

Agenda

Audit Committee



Date:

Thursday, 26 March 2015 at 6:15 pm

Venue:

Town Hall, St Annes, FY8 1LW

Committee members:

Councillor John Singleton JP (Chairman)
Councillor Brenda Ackers (Vice-Chairman)

Councillors Ben Aitken, Christine Akeroyd, Leonard Davies, Howard Henshaw, Ken Hopwood, Linda Nulty, Louis Rigby

Item		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 of the previous meeting, held on 29 January 2015, as a correct record as attached.	3 - 6
3	Substitute Members: Details of any substitute members notified in accordance with council procedure rule 23(c)	1
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8	Counter Fraud Policies Annual Review	62 - 64

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www.fylde.gov.uk/council-and-democracy/constitution

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Minutes

Audit Committee

Date:	Thursday, 29 January 2015
Venue:	Town Hall, St Annes
Committee members:	Councillor John Singleton JP (Chairman) Councillor Brenda Ackers (Vice Chairman) Councillors Ben Aitken, Christine Akeroyd, Leonard Davies, Ken Hopwood, Linda Nulty and Louis Rigby
Officers:	Tracy Morrison, Andrew Wilsdon, Savile Sykes, Paul Swindells and Katharine McDonnell

1. Declarations of interest

Members were reminded that any disclosable pecuniary interests should be declared as required by the Localism Act 2011 and any personal or prejudicial interests should be declared as required by the Council's Code of Conduct for Members. There were none on this occasion.

2. Confirmation of minutes

RESOLVED: To approve the minutes of the Audit Committee meeting held on 20 November 2014 as a correct record for signature by the Chairman.

3. Substitute members

There were no substitutions on this occasion.

4. KPMG Certification of Claims and Returns

The Committee considered the report which summarised the key outcomes from the certification work on the Council's 2013/2014 Claims and Returns. It was noted there were no issues or errors with the claims, and the claim was certified unqualified and without amendment.

In response to comments from the Committee, Mr Swindells, Deputy Section 151 Officer, advised that the claim was only in regard to Housing Benefit, however the claim was in excess of £20 million and consisted of numerous transactions.

It was RESOLVED to note the KPMG annual report on the Certification of Claims and Returns for 2013/2014.

5. Annual Governance Statement – Progress Report

Ms Morrison, Director of Resources, presented a progress report regarding the Annual Governance Statement. She advised that the Corporate Governance Group had identified four areas for improvement during 2014/15; these were IT disaster recovery, business continuity, project management and the change in the system of governance for the Council.

The business continuity arrangements were progressing, with two actions slightly behind plan, but the delay was not likely to have any impact on the completion of the overall plan.

In regards to the IT disaster recovery plan, Ms Morrison reported that arrangements had been put in place for a daily off site backup with the next stage to move the backup data to an out of town location. She additionally reported that all actions due for completion in 2014 had been duly completed, and the actions with a target date of March 2015 were on time.

Ms Morrison explained the project management arrangements for the Council had been reviewed and, as part of a minor staffing restructure, a post had been identified to have responsibility for oversight of the application of project management guidance and standards corporately. An officer would be in post in the near future.

In conclusion, Ms Morrison referred to the governance cross party working group, who had done some excellent work over the year to prepare the Council for the change in governance arrangements.

After a brief discussion, it was therefore RESOLVED to note the progress made against the various actions, and that an update report be brought to the committee, with any outstanding actions, at the June 2015 meeting.

6. External Assessment of the Effectiveness of Internal Audit

Savile Sykes, Head of Internal Audit, advised the Committee that the Public Sector Internal Audit Standards required an external assessment of the effectiveness of Internal Audit every five years. He explained that to satisfy the standard, this could be undertaken by an external auditor or via a self-assessment with independent validation.

Mr Sykes explained that the Lancashire District Councils Audit Group were proposing a system of peer reviews, whereby a self-assessment would be validated by a team of auditors from within the Lancashire group. He advised that the group felt this would be the most cost-effective approach to meet the standard.

It was therefore RESOLVED to approve that the periodic external assessments of Internal Audit took the form of a self-assessments which would subsequently be validated by suitably qualified individuals or teams from members of the Lancashire District Councils Audit Group on a reciprocal basis across a 5 year cycle.

7. Internal Audit Interim Report 2014/15

Savile Sykes, Head of Internal Audit, presented a report which summarised the work undertaken by internal audit from April to December 2014 and performance information for the same period. In taking the committee through the various sections of the report, he highlighted that seven important internal control weakness had been brought to the attention of management. Of those actions which should have been implemented by the end of December 2014, one was outstanding, however Mr Sykes explained that it related to business continuity plans and nine of

the thirteen expected plans had been received. Of those outstanding, the delay would not have material impact on the implementation of the action.

Mr Sykes drew the Committee's attention to Table 4 showing the implementation rates of agreed actions from 2013/2014 plans. He advised that the implementation rate was the highest in a number of years.

In regards to the implementation of agreed actions, the Committee sought further information regarding the low implementation rate regarding the Payroll audit. Mr Sykes explained the implementation had been delayed as the Payroll provider, Blackpool, also provided services to other councils and organisations and all had to be in agreement before the necessary changes could be made.

Mr Sykes explained that the performance of Internal Audit had been adversely effected due to staffing shortages, and as a result it was necessary to move a number of planned audits into the 2015/16 plan, the details of which were presented in the report. In response to questions from Committee, he advised that a replacement member of staff was due to be appointed soon.

Following a discussion, it was RESOLVED to

- 1) note the Internal Audit Interim Report 2014/2015;
- 2) note the position of the Internal Audit Plan and the amendments to it;
- 3) request a further update regarding the implementation of agreed actions on the Payroll audit, at a future meeting of the Audit Committee; and
- 4) note the concerns of the Audit Committee in regards to the days lost from the Internal Audit Plan.

8. Strategic Risk 2014/15

Andrew Wilsdon, Risk and Emergency Planning Officer, presented a report which summarised the work undertaken in completing the Strategic Risk Actions contained in the 2014/2015 Risk Register.

He advised that 5 risk areas had been identified, with 4 plans being progressed over the year. There were 29 individual actions contained within the Risk Register, 15 had been due for completion by 31 December 2013, 13 had been fully completed, and 2 were not completed.

Mr Wilsdon advised that the 2 incomplete actions related to critical skills and succession plans with a skill/knowledge audit. He advised it would not be completed this year due to lack of capacity. He advised these actions would be carried forward to the new risk register in 2015/16.

After discussion, it was RESOLVED that,

- 1) the progress on the Strategic Risk Actions for 2014/2015 be noted; and
- 2) that the skills gap audit be undertaken as a priority in 2015/16.

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DRAFT

REPORT

REPORT OF	MEETING	DATE	ITEM
RESOURCES DIRECTORATE	AUDIT COMMITTEE	26 MARCH 2015	4

KPMG AUDIT PLAN 2014/15

PUBLIC ITEM

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

SUMMARY

The report presents the Audit Plan from KPMG for the forthcoming financial year. The report will be presented by KPMG.

