



Agenda

Audit and Standards Committee

Date:	Thursday, 7 March 2019 at 6:30 pm
Venue:	Town Hall, St Annes, FY8 1LW
Committee members:	<p>Councillor John Singleton JP (Chairman)</p> <p>Councillor David Donaldson (Vice-Chairman)</p> <p>Councillors Delma Collins, Peter Collins, Paul Hayhurst, Edward Nash, Graeme Neale, Louis Rigby, Roger Small.</p>

	PROCEDURAL ITEMS:	PAGE
1	Declarations of Interest: Declarations of interest, and the responsibility for declaring the same, are matters for elected members. Members are able to obtain advice, in writing, in advance of meetings. This should only be sought via the Council's Monitoring Officer. However, it should be noted that no advice on interests sought less than one working day prior to any meeting will be provided.	1
2	Confirmation of Minutes: To confirm the minutes, as previously circulated, of the meeting held on 17 January 2019 as a correct record.	1
3	Substitute Members: Details of any substitute members notified in accordance with council procedure rule 23(c).	1
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5	Internal Audit Plan 2019-2020 & Internal Audit Charter	26 - 35
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6	Regulation of Investigatory Powers Act 2000: Authorisations	36

Contact: Tara Walsh - Telephone: (01253) 658546 – Email: democracy@fylde.gov.uk

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<http://fylde.cmis.uk.com/fylde/DocumentsandInformation/PublicDocumentsandInformation.aspx>

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DECISION ITEM

REPORT OF	MEETING	DATE	ITEM NO
RESOURCES DIRECTORATE	AUDIT AND STANDARDS COMMITTEE	7 MARCH 2019	4
DELOITTE AUDIT PLAN 2018/19			

PUBLIC ITEM

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

SUMMARY

The report presents the Audit Planning Report from Deloitte for the financial year 2018/19. The report will be presented by Deloitte.

RECOMMENDATION

The committee is recommended to:

1. Consider and comment on the Deloitte Audit Planning Report for 2018/19 which is attached to this covering report.

SUMMARY OF PREVIOUS DECISIONS

The Audit Plan is considered each year by the Audit and Standards Committee.

CORPORATE PRIORITIES

Spending your money in the most efficient way to achieve excellent services (Value for Money)	√
Delivering the services that customers expect of an excellent council (Clean and Green)	
Working with all partners (Vibrant Economy)	
To make sure Fylde continues to be one of the most desirable places to live (A Great Place to Live)	
Promoting Fylde as a great destination to visit (A Great Place to Visit)	

REPORT

1. The attached report has been prepared by the Council's external auditors, Deloitte. It summarises how they will deliver their audit work for Fylde Borough Council during the coming year.

IMPLICATIONS	
Finance	There are no financial implications arising directly from this report - the cost of external work can be met from existing budget provision.
Legal	No implications arising from this report
Community Safety	No implications arising from this report
Human Rights and Equalities	No implications arising from this report
Sustainability and Environmental Impact	No implications arising from this report
Health & Safety and Risk Management	No implications arising from this report

LEAD AUTHOR	CONTACT DETAILS	DATE
Paul O'Donoghue Chief Financial Officer	01253 658566	February 2019

BACKGROUND PAPERS		
Name of document	Date	Where available for inspection
N/A	N/A	N/A

Attached documents

Appendix 1 – Deloitte Audit Planning Report for year ending 31st March 2019.



Planning report to the Audit and Standards Committee for the year ending 31 March 2019

March 2019

01 Planning report

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Partner introduction

The key messages in this report:

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

We have pleasure in presenting our planning report to the Audit and Standards Committee for the 2019 audit. We would like to draw your attention to the key messages of this paper:

Audit Plan

- We have completed our handover with KPMG, including review of their prior year file. We understand there were no unadjusted misstatements from the 2017/18 audit.
- We are developing our understanding of the Council through discussion with management and review of relevant documentation from across the Council.
- Based on these procedures, we have developed this plan in collaboration with the Council to ensure that we provide an effective audit service that meets your expectations and focuses on the most significant areas of importance and risk to the Council.

Key risks

- We have taken an initial view as to the significant audit risks the Council faces. These are presented as a summary dashboard on page 11.

