk & Assurance

Audit Area	High Risks	Medium Risks	Low Risks	Assurance Rating
Main Accounting	1	5	6	2.3
Sundry Debtors	0	7	4	3.5
IT Audit ¹	3	8	2	-
BVPI	0	10	2	3.0
Creditors	0	5	4	3.2
Council Tax	1	2	6	3.8
Business Rates	1	1	4	4.2
Cash Collection	1	5	4	3.0
Total	7	43	32	3.3

¹ Review performed by LCC

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2.5 For those systems reviewed by Internal Audit in the first half of 2006/07 the average assurance score was 3.3 on the scale of 1 to 5. This indicates that the framework of control is adequate but some controls are not operating effectively. The average score to date shows no change over last year.

2.6 There were three important internal control weaknesses brought to the attention of the Section 151 Officer during the first half of the year as follows:

- ♦ Failure to complete a monthly cash to bank reconciliation during the course of the 2005/06 financial year (a year-end reconciliation was achieved)
- ♦ Failure to agree a Service Level Agreement with Blackpool BC for managing the backup and recovery arrangements of the Council Tax, Business Rates and Housing Benefits systems
- ♦ Weaknesses in internal cash transfer procedures

2.7 The cash transfer process was subsequently upgraded. Meanwhile, for the remaining two issues, dates for remedial actions to be in place have been agreed with management.

3 Follow-up Work

3.1 Follow-up reviews are performed to appraise management of post audit actions and provide assurance that audit recommendations have been implemented. Five (5) follow-up reviews have been completed to 30 September. Table Two shows the total number of agreed recommendations that were implemented by managers.

Table Two: Agreed Recommendations Implemented

Audit Area	R e c o m m e n d a t i o n s		
	Total Agreed	Number Implemented	% Implemented
Sundry Debtors	15	9	60%
Creditors	12	5	42%
Post Opening	14	13	93%
Business Rates	4	2	50%
Council Tax	2	1	50%
Total	47	30	64%

3.2 The overall implementation rate to date has declined from 72% during 2005/06 to 64%. Clearly non-implementation of audit recommendations undermines the adequacy of the control environment, although for the audits above there were no high priority recommendations involved.

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3.3 In addition to the overall rate, the percentage of high and medium priority recommendations implemented is also measured. Table Three shows the total number of agreed high and medium recommendations that were implemented by managers.

Table Three: High & Medium Recommendations Implemented

Audit Area	High Risks		Medium Risks		% Implemented
	Yes	No	Yes	No	
Sundry Debtors	0	0	1	3	25%
Creditors	0	0	2	4	33%
Post Opening	0	0	7	1	88%
Business Rates	0	0	0	1	0%
Council Tax	0	0	0	0	-
Total	0	0	10	9	53%

3.4 The percentage of high and medium priority recommendations implemented in the first half of 2006/07 is 53%, which is lower than the overall rate. This points to a non-systematic approach to implementation and a tendency not to focus on the most significant issues.

4 Internal Control System

4.1 There is a requirement for the Council to review annually the effectiveness of its system of internal control and to include a statement on internal control with the Council's published accounts. The Regulations require proper, up-to-date, procedures to be followed in accordance with best practice guidance published by the Chartered Institute of Public Finance and Accountancy (the CIPFA Guidance).

4.2 Internal Audit facilitated this process by developing a corporate assurance framework focussed on the key control issues as stated in CIPFA guidance. Auditors assisted senior managers with the preparation of assurance statements and provided advice on internal control. The completed statements were subject to realism checks and used to highlight areas for improvement.

4.3 Management Team and Internal Audit have identified several enhancements to strengthen the system of internal control to provide a generally sound basis for governance, service delivery, financial management and accountability in 2007/08. A joint Internal Control & Corporate Governance Action Plan to achieve this was adopted by the Council on 28 June.

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5 Corporate Governance

5.1 The Council's corporate governance arrangements establish direction and control of the Council's functions, and define how the Council relates to the local community. Corporate controls help ensure that policy setting and decision-making are carried out in accordance with the Constitution, and also that the actions of members and officers comply with established policies, procedures, laws and regulations.

5.2 These arrangements are underpinned by the local Code of Corporate Governance approved by the Council in 2004. A detailed review of the Council's arrangements compared to the CIPFA/SOLACE recommended guidance has been carried out within the framework of assurance developed by Internal Audit.

5.3 The audit team facilitated this process in conjunction with the review of internal control. A number of improvements to corporate governance arrangements have been identified and included in the joint Action Plan. Section Five above provides more detail about the joint Action Plan and the role of internal audit in the process.

6 Performance Management

6.1 The Council's performance is monitored in part by Best Value Performance Indicators (BVPs), which are published annually in the Corporate Performance Plan. These are the clearest means of comparing Fylde's performance with that of other similar Councils throughout the country.

6.2 In the six months to the 30th September the audit team is closely involved in the detailed verification of the information, data and calculations supporting the published figures. This work is carried out on behalf of the Audit Commission and scrupulous independence must be maintained throughout the exercise. The input from Internal Audit resulted in the successful publication of performance indicators without any errors or corrections.

7 Fraud & Special Investigations

7.1 During the first half of the year the audit team undertook two investigations - one allegation of fraud against a member of staff and one allegation of corrupt practice. Both cases were reported by anonymous whistleblowers. Neither of the investigations showed any grounds for disciplinary action; however, as a result of one case teams have been reminded of appropriate procedures.

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7.2 So far in 2006/07 about 5 days have been taken up dealing with reactive fraud work. This compares with a total of 18 days spent on fraud in 2005/06. Clearly the amount of fraud work required is not predictable and its impact on the audit plan can be considerable.

7.3 In addition, internal audit has co-ordinated the production of housing benefit, payroll and creditors information for a data matching exercise as part of the National Fraud Initiative. This work is ongoing and will ultimately require the investigation of any 'matches' discovered.

8 Local Performance Indicators

8.1 Two local performance indicators for internal audit have been adopted and form part of the Finance Unit service plan. Table Four sets out the LPIs adopted as part of the service plan that are monitored and progress reported during the year:

Table Four: Internal audit local performance indicators

Performance Indicator	Actual 2005/06	Target 2006/7	Actual to 30/09
Percentage completion of the Audit Plan	91%	90%	49%
Percentage of agreed recommendations implemented	72%	75%	64%

8.2 Progress towards completing the audit plan is excellent and the target looks certain to be surpassed. By contrast the implementation of audit recommendations by managers has declined in the first half of this year. There is a need for considerable further improvement to reach an ambitious target.

8.3 Clearly the implementation of audit recommendations by managers is an area for management improvement. Internal audit can only impact indirectly on performance in this area. Any significant improvement must be driven by management and derived from the objective of maintaining a sound system of internal control. Section Three above provides some detailed background information about this PI.

IMPLICATIONS	
Finance	Section 151 officer has responsibility for maintaining an effective internal audit.
Legal	There are no direct legal implications.

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Community Safety	There are no direct community safety implications
Human Rights and Equalities	There are no direct human rights and equalities implications
Sustainability	There are no direct sustainability issues
Health & Safety and Risk Management	There are no direct H&S or risk assessment implications

REPORT AUTHOR	TEL	DATE	DOC ID
Savile Sykes	(01253) 658413	9 th October 2006	
LIST OF BACKGROUND PAPERS			
NAME OF DOCUMENT	DATE	WHERE AVAILABLE FOR INSPECTION	
Interim internal audit report 2006/07		All background papers or copies can be obtained from Savile Sykes – Head of Internal Audit on 01253 658413 or e-mail saviles@fylde.gov.uk	

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