RECOMMENDATION

The Committee is recommended to consider and comment on the KPMG External Audit Plan for 2014/15 which is attached to this covering report.

CABINET PORTFOLIO

This item falls within the following cabinet portfolio(s):

Finance & Resources - Councillor Karen Buckley

CORPORATE PRIORITIES

To Promote the Enhancement of The Natural & Built Environment (Place)		To Encourage Cohesive Communities (People)	
To Promote a Thriving Economy (Prosperity)	√	To Meet Expectations of our Customers (Performance)	√

SUMMARY OF PREVIOUS DECISIONS

This item is considered annually by the Audit Committee.

REPORT

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

IMPLICATIONS	
Finance	No specific implications - the cost of external work can be met from existing budget provision.
Legal	No specific implications
Community Safety	No specific implications
Human Rights and Equalities	No specific implications
Sustainability and Environmental Impact	No specific implications
Health & Safety and Risk Management	No specific implications

LEAD AUTHOR	TEL	DATE	DOC ID
Paul O'Donoghue Chief Financial Officer	(01253) 658566	March 2015	

LIST OF BACKGROUND PAPERS		
Name of document	Date	Where available for inspection
None		

Attached documents

1. Report of KPMG - External Audit Plan 2014/15



cutting through complexity

External Audit Plan 2014/15

Fylde Borough
Council

March 2015

This document describes how we will deliver our audit work for Fylde Borough Council.

Scope of this report

This document supplements our *Audit Fee Letter 2014/15* presented to you in March 2014. It describes how we will deliver our financial statements audit work for Fylde Borough Council ('the Authority'). It also sets out our approach to value for money (VFM) work for 2014/15.

We are required to satisfy ourselves that your accounts comply with statutory requirements and that proper practices have been observed in compiling them. We use a risk based audit approach.

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

Statutory responsibilities

Our statutory responsibilities and powers are set out in the *Audit Commission Act 1998* and the Audit Commission's *Code of Audit Practice*.

The Audit Commission will close at 31 March 2015. However our audit responsibilities under the *Audit Commission Act 1998* and the *Code of Audit Practice* in respect of the 2014/15 financial year remain unchanged.

The *Code of Audit Practice* summarises our responsibilities into two objectives, requiring us to audit/review and report on your:

- *financial statements (including the Annual Governance Statement):* providing an opinion on your accounts; and
- *use of resources:* concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The Audit Commission's *Statement of Responsibilities of Auditors and Audited Bodies* sets out the respective responsibilities of the auditor and the Authority.

The Audit Commission will cease to exist on 31 March 2015. Details of the new arrangements are set out in Appendix 4. The Authority can expect further communication from the Audit Commission and its successor bodies as the new arrangements are established. This plan restricts itself to reference to the existing arrangements.

Structure of this report

This report is structured as follows:

- Section 2 includes our headline messages, including any key risks identified this year for the financial statements audit and Value for Money arrangements Conclusion.
- Section 3 describes the approach we take for the audit of the financial statements.
- Section 4 provides further detail on the financial statements audit risks.
- Section 5 explains our approach to VFM arrangements work.
- Section 6 provides information on the audit team, our proposed deliverables, the timescales and fees for our work.

Acknowledgements

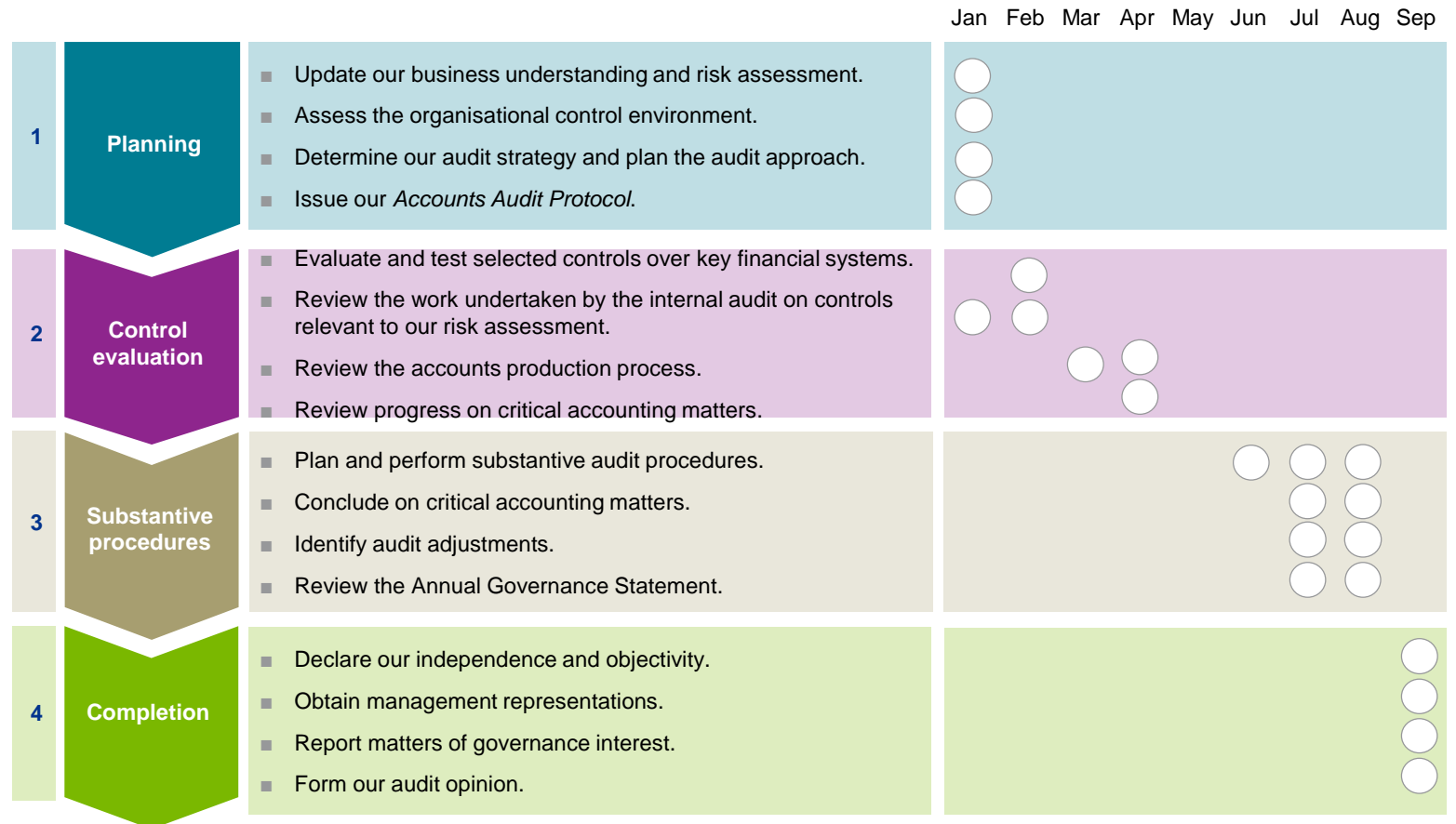
We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