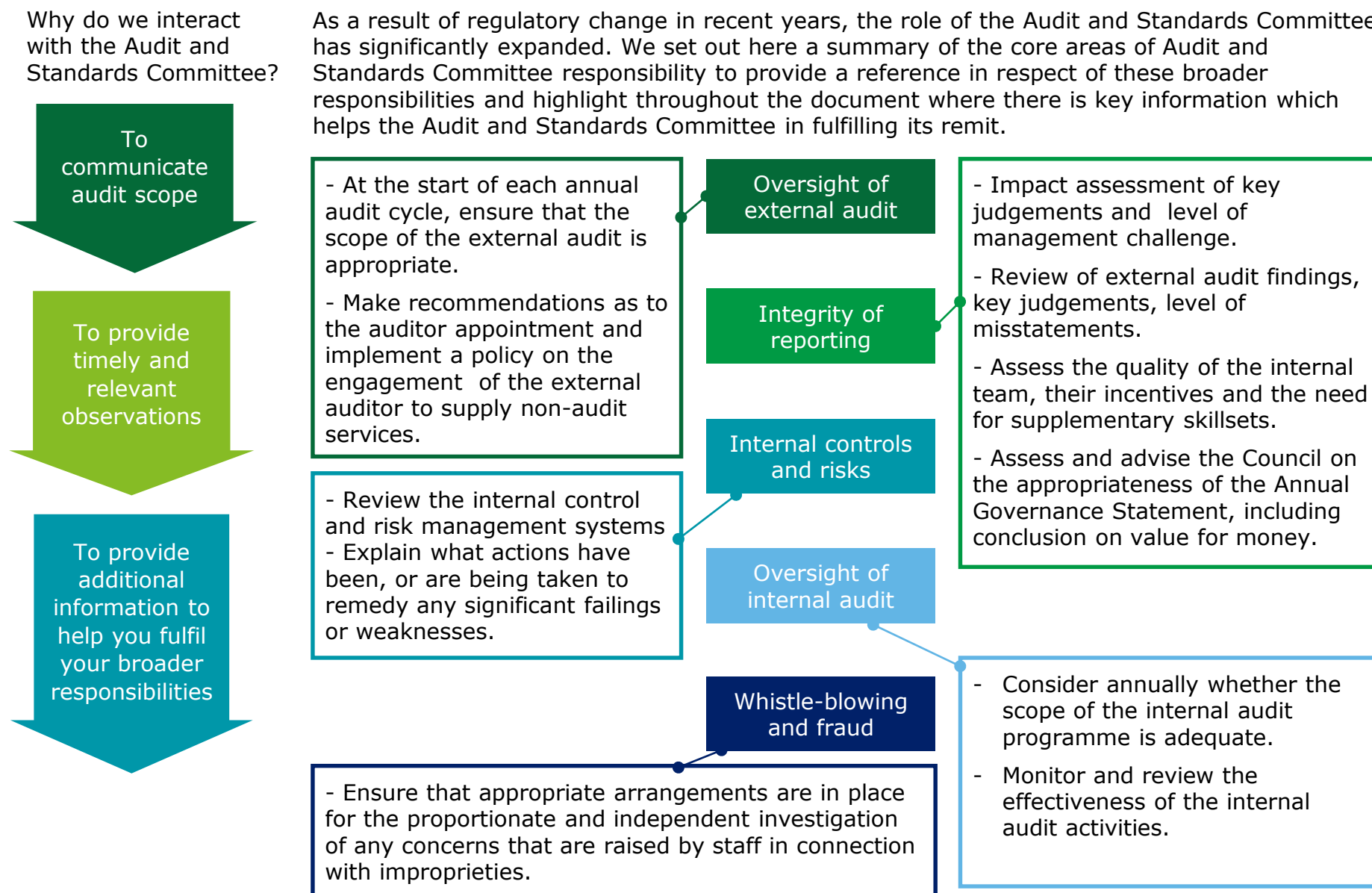
Regulatory change

- Our audit is carried out under the Code of Audit Practice issued by the National Audit Office.

Paul Hewitson
Lead audit director

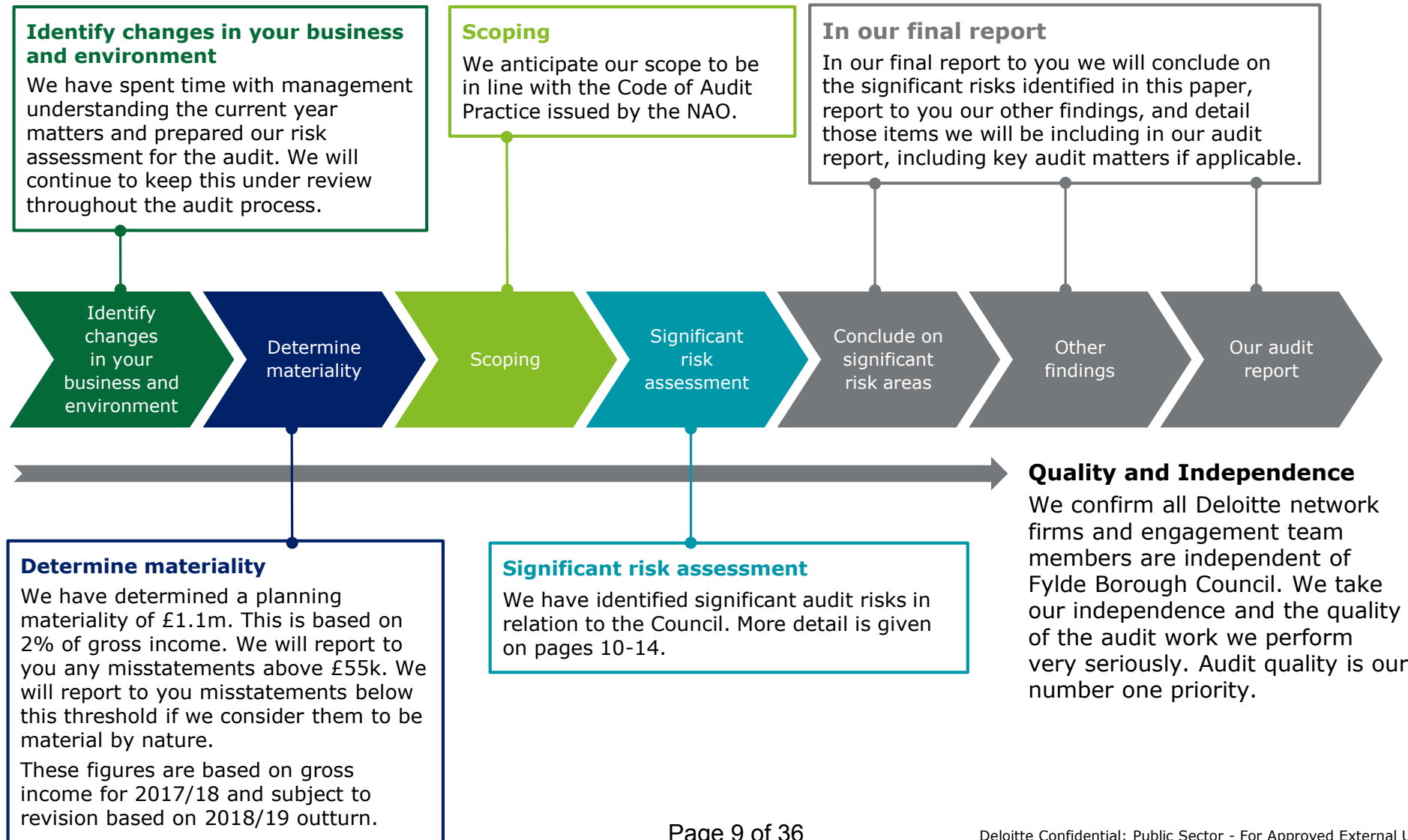
Responsibilities of the Audit and Standards Committee

Helping you fulfil your responsibilities



Our audit explained

We tailor our audit to your business and your strategy



Scope of work and approach

We have three key areas of responsibility under the Audit Code

Financial statements

We will conduct our audit in accordance with International Standards on Auditing (UK) ("ISA UK") as adopted by the UK Auditing Practices Board ("APB") and Code of Audit Practice issued by the NAO. The Council will prepare its accounts under the Code of Practice on Local Council Accounting ("the Code") issued by CIPFA and Local Authority (Scotland) Accounts Authority Committee (LASAAC).

We may be required to issue a separate assurance report to the NAO on the Authority's separate return required for the purposes of its audit of the Whole of Government Accounts and departmental accounts. We will update the Committee on this matter once NAO instructions are confirmed for the year.

Annual Governance Statement

We are required to consider the completeness of the disclosures in the Annual Governance Statement in meeting the relevant requirements and identify any inconsistencies between the disclosures and the information that we are aware of from our work on the financial statements and other work.

As part of our work we will review the remuneration report and annual report and compare with other available information to ensure there are no material inconsistencies. We will also review any reports from other relevant regulatory bodies and any related action plans developed by the Council.

Value for Money conclusion

We are required to satisfy ourselves that the Council has made proper arrangements for securing financial resilience and economy, efficiency and effectiveness in its use of resources.