Audit approach	<p>Our overall audit approach remains similar to last year with no fundamental changes . Our work is carried out in four stages and the timings for these, and specifically our on site work, have been agreed with Chief Financial Officer.</p> <p>Our audit strategy and plan remain flexible as risks and issues change throughout the year. We will review the initial assessments presented in this document throughout the year and should any new risks emerge we will evaluate these and respond accordingly.</p>
Key financial statements audit risks	<p>We have completed our initial risk assessment for the financial statements audit and have not identified any significant risks this year. We have identified one area of audit focus in relation to the ongoing premises schemes:</p> <p>This is described in more detail on page 11. We will assess this area as part of our interim work and conclude the work at year end.</p>
VFM audit approach	<p>We have completed our initial risk assessment for the VFM conclusion and have not identified any significant risks at this stage.</p>
Audit team, deliverables, timeline and fees	<p>We have refreshed our audit team this year. Chris Paisley will join the team as the Assistant Manager, replacing Keith Illingworth. Other members of the core audit team remain the same.</p> <p>Our main year end audit is currently planned to commence on 6th July. Upon conclusion of our work we will again present our findings to you in our <i>Report to Those Charged with Governance (ISA 260 Report)</i>.</p> <p>The planned fee for the 2014/15 audit is £63,600. This is an increase of £900 from the position set out in our <i>Audit Fee Letter 2014-15</i>. The increase is due to additional work we need to undertake on the collection fund balances following the end of the requirement for us to certify the Authority's NNDR return.</p>

We undertake our work on your financial statements in four key stages during 2015:

- **Planning** (January to February).
- **Control Evaluation** (February to April).
- **Substantive Procedures** (July to August).
- **Completion** (September).

We have summarised the four key stages of our financial statements audit process for you below:



During January and February 2015 we complete our planning work.

We assess the key risks affecting the Authority’s financial statements and discuss these with officers.

We assess if there are any weaknesses in respect of central processes that would impact on our audit.

Our planning work takes place in January and February 2015. This involves the following aspects:

Planning	<ul style="list-style-type: none"> ■ Update our business understanding and risk assessment including fraud risk. ■ Assess the organisational control environment. ■ Determine our audit strategy and plan the audit approach. ■ Issue our <i>Accounts Audit Protocol</i>.
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Business understanding and risk assessment

We update our understanding of the Authority’s operations and identify any areas that will require particular attention during our audit of the Authority’s financial statements.

We identify the key risks including risk of fraud affecting the Authority’s financial statements. These are based on our knowledge of the Authority, our sector experience and our ongoing dialogue with Authority staff. Any risks identified to date through our risk assessment process are set out in this document. Our audit strategy and plan will, however, remain flexible as the risks and issues change throughout the year. It is the Authority’s responsibility to adequately address these issues. We encourage the Authority to raise any technical issues with us as early as possible so that we can agree the accounting treatment in advance of the audit visit.

We meet with the finance team on a regular basis to consider issues and how they are addressed during the financial year end closedown and accounts preparation.

Organisational control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would impact on our audit.

In particular risk management, internal control and ethics and conduct have implications for our financial statements audit. The scope of the relevant work of your internal auditors also informs our risk assessment.

Audit strategy and approach to materiality

Our audit is performed in accordance with International Standards on Auditing (ISAs) (UK and Ireland). The Engagement Lead sets the overall direction of the audit and decides the nature and extent of audit activities. We design audit procedures in response to the risk that the financial statements are materially misstated. The materiality level is a matter of professional judgement and is set by the Engagement Lead.

In accordance with ISA 320 (UK&I) ‘*Audit materiality*’, we plan and perform our audit to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. Information is considered material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.

Further details on assessment of materiality is set out on page 6 of this document.

When we determine our audit strategy we set a monetary materiality level for planning purposes.

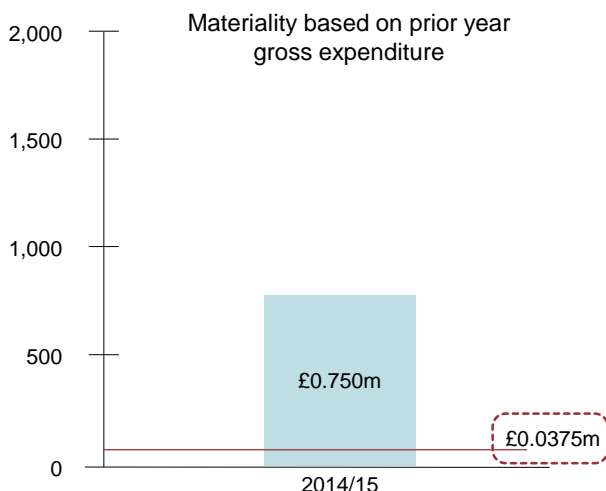
For 2014/15 we have set this at £0.750 million.

We will report all uncorrected audit differences over £0.0375 million to the Audit Committee.

Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

- Material errors by value are those which are simply of significant numerical size to distort the reader’s perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.



Materiality for planning purposes has been set at £0.750 million, which equates to 1.88 percent of 2013/14 gross expenditure.

We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260(UK&I) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK&I) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 (UK&I), 'Evaluation of misstatements identified during the audit', requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £37,500.

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

We will issue our *Accounts audit protocol* following completion of our planning work.

Accounts audit protocol

At the end of our planning work we will issue our *Accounts Audit Protocol*. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide during our interim and final accounts visits.

We met with the Chief Financial Officer and other members of the finance team to discuss the outcomes and any learning points from the 2013/14 audit. These will be incorporated into our work plan for 2014/15. We revisit progress against areas identified for development as the audit progresses.

During February 2015 we will complete our interim audit work.

We assess if controls over key financial systems were effective during 2014/15. We work with your internal audit team to avoid duplication.

We work with your finance team to enhance the efficiency of the accounts audit.

We will report any significant findings arising from our work to the Audit Committee.

Our on site interim visit will be completed during 23rd to 27th February. During this time we will complete work in the following areas:

Control Evaluation

- Evaluate and test controls over key financial systems identified as part of our risk assessment.
- Review the work undertaken by the internal audit function on controls relevant to our risk assessment.
- Review the accounts production process.
- Review progress on critical accounting matters.

Controls over key financial systems

We update our understanding of the Authority's key financial processes where our risk assessment has identified that these are relevant to our final accounts audit and where we have determined that this is the most efficient audit approach to take. We confirm our understanding by completing walkthroughs for these systems. We then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Review of internal audit

Where our audit approach is to undertake controls work on financial systems, we seek to review any relevant work internal audit have completed to minimise unnecessary duplication of work. This will inform our overall risk assessment process. Our audit fee is set on the assumption that we can place reliance on their work. We have a joint working protocol and will meet with the Head of Internal Audit to discuss the principles and timetables for the managed audit process for 2014/15.