To perform this work, we are required to:

- plan our work based on consideration of the significant risks of giving a wrong conclusion; and
- carry out as much work as is appropriate to enable us to give a safe conclusion on the arrangements to secure VFM.

Our work therefore includes a detailed risk assessment based on the risk factors identified in the course of our audits. This is followed by specific work focussed on the risks identified.

Our risk assessment in this area remains ongoing although we have not yet identified any specific risks to the delivery of value for money.

We then provide a conclusion on these arrangements as part of our final reporting to you.

Scope of work and approach (continued)

Our approach

Liaison with internal audit

The Auditing Standards Board's version of ISA (UK and Ireland) 610 "Using the work of internal auditors" prohibits use of internal audit to provide "direct assistance" to the audit. Our approach to the use of the work of Internal Audit has been designed to be compatible with these requirements.

We will review their reports and meet with them to discuss their work. We will discuss the work plan for internal audit, and where they have identified specific material deficiencies in the control environment we consider adjusting our testing so that the audit risk is covered by our work.

Using these discussions to inform our risk assessment, we can work together with internal audit to develop an approach that avoids inefficiencies and overlaps, therefore avoiding any unnecessary duplication of audit requirements on the Council's staff.

Approach to controls testing

Our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D & I").

The results of our work in obtaining an understanding of controls will be collated and the impact on the extent of substantive audit testing required will be considered.

Promoting high quality reporting to stakeholders

We view the audit role as going beyond reactively checking compliance with requirements: we seek to provide advice on evolving good practice to promote high quality reporting.

We recommend the Council complete the Code checklist during drafting of their financial statements.

We would welcome early discussion on the planned format of the financial statements, and whether there is scope for simplifying or streamlining disclosures, as well as the opportunity to review a skeleton set of financial statements and an early draft of the annual report ahead of the typical reporting timetable to feedback any comments to management.

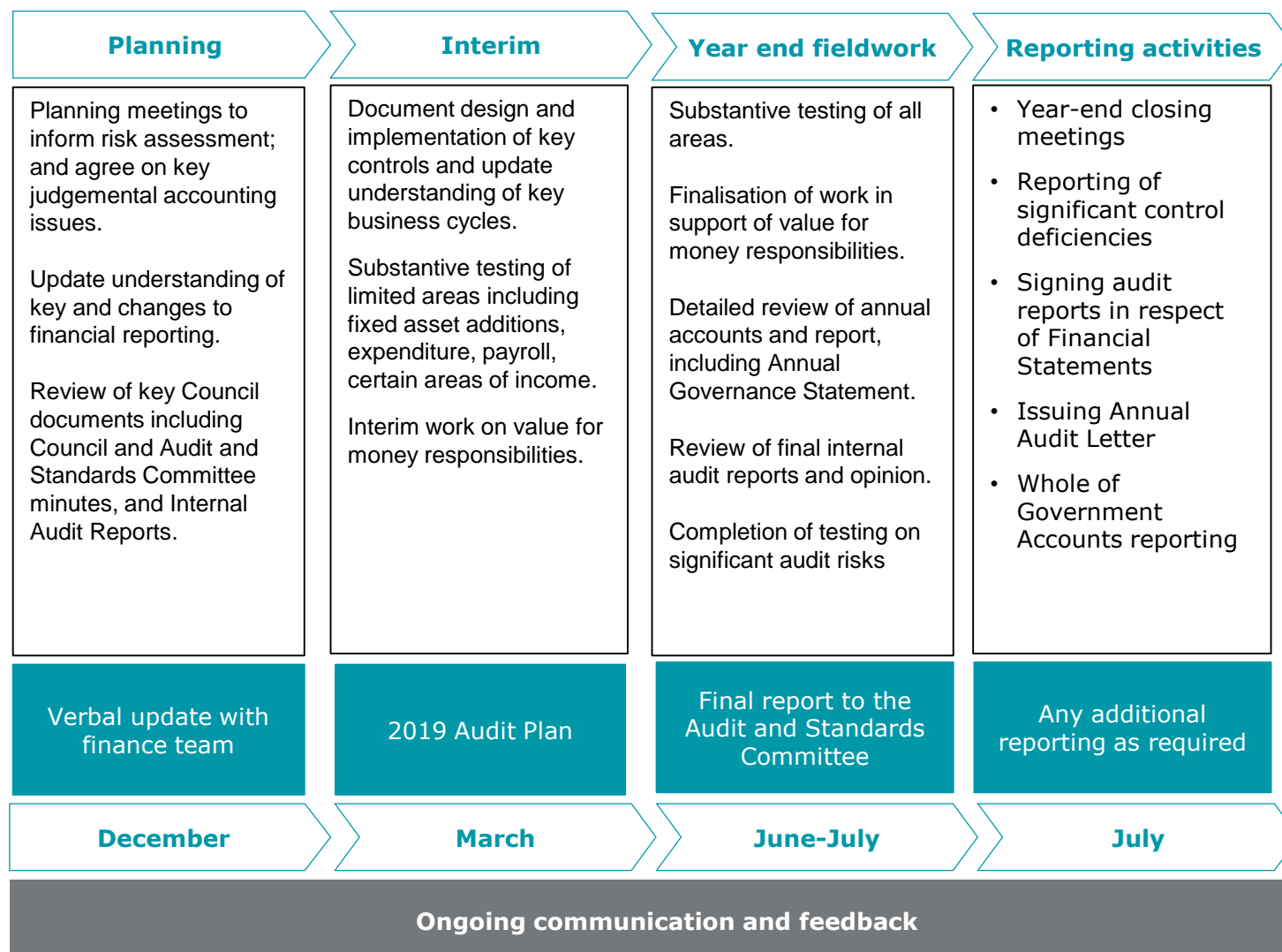
Value for Money and other reporting

The Code of Audit Practice requires us to report by exception in our audit report any matters that we identify that indicate the Council has not made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Continuous communication and reporting

Planned timing of the audit

As the audit plan is executed throughout the year, the results will be analysed continuously and conclusions (preliminary and otherwise) will be drawn. The following sets out the expected timing of our reporting to and communication with you.



Materiality

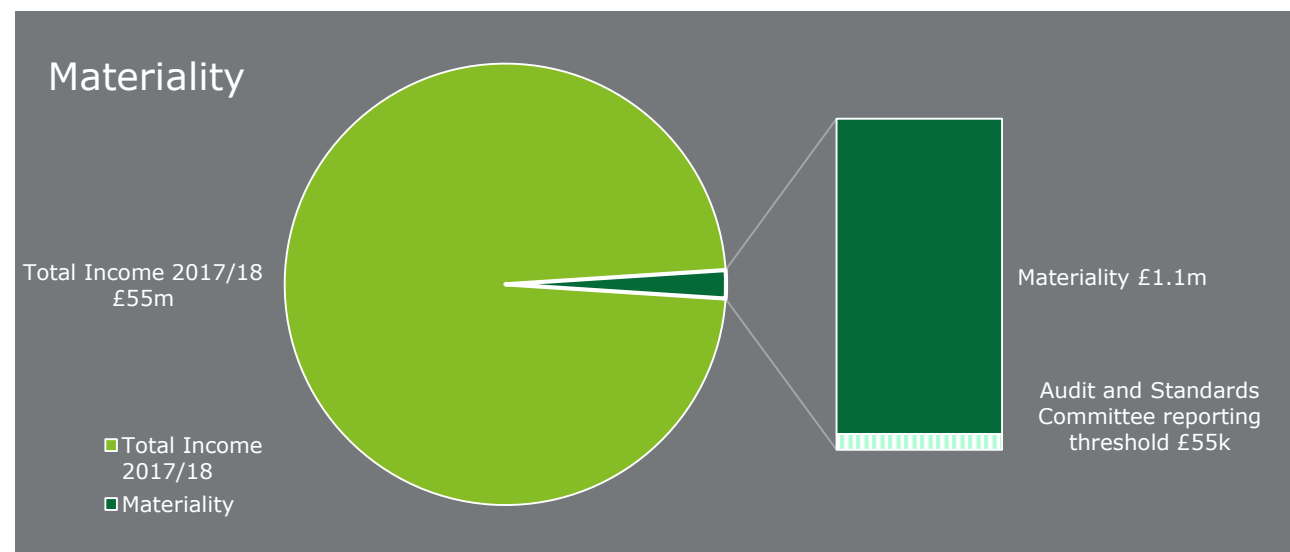
Our approach to materiality

Basis of our materiality benchmark

- The audit partner has determined materiality as £1.1m, based on professional judgement, the requirement of auditing standards and the financial measures most relevant to users of the financial statements.
- We have used 2% of Total Income based on the 2017/18 audited accounts as the benchmark for determining materiality.
- We will re-visit the determined materiality based on completion of interim audit procedures.

Reporting to those charged with governance

- We will report to you all misstatements found in excess of £55k.
- We will report to you misstatements below this threshold if we consider them to be material by nature.



Although materiality is the judgement of the audit partner, the Audit and Standards Committee must satisfy themselves that the level of materiality chosen is appropriate for the scope of the audit.

Significant risks

Our risk assessment process

We consider a number of factors when deciding on the significant audit risks. These factors include:

- the significant risks and uncertainties previously reported in the annual report and financial statements;
- the IAS 1 critical accounting estimates previously reported in the annual report and financial statements;
- our assessment of materiality; and
- the changes that have occurred in the business and the environment it operates in since the last annual report and financial statements.

Principal risk and uncertainties

- Property valuations
- Fair value measurement
- GDPR compliance
- Project management
- Future funding

IAS 1 Critical accounting estimates

- Pension liabilities
- Lancashire business rates pool
- Provision for NNDR appeals

Changes in your business and environment

- Coastal Protection Scheme – this is a large capital project (£14.5m estimated value to be spent in 2018/19 onwards) which will represent a large proportion of the capital estate which totalled £23.5m at 31 March 2018.
- Election Year – The council will go through a round of local elections in May 2019 which could have a bearing on the future direction on the council.













NAO – Auditor Guidance Note 06

The National Audit Office has identified going concern, new accounting standards (IFRS15 and IFRS 9) and the guaranteed minimum pension as key issues for 2018-19. Whilst we do not consider these to represent significant risks we will carefully review the approach being taken by the Council to address these issues.


The next page summarises the significant risks that we will focus on during our audit.


Significant risks

Significant risk dashboard

Risk	Material	Fraud risk	Planned approach to controls	Level of management judgement	Management paper expected	Slide no.
Completeness and Cut off of service line expenditure			D+I			12
Property Valuations			D+I			13
Management Override of Controls			D+I			14

D+I: Assessing the design and implementation of key controls

 Low level of management judgement

 Moderate level of management judgement

 High level of management judgement

Significant risks (continued)

Risk 1 – Completeness and cut-off of service line expenditure

Risk identified	<p>Under UK auditing standards, there is a presumed risk of revenue recognition due to fraud. We have rebutted this risk, and instead believe that the fraud risk lies with the completeness and cut-off of service line expenditure. We identify this as expenditure excluding payroll costs, depreciation and amortisation and expenditure which is grant backed (such as Housing Benefit expenditure).</p> <p>There is an inherent fraud risk associated with the recording of expenditure in order for the Council to report a more favourable year-end position.</p> <p>There is a risk that the Council may materially misstate expenditure through manipulating the year end position in order to report a more favourable outturn.</p>
Our response	<p>Our work in this area will include the following:</p> <p>We will obtain an understanding of the design and implementation of the key controls in place in relation to recording completeness and cut-off of service line expenditure (excluding payroll, depreciation and amortisation, and expenditure which is grant backed);</p> <p>We will perform focused testing in relation to the completeness and cut-off of service line expenditure (excluding the areas set out above) including detailed reviews of provisions and accruals; and,</p> <p>We will review and challenge the assumptions made in relation to year-end estimates and judgements to assess completeness and accuracy of recorded service line expenditure.</p>

Significant risks (continued)

Risk 2 – Property Valuation

Risk identified	<p>The council held £19.9m of property, plant and equipment assets at 31 March 2017 which increased to £23.5m as at 31 March 2018. The increase was in part due to additions of £5.3m and depreciation of £1.1m.</p> <p>The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years.</p> <p>There is therefore a risk that that the value of property assets materially differ from the year end fair value.</p>
Our response	<p>We will test the design and implementation of key controls in place around the property valuation, and how the Council assures itself that there are no material impairments or changes in value for the assets not covered by the annual valuation;</p> <p>We will review any revaluations performed in the year, assessing whether they have been performed in a reasonable manner, on a timely basis and by suitably qualified individuals;</p> <p>We will review the approach used by the Authority to assess the risk that assets not subject to revaluation are materially misstated;</p> <p>We will use our valuation specialists, Deloitte Real Estate, to support our review and challenge the appropriateness of the Council's assumptions on its assets values between April 2018 and Year end; and</p> <p>We will test a sample of revalued assets and re-perform the calculation assessing whether the movement has been recorded through the correct line of the accounts.</p>

Significant risks (continued)