Where we intend to rely on internal audit's specific pieces work in respect of the key financial systems identified as part of our risk assessment, auditing standards require us to review aspects of their work. This includes re-performing a sample of tests completed by internal audit. We will provide detailed feedback to the Head of Internal Audit at the end of our interim visit.

Accounts production process

We raised one recommendation in our *ISA 260 Report 2013/14* relating to the accounts production process. The Council needs to ensure it can fully support any areas of judgement applied by management in preparing the financial statements, in particular when the Authority engages a third party to provide this information.

We will assess the Authority's progress in addressing our recommendations and in preparing for the closedown and accounts preparation.

Critical accounting matters

We will discuss the work completed to address the specific risks we identified at the planning stage. Wherever possible, we seek to review relevant workings and evidence and agree the accounting treatment as part of our interim work.

If there are any significant findings arising from our interim work we will present these to the Audit Committee.

Our audit approach – substantive procedures

During July 2015 we will be on site for our substantive work.

We complete detailed testing of accounts and disclosures and conclude on critical accounting matters, such as specific risk areas. We then agree any audit adjustments required to the financial statements.

We also review the Annual Governance Statement for consistency with our understanding.

We will present our ISA 260 Report to the Audit Committee in September 2015.

Our final accounts visit on site has been provisionally scheduled for the period 6th to 17th July. During this time, we will complete the following work:

Substantive Procedures

- Plan and perform substantive audit procedures.
- Conclude on critical accounting matters.
- Identify and assess any audit adjustments.
- Review the Annual Governance Statement.

Substantive audit procedures

We complete detailed testing on significant balances and disclosures. The extent of our work is determined by the Engagement Lead based on various factors such as our overall assessment of the Authority's control environment, the effectiveness of controls over individual systems and the management of specific risk factors.

Critical accounting matters

We conclude our testing of key risk areas identified at the planning stage and any additional issues that may have emerged since.

We will discuss our early findings of the Authority's approach to address the key risk areas with the Chief Financial Officer in July 2015, prior to reporting to the Audit Committee in September 2015.

Audit adjustments

During our on site work, we will meet with the Chief Financial Officer and other key members of the Finance team on a regular basis to discuss the progress of the audit, any differences found and any other issues emerging.

At the end of our on site work, we will hold a closure meeting, where we will provide a schedule of audit differences and agree a timetable for the completion stage and the accounts sign off.

To comply with auditing standards, we are required to report uncorrected audit differences to the Audit Committee. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

Annual Governance Statement

We are also required to satisfy ourselves that your Annual Governance Statement complies with the applicable framework and is consistent with our understanding of your operations. Our review of the work of internal audit and consideration of your risk management and governance arrangements are part of this.

We report the findings of our audit of the financial statements work in our *ISA 260 Report*, which we will issue in September 2015.

Our approach to VFM work follows guidance provided by the Audit Commission.

Background to approach to VFM work

In meeting their statutory responsibilities relating to economy, efficiency and effectiveness, the Commission's *Code of Audit Practice* requires auditors to:

- plan their work based on consideration of the significant risks of giving a wrong conclusion (audit risk); and
- carry out only as much work as is appropriate to enable them to give a safe VFM conclusion.

To provide stability for auditors and audited bodies, the Audit Commission has kept the VFM audit methodology unchanged from last year. There are only relatively minor amendments to reflect the key issues facing the local government sector.

The approach is structured under two themes, as summarised below.

Specified criteria for VFM conclusion	Focus of the criteria	Sub-sections
The organisation has proper arrangements in place for securing financial resilience .	The organisation has robust systems and processes to: <ul style="list-style-type: none"> ■ manage effectively financial risks and opportunities; and ■ secure a stable financial position that enables it to continue to operate for the foreseeable future. 	<ul style="list-style-type: none"> ■ Financial governance ■ Financial planning ■ Financial control
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness .	The organisation is prioritising its resources within tighter budgets, for example by: <ul style="list-style-type: none"> ■ achieving cost reductions; and ■ improving efficiency and productivity. 	<ul style="list-style-type: none"> ■ Prioritising resources ■ Improving efficiency and productivity

We will be in continuous dialogue with you throughout the audit.

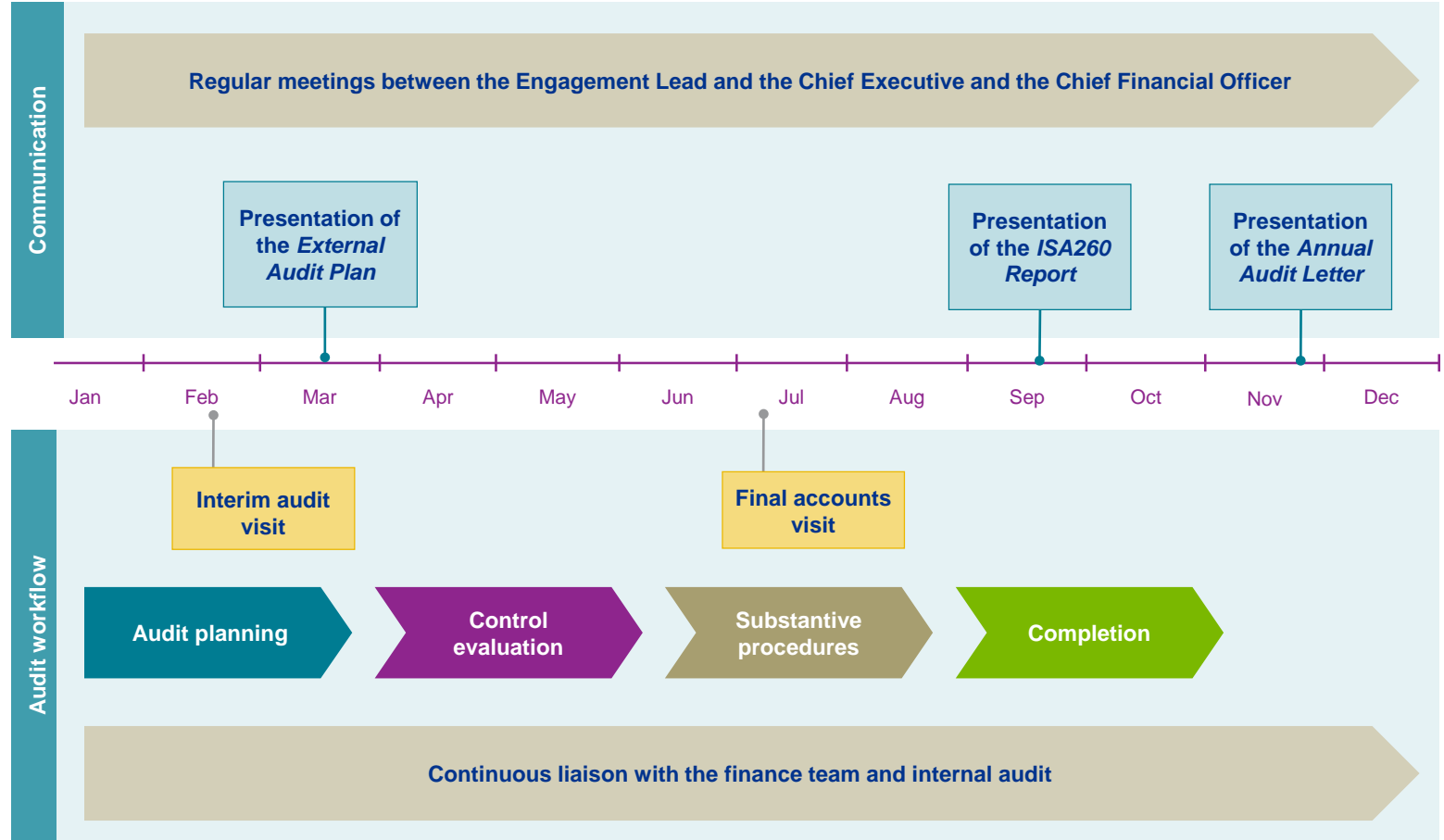
Key formal interactions with the Audit Committee are:

- March – External Audit Plan;
- September – ISA 260 Report;
- November – Annual Audit Letter.