Risk 3 – Management override of controls

Risk identified	<p>In accordance with ISA 240 (UK and Ireland) management override of controls is a significant risk for all entities. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Council's controls for specific transactions.</p> <p>The key judgements in the financial statements include those which we have selected to be the significant audit risks, (completeness and cut-off of service line expenditure and the Council's property valuations) and any one off and unusual transactions where management could show bias. These are inherently the areas in which management has the potential to use their judgment to influence the financial statements.</p>
Our response	<p>In considering the risk of management override, we plan to perform the following audit procedures that directly address this risk:</p> <p>We will test the design and implementation of key controls in place around journal entries and key management estimates;</p> <p>We will risk assess journals and select items for detailed testing. The journal entries will be selected using computer-assisted profiling based on areas which we consider to be of increased interest;</p> <p>We will review accounting estimates for biases that could result in material misstatements due to fraud; and,</p> <p>We will obtain an understanding of the business rationale of significant transactions that we become aware of that are outside of the normal course of business for the Council, or that otherwise appear to be unusual, given our understanding of the entity and its environment.</p>

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to establish our respective responsibilities in relation to the financial statements audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes:

- Our audit plan, including key audit judgements and the planned scope; and
- Key regulatory and corporate governance updates, relevant to you

Use of this report

This report has been prepared for the Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

We welcome the opportunity to discuss our report with you and receive your feedback.

What we don't report

As you will be aware, our audit is not designed to identify all matters that may be relevant to the Council.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

Other relevant communications

We will update you if there are any significant changes to the audit plan.

Deloitte LLP

Newcastle | 7 March 2019

Appendix 1: Fraud responsibilities and representations

Responsibilities explained



Your Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.



Our responsibilities:

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in the significant risks section of this document, we have identified the risk of fraud in expenditure and management override of controls as key audit risks for your organisation.



Fraud Characteristics:

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

We will request the following to be stated in the representation letter signed on behalf of the Council:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity or group and involves:
 - (i) management;
 - (ii) employees who have significant roles in internal control; or
 - (iii) others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Appendix 1: Fraud responsibilities and representations (continued)

Inquiries

Item 4 - Appendix 1

We will make the following inquiries regarding fraud:



Management:

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Management's process for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity.



Internal audit:

- Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.



Those charged with governance:

- How those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.
- Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity.
- The views of those charged with governance on the most significant fraud risk factors affecting the entity.

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Council and will reconfirm our independence and objectivity to the Audit and Standards Committee for the year ending 31 March 2019 in our final report to the Audit and Standards Committee.
Fees	There are no non-audit fees other than the £10.5k Housing Benefit work.
Non-audit services	In our opinion there are no inconsistencies between the FRC's Ethical Standard and the Council's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	We have no other relationships with the Council, its directors, senior managers and affiliates, and have not supplied any services to other known connected parties.

Appendix 2: Independence and fees (continued)

The professional fees expected to be charged by Deloitte in the period from 1 April 2018 to 31 March 2019 are as follows:

	Current year £
Financial statement audit including Whole of Government Accounts reporting submission and procedures in respect of Value for Money assessment	36,729
Total audit	36,729
Audit related assurance services	10,500
Total assurance services	10,500
Total fees	47,229

Appendix 3: Our approach to quality

AQR team report and findings

We maintain a relentless focus on quality and our quality control procedures and continue to invest in and enhance our overall firm Audit Quality Monitoring and Measuring programme.

In June 2018 the Financial Reporting Council ("FRC") issued individual reports on each of the eight largest firms, including Deloitte, on Audit Quality Inspections which provides a summary of the findings of its Audit Quality Review ("AQR") team for the 2017/18 cycle of reviews.

We take the findings of the AQR seriously and we listen carefully to the views of the AQR and other external audit inspectors. We remediate every finding regardless of its significance and seek to take immediate and effective actions, not just on the individual audits selected but across our entire audit portfolio. We are committed to continuously improving all aspects of audit quality in order to provide consistently high quality audits that underpin the stability of our capital markets.

We have improved the speed by which we communicate potential audit findings, arising from the AQR inspections and our own internal reviews to a wider population, however, we need to do more to ensure these actions are embedded. In order to achieve this we have launched a more detailed risk identification process and our InFlight review programme. This programme is aimed at having a greater impact on the quality of the audit before the audit report is signed. Consistent achievement of quality improvements is our aim as we move towards the AQR's 90% benchmark.

All the AQR public reports are available on its website. <https://www.frc.org.uk/auditors/audit-quality-review/audit-firm-specific-reports>

The AQR's 2017/18 Audit Quality Inspection Report on Deloitte LLP

"The overall results of our reviews of the firm's audits show that 76% were assessed as requiring no more than limited improvements, compared with 78% in 2016/17. Of the FTSE 350 audits we reviewed this year, we assessed 79% as achieving this standard compared with 82% in 2016/17. We are concerned at the lack of improvement in inspection results. The FRC's target is that at least 90% of these audits should meet this standard by 2018/19."

"Where we identified concerns in our inspections, they related principally to aspects of group audit work, audit work on estimates and financial models, and audit work on provisions and contingencies. During the year, the firm has continued to develop the use of "centres of excellence", increasing the involvement of the firm's specialists in key areas of the audit. We have no significant issues to report this year in most of the areas we reported on last year."

"The firm has revised its policies and procedures in response to the revised Ethical and Auditing Standards. We have identified some examples of good practice, as well as certain areas for improvement."

The firm has enhanced its policies and procedures in the following areas:

- Increased use of centres of excellence ("CoE") involving the firm's specialists, including new CoEs focusing on goodwill impairment (established in response to previous inspection findings) and corporate reporting, to address increasing complexity of financial reporting.
- Further methodology updates and additional guidance issued to the audit practice including the audit approach to pension balances, internal controls, data analytics, group audits and taxation.
- A new staff performance and development system was implemented with additional focus on regular timely feedback on performance, including audit quality.
- Further improvements to the depth and timeliness of root cause analysis on internal and external inspection findings.

Our key findings in the current year requiring action by the firm:

- Improve the group audit team's oversight and challenge of component auditors.
- Improve the extent of challenge of management's forecasts and the testing of the integrity of financial models supporting key valuations and estimates.
- Strengthen the firm's audit of provisions and contingencies.

Review of firm-wide procedures. The firm should:

- Enhance certain aspects of its independence systems and procedures.

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DECISION ITEM

REPORT OF	MEETING	DATE	ITEM NO
SHARED HEAD OF INTERNAL AUDIT	AUDIT AND STANDARDS COMMITTEE	7 MARCH 2019	5
INTERNAL AUDIT PLAN 2019-2020 & INTERNAL AUDIT CHARTER			

PUBLIC ITEM

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

SUMMARY

The 2019/20 Internal Audit Plan has been compiled in consultation with Directors and Heads of Service following a detailed risk assessment.

The Internal Audit Charter is a requirement of the Public Sector Internal Audit Standards, which should be approved by the Audit and Standards Committee.

RECOMMENDATIONS

1. That the Committee approves the Internal Audit Plan 2019/2020 and associated performance indicators.
2. That the Committee approves the Internal Audit Charter.

SUMMARY OF PREVIOUS DECISIONS

None

CORPORATE PRIORITIES

Spending your money in the most efficient way to achieve excellent services (Value for Money)	✓
Delivering the services that customers expect of an excellent council (Clean and Green)	✓
Working with all partners (Vibrant Economy)	✓
To make sure Fylde continues to be one of the most desirable places to live (A Great Place to Live)	✓
Promoting Fylde as a great destination to visit (A Great Place to Visit)	✓

THE ROLES OF MANAGEMENT AND INTERNAL AUDIT

1. The responsibility for implementing a strong system of governance and internal control within the Council lies primarily with management. Directors and Heads of Service need to ensure that they maintain effective control procedures not least because services and business systems are subject to on-going change.
2. Internal Audit is an independent appraisal function whose prime objective is to evaluate and report on the adequacy of the Council's system of governance, risk and internal control. This is largely achieved through an annual programme of reviews.

AUDIT PLAN

3. The 2019/20 Internal Audit Plan contains the programme of reviews for the next financial year and is shown at Appendix 1. This has been constructed following an assessment of audit need by considering a range of factors, such as significant changes in staffing, systems and procedures, the length of time since an area was last audited and items in the Corporate Plan and Strategic Risk Register. There has also been extensive consultation within each service which has taken an overview of audit requirements.
4. The following paragraphs summarise the areas that will be subject to audit coverage in 2019/20.

Corporate

- Undertaking corporate and service level governance reviews in support of the Annual Governance Statement.
- Review and update of Anti-Fraud and Corruption Policies.
- Co-ordinating the Council's input to the Cabinet Office National Fraud Initiative (NFI) 2019 exercise for in order to identify any potential irregularities.

Risk based reviews of the following systems:

- Risk Management
- Payroll
- Environmental Permitting Regulations
- Fuel Consumption
- Data Sharing Protocols
- Business Rates
- Council Tax
- Sundry Debtors
- VAT
- ICT reviews – to be determined in conjunction with ICT Auditors
- Events
- Heritage Assets
- Commercial Properties
- Energy Management
- Homelessness
- Development Management

Project Team Membership

- Coastal Defence project.
- Fairhaven Lake (HLF)

General Areas

- Following up management actions agreed in earlier audit reports.
- Responding to requests from management for unplanned reviews / investigations.
- Finalising 18/19 reviews.
- Compliance with the Public Sector Internal Audit Standards (PSIAS).
- System administrator responsibilities for risk management system (GRACE).
- Preparing reports for and attending the Audit and Standards Committee.

In addition, we will undertake the following compliance reviews:

- Performance Monitoring / Data Quality
- Project Management.

The Council is also currently working with Blackpool Council to undertake a review of the General Data Protection Regulations at Fylde Council. Internal Audit will assist with review as necessary.

AUDIT DAYS

5. The Internal Audit Plan for 2019/20 is based on a resource of **405 audit days**. This is the number of chargeable days available within the existing budget (after deducting annual leave and other non-chargeable time). It comprises of a mix of in-house and bought-in resources and is an increase of 19 days from the 2017/18 Plan of 386 days.

INTERNAL AUDIT PERFORMANCE INDICATORS

6. Following a review of the performance measures and targets maintained by Internal Audit, it is proposed that the following indicators listed below are reported for 2019/20 onwards.

	Performance Indicator	Target
1	% of Planned time used (NEW)	90%
2	% of Audit Plan completed (NO CHANGE)	90%
3	% satisfaction rating (assignment level) (NO CHANGE)	90%
4	% of agreed actions implemented by management (NO CHANGE)	90%

7. The following indicators will no longer be reported upon:
- % of high priority actions implemented by management
 - % of high / medium actions implemented by management
 - % of recommendations implemented at the first follow up
 - % of audit recommendations agreed with management.
8. This is due to a change in the reporting of Internal Audit findings. Internal Audit reports now contain details of areas of weakness and a course of action to rectify this situation is agreed between Internal Audit and the Manager. **All actions included within an audit report are followed up and progress is reported to the Audit and Standards Committee. The importance and urgency required for a management action is reflected in the timescale agreed for its implementation.**
9. In accordance with the Public Sector Internal Audit Standards (PSIAS), if an agreed action remains unimplemented and the level of risk is considered to be unacceptable to the organisation, this will be communicated to Senior Managers and the Audit and Standards Committee.
10. It is the intention to report on all of the above indicators three times per annum, in the progress reports presented to the Audit and Standards Committee in September and January and also in the Annual Report in June. A year to date target figure will also be included so that members can clearly see progress made against the annual plan.
11. This revised proposal has also been agreed with the Corporate Governance Group as a robust re-focussing of the process which is fully compliant with the PSIAS. **Furthermore, as stated above, any in-year concerns regarding implementation of outstanding actions will always be reported to the Audit and Standards Committee as a matter of course.**

INTERNAL AUDIT CHARTER

12. As members are aware, from 1st April 2013, the CIPFA Code of Practice for Internal Audit in Local Government 2006 was replaced by new UK Public Sector Internal Audit Standards (PSIAS).
13. The Attribute Standard of the PSIAS "*Purpose, Authority and Responsibility*" specifically requires the production of an Internal Audit Charter and for it to be periodically reviewed. The Charter was last formally reviewed and approved by the Audit and Standards Committee in September 2016 and so it is now appropriate for it to be reviewed to ensure it is fit for purpose and compliant with the PSIAS. The reviewed Internal Audit Charter is included at Appendix 2.

IMPLICATIONS	
Finance	None arising from this report
Legal	There are no legal implications arising from this report, however the provision of an Internal Audit Service is a requirement of the Accounts and Audit Regulations 2015.
Community Safety	None arising from this report
Human Rights and Equalities	None arising from this report
Sustainability and Environmental Impact	None arising from this report
Health & Safety and Risk Management	There are no Health and Safety implications arising from this report. The Audit Plan has been developed using a risk based approach.