We work with the finance team and internal audit throughout the year.

Our main work on site will be our:

- Interim audit visits during February.
- Final accounts audit during July.



Key: ● Audit Committee meetings.

We are required to consider fraud and the impact that this has on our audit approach.

We will update our risk assessment throughout the audit process and adapt our approach accordingly.

Members /Officers responsibilities

- Adopt sound accounting policies.
- With oversight from those charged with governance, establish and maintain internal control, including controls to prevent, deter and detect fraud.
- Establish proper tone/culture/ethics.
- Require periodic confirmation by employees of their responsibilities.
- Take appropriate action in response to actual, suspected or alleged fraud.
- Disclose to Audit Committee and auditors:
 - any significant deficiencies in internal controls.
 - any fraud involving those with a significant role in internal controls.

KPMG's identification of fraud risk factors

- Review of accounting policies.
- Results of analytical procedures.
- Procedures to identify fraud risk factors.
- Discussion amongst engagement personnel.
- Enquiries of management, Audit Committee, and others.
- Evaluate controls that prevent, deter, and detect fraud.

KPMG's response to identified fraud risk factors

- Accounting policy assessment.
- Evaluate design of mitigating controls.
- Test effectiveness of controls.
- Address management override of controls.
- Perform substantive audit procedures.
- Evaluate all audit evidence.
- Communicate to Audit Committee and management./officers

KPMG's identified fraud risk factors

- We will monitor the following areas throughout the year and adapt our audit approach accordingly.
 - Revenue recognition.
 - Management override of controls.



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REPORT

REPORT OF	MEETING	DATE	ITEM
RESOURCES	AUDIT COMMITTEE	26 MARCH 2015	5

INTERNAL AUDIT ANNUAL PLAN 2015-16

PUBLIC ITEM

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

SUMMARY

The terms of reference for the Audit Committee include approving but not directing internal audit's plan. This report outlines the Internal Audit Plan for the financial year 2015-16 and briefly describes the methodology used in its development and production.

RECOMMENDATION

The Committee approves the Annual Internal Audit Plan 2015-16

CABINET PORTFOLIO

This item falls within the following cabinet portfolio(s):

Finance and Resources - Councillor Karen Buckley

CORPORATE PRIORITIES

To Promote the Enhancement of The Natural & Built Environment (Place)	√	To Encourage Cohesive Communities (People)	√
To Promote a Thriving Economy (Prosperity)	√	To Meet Expectations of our Customers (Performance)	√

SUMMARY OF PREVIOUS DECISIONS

There are no previous decisions relevant to this report.

REPORT

Background

1. Standards for Internal Audit in local government are set out in the Public Sector Internal Audit Standards (PSIAS) and a Local Government Application Note introduced by the Chartered Institute for Public Finance. The PSIAS confirm that the Council should periodically prepare a risk based plan of Internal Audit activity. The Plan aims to meet all professional Standards relating to Internal Audit in the Public Sector.
2. The plan is designed to support an annual opinion on the effectiveness of the systems of governance, risk management and internal control across the Council and is informed by the audit strategy, consultation with stakeholders and a dynamic assessment of risks.

Audit Plan Development

3. The work of the Internal Audit Service is to provide independent assurance and to report upon the effective and efficient application of internal controls, governance arrangements and risk management at the Council. All Internal Audit reports form part of the evidence to enable the Chief Executive and Leader of the Council to sign the Annual Governance Statement (the obligatory statement in the Annual Accounts).
4. External Audit also places reliance upon Internal Audit work coverage to ensure that system controls are adequate and effective; this reduces the extent of External Audit testing.
5. The work also enables compliance with the Council's Constitution and Code of Corporate Governance. Reports will make recommendations to address any weaknesses identified and give direction on how to support continual improvements by providing professional advice and guidance
6. The Internal Audit Plan considers many factors and ensures that all stakeholders' contributions are included. The main drivers used to formulate the Audit Plan are detailed below:
 - ◆ Corporate priorities
 - ◆ Engagement with Chief Executive, Directors and Section 151 Officer
 - ◆ Review of corporate risks
 - ◆ Recent significant change to the Council or its operations
 - ◆ Cumulative audit knowledge and experience
 - ◆ Level of assessed risk within each service
 - ◆ Cyclical programme of audit work (strategic plan)
 - ◆ Areas where external audit may wish to place reliance
7. The work of the team may be broken down into several main services to the Council:
 - ◆ Risk Based: To provide assurance on the arrangements in place to manage key business risks. These are the audits that focus on risks in service and directorate plans and the corporate risk register and are designed to provide management and members with assurance that appropriate steps are being taken.
 - ◆ System and Compliance: To provide assurance to statutory officers and key stakeholders that key systems and processes are operating as intended and will include work on the core financial systems.

- ♦ Anti-Fraud, Irregularity and Probity Programme: There will be ongoing proactive testing of systems and processes to identify potential fraud and misappropriation, as well as potential non-compliance with policies and procedures. In addition there is an allocation of resource for dealing with whistleblowing referrals and the investigation of potential irregularity, wrongdoing, fraud and corruption.
- ♦ Advice and Guidance: Internal Audit provides ongoing advice across the Council. Whether through attendance at working groups or responding to email or telephone enquiries this remains an area where early advice and support can help maintain a robust control environment.
- ♦ Follow Up Work: To provide assurance that improvements agreed by managers have been implemented in accordance with the approved action plan. This work is essential to ensure the 'value added' by internal audit is realised.

Prioritisation of Audit Reviews

8. In order to make best use of audit resources, the need for audit reviews in individual areas is considered, based on a risk assessment, which considers:
 - ♦ materiality - the relative value of funds flowing through a system or in the case of non-financial systems the comparative impact on service delivery and the control environment
 - ♦ business risk - the extent to which the system is perceived to be well managed
 - ♦ assurance - a factor to reflect the latest available assurance rating awarded by Internal Audit following an audit review of the area
 - ♦ sensitivity - the external profile of the service
 - ♦ time - a factor to represent the time since the area was last subject to audit

The risk scores are statistically weighted and provide a level of relative risk for each area of work.