LEAD AUTHOR	CONTACT DETAILS	DATE
Dawn Highton	Dawn.highton@fylde.gov.uk Tel 01253 658413	11 TH Feb 2019

BACKGROUND PAPERS		
Name of document	Date	Where available for inspection
Internal Audit Risk Assessment	11 th Feb 2019	Internal Audit Office, Town Hall

Attached documents

Appendix 1 – Internal Audit Plan

Appendix 2 – Internal Audit Charter

FYLDE COUNCIL	DAYS	Comments
CORPORATE AREAS		
Annual Governance Statement	15	To support the 2020 Annual Governance Statement
Anti-Fraud & Corruption	10	Review and update of probity policies
NFI	5	Submission of data for the 2019 exercise
Performance Monitoring - Data Quality	15	Compliance review
Project Management	15	Compliance review
Risk Management	15	Risk based review
Payroll	10	Risk based review
RESOURCES		
Heath & Environment		
Environmental Health		
Environmental permitting regulations	10	Risk based review
Fleet and Depot		
Fuel consumption	15	Risk based review
Governance		
General Data Protection Regulations	5	Risk based review
Data Sharing protocols	15	Risk based review
Contract procedure rules	15	Compliance review
Finance and Service Support		
Customer Service		
Business Rates	15	Risk based review of key financial system
Ctax	15	Risk based review of key financial system
Finance		
Sundry Debtors	15	Risk based review of key financial system
VAT	15	Risk based review of key financial system
ICT		
To be determined	10	Review to be identified with ICT Auditors
To be determined	10	Review to be identified with ICT Auditors
DEVELOPMENT SERVICES		
Parks, Leisure and Cultural Services		
Events	15	Risk based review
Heritage Assets	15	Risk based review
Fairhaven (HLF project)	10	Project team - pro active support
Technical Services		
Commercial properties	15	Risk based review
Coastal Defence Project	10	Project team - pro active support
Energy Management	15	Risk based review
Planning & Regeneration		
Homelessness / Homelessness prevention	10	Risk based review
Development management -	15	Risk based review
GENERAL AREAS		
Post Audit Reviews	10	Follow up of agreed actions
Contingency / Irregularities	20	Unplanned reviews / contingency
Residual work	15	Finalising 18/19 reviews
Internal Audit Effectiveness review	5	Compliance with PSIAS
GRACE (Administrator role)	10	Administrator Role
Committee Reporting / Effectiveness Review	15	Preparation of reports and attendance at Audit & Standards Committee
FYLDE COUNCIL	405	



INTERNAL AUDIT CHARTER

1.0 PURPOSE

- 1.1 The purpose of Fylde Council's Internal Audit Service is to provide independent, objective assurance and consulting services designed to add value and improve Fylde Council's operations. The Internal Audit Service helps Fylde Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.
- 1.2 Whilst it is the Council's responsibility to establish and maintain effective risk management and control systems, Internal Audit plays a key role in providing assurance to the Council that these systems are not only in place but are operating effectively. Any necessary action arising as a result of its work is designed to further strengthen the control environment and therefore assist with the achievement of the organisation's objectives.
- 1.3 Responsibility for and ownership of this Charter remains with the Council, however, while responsibility for its periodic review rests with the Shared Head of Internal Audit, final approval resides with the Audit and Standards Committee.

2.0 MISSION STATEMENT

- 2.1 "To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight"

3.0 STANDARDS FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDIT

- 3.1 The Charter establishes the Framework in which Fylde Council's Internal Audit Service operates and allows it to meet its professional obligation under the Public Sector Internal Audit Standards (PSIAS). The PSIAS encompass the mandatory elements of the Global Institute of Internal Auditors Professional Practices Framework, including its definition of Internal Auditing, Code of Ethics and international standards for the professional practice of Internal Auditing.
- 3.2 For the purposes of clarity, the terms "*Board*" and "*Senior Management*" as referred to in the PSIAS, relate to the Audit and Standards Committee and the Management Team/Directors/ respectively. The term "*Chief Audit Executive*" shall refer to the Shared Head of Internal Audit.
- 3.3 In carrying out its work, the Internal Audit section has regard to the seven principles of public life:- ie Selflessness, Integrity, Objectivity, Accountability, Openness, Honesty and Leadership.

4.0 AUTHORITY

- 4.1 The Internal Audit Section derives authority from the Audit and Standards Committee, the Council and statute (Section 151 Local Government Act 1972 and the Accounts and Audit Regulations 2015).
- 4.2 Internal Audit, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free, and unrestricted access to any and all of the organisation's records, physical properties and personnel pertinent to carrying out any engagement. All employees are requested to assist the Internal Audit Service in fulfilling its roles and responsibilities. The Internal Audit Service will also have free and unfettered access to the Audit and Standards Committee.

5.0 ORGANISATIONAL INDEPENDENCE & OBJECTIVITY

- 5.1 The Shared Head of Internal Audit operationally reports on day to day matters to the Head of Governance who is a member of the Management Team.
- 5.2 Internal Audit is independent of the Council's other services and has no other executive or operational responsibilities. It is organisationally independent in the planning, operation and reporting of its work and in exceptional circumstances and at his or her discretion, the Shared Head of Internal Audit has direct access to and freedom to report in his or her name to the Chief Executive and to the Chair of Audit and Standards Committee. In addition the Shared Head of Internal Audit also has direct access to the Council's Monitoring Officer, the S151 Officer and all senior management.
- 5.3 The Shared Head of Internal Audit will confirm to the Audit and Standards Committee, at least annually, the organizational independence of the Internal Audit Service.
- 5.4 Internal Auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal Auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.
- 5.5 In any instances, where there is any real or perceived impairment to Internal Audit's independence or objectivity, assurance will be sought from a third party external to the organisation.

6.0 SCOPE OF ACTIVITIES

- 6.1 The PSIAS state that the provision of assurance services is the primary role of Internal Audit activity and requires the Shared Head of Internal Audit to provide an annual opinion based on an objective assessment of the adequacy of the framework of governance, risk management and control. As such, the scope of its work relates to all of the Council's activities, including those operated through partnerships with other organisations.
- 6.2 The role of Internal Audit is to understand the key risks of the Council and to examine and evaluate the adequacy and effectiveness of the system of risk management and internal control as operated by the Council. Internal Audit, therefore, has unrestricted access to all activities undertaken by the Council, in order to review, appraise and report on:
- the adequacy and effectiveness of all systems of financial, operational and management control and their operation in practice in relation to the business risks to be addressed;
 - the extent of compliance with, relevance of, and financial effect of, policies, standards, plans and procedures established by the Council, and the extent of compliance with external laws and regulations;

- the economy, efficiency and effectiveness with which resources are employed;
- whether operations are being carried out as planned and corporate priorities are being met;
- the extent to which assets and interests are acquired economically, used efficiently, accounted for and safeguarded from losses of all kinds arising from waste, extravagance, inefficient administration, poor value for money, fraud or other cause and that business continuity plans exist;
- the suitability, accuracy, reliability and integrity of financial and other management information and the means used to identify, measure, classify and report such information;
- the integrity of processes and systems, including those under development, to ensure that controls offer adequate protection against error, fraud, and loss of all kinds; and that the process aligns with the Council's corporate priorities;
- the various sources of assurance that are available within the areas being reviewed and the extent to which these sources are effective in mitigating the risks. This is particularly the case where services may be provided in partnership and the Shared Head of Internal Audit will decide, in consultation with all parties, whether Internal Audit will carry out work to derive the necessary assurance or rely on the assurance provided by partners;
- the follow-up action taken to remedy weaknesses identified by Internal Audit review, ensuring that good practice is identified and communicated widely;
- the operation of the Council's corporate governance arrangements;
- the operation of the Council's risk management arrangements.