9. This risk assessment is then translated into a five year strategic audit plan which shows the planned frequency of audit reviews, and an annual operational plan, which sets out the areas to be covered in the current year, taking into account resource constraints.
10. Planned audit work has been discussed with the Chief Executive and all members of Management Team, in particular the Section 151 Officer, to ensure wherever possible their major concerns are being addressed.

Other Factors

11. Key financial systems are audited on an ongoing basis, such that a review of each main system takes place in alternate years. Usually the follow up work is completed in the succeeding year so that annual coverage is maintained.
12. In addition to those activities identified as a result of the above process some other areas are also reviewed annually - these include corporate governance and anti-fraud activities. These topics are not subject to the risk assessment process.
13. It should also be emphasised that within the dynamic environment that the Council operates, business risks are prone to change and the plan is not intended to be regarded as rigid. Areas for review can and will emerge in-year. As a result, the Plan should be treated as

a working document, subject to amendment, as necessary, to reflect changing corporate conditions or demands as well as reflecting any changes or refinement in the Council's Strategic Risk Register.

14. A contingency provision has also been included in the plan to cover changes in circumstances after the completion of the risk assessment, such as specific management requests for audit, ad hoc work, on-demand tasks and special investigations. This recognises that the plan, whilst produced on an acknowledged risk basis, remains a flexible document.
15. There are a small number of audit reviews from 2014-15 that will be ongoing at the end of March 2015 and the days to complete these are also included in the current year's plan.

Conclusion

16. The Audit Plan for the 2015-16 financial year is attached as an Appendix.

IMPLICATIONS	
Finance	<p>The Accounts and Audit Regulations 2011 require the Council to ensure that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.</p> <p>There is a statutory requirement for the Council to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control (Accounts and Audit Regulations 2011)</p> <p>The work of internal audit is designed to provide assurance to the Council's statutory officers including the Section 151 Officer.</p>
Legal	None
Community Safety	None
Human Rights and Equalities	None
Sustainability and Environmental Impact	None
Health & Safety and Risk Management	The agreement of an annual audit plan will assist the Council to put in place an appropriate control framework and effective internal controls that provide reasonable assurance of effective and efficient operations, financial stewardship, probity and compliance with laws and regulations.

LEAD AUTHOR	TEL	DATE	DOC ID
Savile Sykes	01253 658413	26 March 2015	

LIST OF BACKGROUND PAPERS		
Name of document	Date	Where available for inspection
Internal Audit Strategic Plan 2015-18	27/02/15	All background papers or copies can be obtained from Savile Sykes, Head of Internal Audit on 658413 or email saviles@fylde.gov.uk

Attached documents

1. Internal Audit Annual Plan 2015-16

APPENDIX**INTERNAL AUDIT ANNUAL PLAN 2015-16**

The Plan indicates how the work of internal audit links to the four corporate objectives and priorities of the Council, together with the additional governance and assurance category, as follows:

CORPORATE OBJECTIVES

To Promote the Enhancement of the Natural & Built Environment (PLACE)	To Encourage Cohesive Communities (PEOPLE)	To Promote a Thriving Economy (PROSPERITY)	To Meet Expectations Of Our Customers (PERFORMANCE)	Governance & Assurance (PROBITY)
1	2	3	4	5
Development Management Parks & Open Spaces Coast & Countryside Waste Services Infrastructure	Public Health Housing Crime Reduction Arts & Heritage Leisure	Employment Economic Development Public Protection Tourism Car Parking	Council Finances Budget Management Performance Customer Focus Service Delivery	Governance Framework Democratic Processes Accountability Stewardship Ethical Standards

INTERNAL AUDIT ANNUAL PLAN 2015-16

Description of Audit Area	Indicative Days	Comment	Corporate Plan				
			1	2	3	4	5
Core Financial Systems							
Cash Collection	20	Key financial system. Full system and compliance audit to provide assurance over the effectiveness of a core financial system.		x		x	x
Creditors	6	Slippage Item: Completion of a full system and compliance audit to provide assurance over the effectiveness of a core financial system.				x	x
Council Tax (FCAT)	18	Key financial system. Testing matrix for compliance with approved management procedures and internal controls.				x	x
Housing Benefits	20	Key financial system. Review of the implementation of risk based verification policy which targets resources to cases at higher risk of potential fraud and error		x		x	x
Housing Benefits (FCAT)	20	Key financial system. Testing matrix for compliance with approved management procedures and internal controls.				x	x
Main Accounting	18	Key financial system. Full system and compliance audit to provide assurance over the effectiveness of a core financial system.				x	x
National Non-Domestic Rates (FCAT)	16	Key financial system. Testing matrix for compliance with approved management procedures and internal controls.				x	x
Payroll	20	Key financial system. This is a system review to provide assurance over the effectiveness of a core financial system. This is a joint audit with Blackpool Council internal audit.				x	x
Treasury Management	16	Key financial system. Full system and compliance audit to provide assurance over the effectiveness of a core financial system.				x	x

Description of Audit Area	Indicative Days	Comment	Corporate Plan				
Other Risks							
Cemetery & Crematorium	10	To test there are effective controls in place for income management and cash handling				x	x
Complaints	18	A periodic review of the arrangements for handling customer complaints				x	x
Food Safety	18	A review of the arrangement to provide assurance that food safety controls are effectively and consistently applied		x			
Housing Grants	16	A periodic review of the arrangements for dealing with private sector housing grants, in particular waiting lists		x		x	
Section 106 Agreement	16	A review of the arrangements for the management of Section 106 monies	x		x	x	
Procurement	18	A periodic review to provide assurance that governance, risk management and internal control arrangements support effective letting of contracts	x		x	x	x
Corporate Governance							
Annual Governance Review	14	Annual review of governance arrangements in support of the process for evidencing and compiling the Annual Governance Statement					x
Audit Committee – Review of Effectiveness	2	Annual self-assessment with the Chair and Vice Chair of the Committee in relation to the effectiveness of the Audit Committee					x
Internal Audit - Review of Effectiveness	3	Annual assessment of internal audit service against Public Standards for Internal Audit – CIPFA checklist					x
Risk Management	16	Biennial review of arrangements to ensure there is an effective risk management process within the governance framework		x			x

Description of Audit Area	Indicative Days	Comment	Corporate Plan				
			1	2	3	4	5
Computer Audit							
ICT	17	Specific areas to be agreed with management following risk assessment. The audit work will be led by LCC Computer Audit team				x	
ICT Probity	8	Compliance with policies on use of email, use of internet and use of social media				x	x
Anti-Fraud							
Expenses	8	Probity review focusing on the controls in place for mileage claims submitted via the e-claims system				x	x
Fuel Cards	2	Slippage Item: Probity review focusing on the controls in place for the purchase of diesel and petrol using fuel cards	x			x	x
National Fraud Initiative	10	Co-ordination of the Council's response to the NFI including data collation, review of matches and action to address anomalies		x		x	x
Prevention of Fraud & Corruption	2	To review key anti-fraud policies and arrangements		x		x	x
Follow Up							
Follow Up	19	Follow-up of agreed Internal Audit recommendations and updating action plans				x	
Communication & Consultancy							
General Consultancy and Advice	16	Professional advice and assistance to all services in support of a robust control environment		x		x	
Communication and Liaison	22	Reporting and presentations/attending meetings and groups		x		x	x
Reactive Work							
Contingency	50	Contingency to respond to emerging risks					
TOTAL AUDIT WORK	439						

Description of Audit Area	Indicative Days	Comment	Corporate Plan				
			1	2	3	4	5
Audit Team							
Management & Administration	127						
Non-Audit Work							
Benefit/Corporate Fraud Service	8	Shared service monitoring and liaison. Establishment of corporate fraud resource. The fraud service is provided by Preston City Council					
Corporate & Democratic Core	16	Committee attendance, corporate initiatives					
Directorate Matters	3	Directorate briefings, service planning					
Risk Services	6	Annual strategic risk identification and facilitation of MT risk assessment process					
Other	13	Reactive duties possibly including controlled stationery, occupational health & safety, office relocation etc.					
TOTAL DAYS ALLOCATED	612						

REPORT



REPORT OF	MEETING	DATE	ITEM
RESOURCES DIRECTORATE	AUDIT COMMITTEE	26 MARCH 2015	6

INTERNAL AUDIT CHARTER UPDATE

PUBLIC ITEM

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

SUMMARY

The introduction of the Public Sector Internal Audit Standards in April 2013 required the adoption of an Internal Audit Charter to establish the framework in which Fylde Council's Internal Audit Service could operate. The first Internal Audit Charter under the Standards was approved by the Audit Committee on 14th November 2013. This report presents the updated version for 2015 for the approval of the Audit Committee.

RECOMMENDATION

The Audit Committee is asked to approve the updated Internal Audit Charter.

CABINET PORTFOLIO

This item falls within the following cabinet portfolio(s):

Finance and Resources - Councillor Karen Buckley

CORPORATE PRIORITIES

To Promote the Enhancement of The Natural & Built Environment (Place)		To Encourage Cohesive Communities (People)	
To Promote a Thriving Economy (Prosperity)		To Meet Expectations of our Customers (Performance)	√

SUMMARY OF PREVIOUS DECISIONS

The Audit Committee approved the first Internal Audit Charter under the Public Sector Internal Audit Standards on 14th November 2013.

REPORT

1. The work of Internal Audit is governed by the UK Public Sector Internal Audit Standards, which came into force on 1 April 2013. The Standards comprise a definition of Internal Auditing, a Code of Ethics for Internal Auditors working in the Public Sector and the Standards themselves. The Standards are mandatory for all internal auditors working in the UK public sector.
2. One of the requirements of the Standards was the need for the Council to adopt an Internal Audit Charter to establish the framework in which the Internal Audit Service could operate to best serve the Council and to meet its professional obligations. On 14 November 2013 the Audit Committee adopted such a document.
3. In accordance with the Standards, the Charter must be reviewed periodically and approved by the Audit Committee. This is the first update of the Internal Audit Charter to accord with current corporate arrangements and to reflect the Standards more specifically.
4. The following additions to the Charter have been made:
 - Paragraph 3.2 - Explains the purpose of internal audit in strengthening the control framework
 - Paragraph 3.3 - Defines the terms assurance audit and consulting activities
 - Section 5 - Sets out the responsibilities of the Section 151 Officer and the Head of Internal Audit
 - Paragraph 11.4 - Describes arrangements for the performance appraisal of the Head of Internal Audit
 - Paragraphs 12.2 & 12.3 - Explain the role of internal audit in terms of fraud risk
 - Paragraph 13.7 - Describes the requirement for internal auditors to maintain confidentiality
5. Other minor amendments to the Internal Audit Charter have been made but these make no significant difference to the meaning or substance. In addition, it should be noted that with effect from the commencement of the new corporate arrangements on 20 May, the term 'Audit Committee' will be amended to 'Audit and Standards Committee' within the Charter.
6. The Internal Audit Charter 2015 is attached as an Appendix to this report.

IMPLICATIONS	
Finance	<p>The Accounts and Audit Regulations 2011 require the Council to ensure that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.</p> <p>The adoption of the revised Internal Audit Charter will ensure that the Council's Internal Audit service is delivered in accordance with mandatory guidance and best professional practice.</p>
Legal	None
Community Safety	None
Human Rights and Equalities	None
Sustainability and Environmental Impact	None
Health & Safety and Risk Management	None

LEAD AUTHOR	TEL	DATE	DOC ID
Savile Sykes	01253 658413	26 March 2015	

LIST OF BACKGROUND PAPERS		
Name of document	Date	Where available for inspection
Internal Audit Charter 2013	14/11/2013	All background papers or copies can be obtained from Savile Sykes, Head of Internal Audit on 658413 or email saviles@fylde.gov.uk

Attached documents

1. Internal Audit Charter 2015

Fylde Council

Internal Audit Charter

February 2015

1. Introduction

1.1 This charter establishes the framework in which Fylde Council's Internal Audit Service operates to best serve the Council and to meet its professional obligations under the Public Sector Internal Audit Standards (PSIAS) which were applicable from 1 April 2013.

1.2 The Standards require all internal audit services to implement and retain an 'Internal Audit Charter'. The purpose of the Internal Audit Charter is to formally define the internal audit activity's purpose, authority and responsibility.

1.3 For local government in the United Kingdom the Chartered Institute of Public Finance and Accountancy's (CIPFA) is the relevant standard setter. CIPFA has adopted the PSIAS which encompass the mandatory elements of the Global Institute of Internal Auditors' International Professional Practices Framework, including its definition of internal auditing, code of ethics, and international standards for the professional practice of internal auditing.

2. Definitions

2.1 For the purposes of this charter the following definitions shall apply:

The Board – the governance group charged with independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting. At the Council this shall mean the Audit Committee.

Senior Management – those responsible for the leadership and direction of the Council. At the Council this should mean the Management Team.

Chief Audit Executive - the officer in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the Definition of Internal Auditing, the Code of Ethics, and the Standards. At the Council this shall mean the Head of Internal Audit.

3. Purpose

3.1 The purpose of internal audit is best summarised through its definition within the Standards as an:

'independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.'

3.2 The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit performs a vital role in advising the Council that these arrangements are in place and operating effectively. The Council's response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisations objectives.

3.3 This is achieved through internal audit providing a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary.

4. Authority

4.1 Within local government internal audit is a statutory function in the context of the Accounts and Audit (England) Regulations 2011, which states that a relevant body must:

'undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'.

4.2 The PSIAS and their accompanying Local Government Application Note have been recognised as 'proper practices' by the Department for Communities and Local Government, which sponsors the Accounts and Audit Regulations.

4.3 In addition the Local Government Act 1972 (Section 151) states that local authorities are required to 'make arrangements for the proper administration of their financial affairs'. It is this legislation that requires internal audit to maintain a focus on internal financial controls as well as the controls over the council's wider risks as required by the Accounts and Audit Regulations.