6.3 The Internal Audit Service will provide consultancy advice to management on all aspects of risk and control, on best financial practice, on interpretation of Financial and Contracts Procedure Rules, and on security arrangements. In addition, the section provides support and training on the GRACE system, all aspects of counter fraud, corruption, bribery and anti-money laundering.

6.4 The Internal Audit Service will, where required, undertake special investigations in cases of suspected fraud or irregularity. Financial Procedure Rules. The Council's Anti-Fraud and Corruption Policy require the Shared Head of Internal Audit to be notified immediately of all discovered or suspected cases of fraud, corruption or other financial irregularity.

7.0 RESPONSIBILITIES

7.1 The Shared Head of Internal Audit, is responsible for: -

- managing the Internal Audit Section and determining the scope and methods of audit activity;
- ensuring that Internal Audit staff operate within current auditing standards. For local authority auditors, these are mandatory and are laid down in the UK Public Sector Internal Audit Standards (PSIAS);
- ensuring that Internal Audit staff operate within ethical standards concerning professional behavior issued by CIPFA (Statement of Professional Practice on Ethics) and the PSIAS (Code of Ethics);
- ensuring that Internal Audit staff have an impartial, unbiased attitude and avoid conflicts of interest;

- identifying areas of operation for Internal Audit review. Developing the Annual Audit Plan based on an assessment of materiality, risk factors and previous assurance, identifying the resources required to achieve the plan;
- Ensure trends and emerging issues that could impact upon Fylde Council are considered and communicated to senior management and the Audit and Standards Committee as appropriate;
- consulting and agreeing the contents of the Annual Audit Plan with Senior Managers and Corporate Management Team;
- submitting the Annual Audit Plan to the Audit and Standards Committee for approval;
- implementing the approved Annual Audit Plan;
- maintaining a suitably resourced, professional audit staff with sufficient knowledge, skills and experience to carry out the audit plan; in the event that resources are insufficient through either additional work being required or a loss of staff, the Shared Head of Audit shall report this with a view to seeking approval for either additional temporary resources or a report be issued to Audit and Standards Committee informing them of the shortfall in resources and seeking their approval to a reduction in the audit plan;
- Review and adjust the audit plan as necessary, in response to changes in the Council's risks, operations, systems and controls and agree any changes with the Audit and Standards Committee;
- giving an indication of the level of assurance that can be provided to Management and Audit and Standards Committee on the results of its audit work, using the Three Lines of Defence;
- reviewing and reporting on the Council's risk management arrangements;
- reviewing the effectiveness of progress taken by Management to implement agreed actions;
- submitting audit reports to Audit and Standards Committee on a periodic basis including progress reports, incorporating Internal Audit performance indicators and an annual Internal Audit report. The annual report must include a statement on conformance with the PSIAS;
- providing the Audit and Standards Committee with an annual opinion of the overall adequacy and effectiveness of the Council's internal control systems, governance and risk management in accordance with the Accounts and Audit Regulations. This opinion will be an important element of the council's review of the effectiveness of its control environment and will be used by the council to inform its Annual Governance Statement.

8 Reporting and Monitoring

- 8.1 A written report will be prepared and issued by the Shared Head of Internal Audit following the conclusion of each Internal Audit engagement and will be distributed as appropriate. The Internal Audit report may include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response will include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented. The Internal Audit Service will be responsible for appropriate follow-up of findings and recommendations. All

significant findings will remain in an open issues file until cleared. Internal Audit results will also be communicated to the Audit and Standards Committee.

9 Periodic Assessment

- 9.1 The Shared Head of Internal Audit is responsible also for providing periodically a self-assessment on the Internal Audit Service as regards its consistency with the Audit Charter (purpose, authority and responsibility) and performance relative to its Plan.
- 9.2 In addition, the Shared Head of Internal Audit will communicate to Management Team and the Audit and Standards Committee on the Internal Audit Service's quality assurance and improvement programme, including results of ongoing internal assessments and external assessments conducted at least every five years.

Internal Audit Service Charter approved March 2019

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Shared Head of Internal Audit

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Chair of the Audit and Standards Committee

INFORMATION ITEM

REPORT OF	MEETING	DATE	ITEM NO
RESOURCES DIRECTORATE	AUDIT AND STANDARDS COMMITTEE	7 MARCH 2019	6
REGULATION OF INVESTIGATORY POWERS ACT 2000: AUTHORISATIONS			

PUBLIC ITEM

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

SUMMARY OF INFORMATION

Councillors are obliged to review the use of covert surveillance and covert human intelligence sources by the council at least quarterly. In the quarter to March 2019, there were no authorised operations.

SOURCE OF INFORMATION

Director of Resources

INFORMATION

1. The Regulation of Investigatory Powers Act 2000 ("RIPA") regulates covert investigations by a number of bodies, including local authorities. It was introduced to ensure that individuals' rights are protected while also ensuring that law enforcement and security agencies have the powers they need to do their job effectively.
2. Fylde Council is therefore included within RIPA framework with regard to the authorisation of both directed surveillance and of the use of covert human intelligence sources.
3. Directed surveillance includes the covert surveillance of an individual in circumstances where private information about that individual may be obtained. A covert human intelligence source ("CHIS") is a person who, pretending to be someone that they are not, builds up a relationship of trust with another person for the purpose of obtaining information as part of an investigation.
4. Directed surveillance or use of a CHIS must be authorised by the chief executive or a director and confirmed by a Justice of the Peace. All authorisations are recorded centrally by the Head of Governance.
5. This is the required quarterly report on the use of RIPA. The information in the table below is about authorisations granted by the council during the quarter concerned.

Quarter	Directed surveillance	CHIS	Total	Purpose
15 November 2019 – March 2019	0	0	0	

Figures correct when report published. Officers will verbally update members if the figures have changed by the date of the meeting.

WHY IS THIS INFORMATION BEING GIVEN TO THE COMMITTEE?

Regulations under the Regulation of Investigatory Powers Act 2000 ("RIPA") require councillors to consider a report on the use of RIPA at least quarterly.

FURTHER INFORMATION

Contact Ian Curtis on 01253 658506 or at ianc@fylde.gov.uk.