4.4 The council's Financial Procedure Rules provide for the internal audit service to have access to all manual records and electronic systems and be entitled to require the production of all cash, stores and accounts and any supporting documents, and to obtain information and explanations from any employee of the Council with regard to any matter under examination.

5. Responsibility

5.1 The responsibility for maintaining an adequate and effective system of internal audit within the Council lies with the Chief Financial Officer (S151 Officer).

5.2 The Head of Internal Audit is responsible for effectively managing the internal audit activity in accordance with the 'Definition of Internal Auditing', the 'Code of Ethics' and 'the Standards'.

6. Scope of Internal Audit activities

6.1 Internal Audit is responsible for the delivery of an annual audit opinion and report that can be used by the Council to inform its governance statement. The annual opinion will conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

6.2 The scope of internal audit's remit includes the authority's entire control environment and encompasses all of the Council's activities. Internal Audit work will cover all of the operational and management controls within the Council not just financial controls. However, this does not imply that all systems will be subjected to review, but that all systems will be included in the audit planning process and hence be considered for review following the assessment of risk.

6.3 In determining where effort should be concentrated, the Head of Internal Audit will take into account the level of assurance required, the significance of the objectives under review, the risks inherent in the achievement of objectives and the level of confidence required that controls are well designed and operating as intended.

6.4 The scope of internal audit work extends to services provided through partnership arrangements. The Head of Internal Audit should decide, in consultation with all parties, whether internal audit staff should conduct the work to derive the required assurance or rely on the assurances provided by others.

6.5 Internal audit reports are prepared solely for the use of the Council and senior management. Details may be made available to specified partners and external organisations, including external auditors, but otherwise reports may not be quoted or referred to in whole or in part without prior consent. No responsibility to any third party for assurance provided may be accepted.

6.6 If the Head of Internal Audit, the Audit Committee or those charged with governance consider that the level of internal audit resources in any way limits the scope of internal audit work, impacts adversely on the provision of the annual internal audit opinion, or prejudices the ability of internal audit to deliver a service consistent with the definition of internal audit, they should advise the Chief Executive immediately.

7. Responsibilities and objectives

7.1 The PSIAS make clear that the provision of assurance services is internal audit's primary role. This role requires the Head of Internal Audit to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control. The scope of internal audit work therefore encompasses all of the council's activities including those operated through partnerships with other organisations.

7.2 The Head of Internal Audit will establish an annual risk-based plan that takes into account the requirement to produce an annual internal audit opinion and the council's wider assurance framework and other sources of assurance.

7.3 The main areas of internal audit responsibility within the authority are to review, appraise and report on:

the soundness, adequacy and effectiveness of the system of internal controls

the application of good practice in corporate governance and risk management

the operations in place to establish and monitor the achievement of the Council's objectives

the adequacy of arrangements in place to secure efficient, effective and economic use of resources

the integrity and reliability of financial and other management data, including aspects of performance management, compliance with corporate policies, procedures, controls and regulations compliance with government legislation and statutory obligations

the extent to which the assets and interests are properly controlled, accounted for and safeguarded from loss

7.4 The Head of Internal Audit provides an annual internal audit opinion to the Audit Committee, based on the outcomes of internal work conducted throughout the year, that key risks are being managed effectively and that appropriate controls are in place. 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.

7.5 The internal audit service may provide advisory/consultancy services either through formal review and reporting or more informally through discussion or briefing. The nature and scope of the work may include facilitation, process design, problem-solving, training and the conduct of special projects that make a material contribution to the achievement of the Council's aims and objectives, but this list is not exhaustive.

7.6 Internal audit will assist management in the investigation of fraud and irregularity in accordance with the council's counter fraud policies and practices, with the exception of housing and council tax benefit fraud and irregularity, which is routinely investigated by benefit fraud specialists.

7.7 The Head of Internal Audit will attend Audit Committee meetings, contribute to committee agendas and support the Audit Committee in achieving effectiveness in the delivery of its terms of reference.

7.8 Internal audit is not responsible for the activities that it audits or reviews. The existence of internal audit does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure, efficient and well-ordered manner.

7.9 Accountability for the response to the internal audit service's advice and recommendations lies with management, which either accepts and implements the advice or accepts the risks associated with not taking action.

8. Organisational Independence

8.1 The internal audit service remains independent of the council's other services, with the exception of its support to management in relation counter fraud and investigatory work, no internal auditor has any other executive or operational responsibilities. Auditors are expected to deploy impartial, unbiased and effective professional judgement. Objectivity requires that internal auditors do not subordinate their judgement on audit matters to others.

8.2 The internal audit service's priorities are determined in consultation with the Management Team and the council's senior managers, but remain a decision for the Head of Internal Audit.

8.3 The internal audit service has direct access to the council's records, assets, premises and officers and may require such information and explanations as it considers necessary to fulfil its responsibilities. Accordingly the Head of Internal Audit has freedom to report independently and impartially in their own name and without fear or favour to all officers and members and particularly the Audit Committee.

8.4 Audit advice and recommendations for action, including where the internal audit service has been consulted about changes to internal control systems, are given without prejudice to the right of the internal audit service to review and make further recommendations on the relevant policies, procedures, controls and operations at a later date.

8.5 Internal auditors are precluded from delivering non-audit duties that require the establishment or implementation of controls or to assume any operational responsibilities that may prejudice the scope, objectivity and quality of future audit work.

8.6 All auditors are required to make an annual declaration of their interests, which is updated during the year as necessary, and where any auditor has a real or perceived conflict of interest this is identified and actively managed to maintain the operational independence of the service as a whole.

9. Impairment of Independence

9.1 If the independence or objectivity of internal audit is impaired in fact or appearance, the Head of Internal Audit must disclose the details of the impairment to Management Team and, if necessary, to the Audit Committee. The nature of the disclosure will depend upon the impairment.

9.2 Impairment to organisational independence and individual objectivity may include, but is not limited to, personal conflict of interest, scope limitations, restrictions on access to records, personnel and properties and resource limitations.

10. Accountability, reporting lines and relationships

10.1 The Head of Internal Audit is line managed administratively by the Head of Governance, but internal audit activity is organisationally independent in its planning and operation. The Head of Internal Audit reports functionally to the Audit Committee, and organisationally to the Director of Resources, who is a member of the council's Management Team.

10.2 Management Team supports the internal audit service and maintains a privileged cooperative relationship with the Head of Internal Audit based on mutual trust and support within the context of internal audit independence and the Internal Audit Charter.

10.3 The Head of Internal Audit has direct and unrestricted access to the Director of Resources who has statutory responsibility as the Council's Monitoring Officer under Section 5 of the Local Government and Housing Act 1989, for advising the Council on the legality of its decisions and providing guidance to councillors on the Council Constitution and its powers.

10.4 The Head of Internal Audit has direct and unrestricted access to the Chief Financial Officer, the proper officer under Section 151 of the Local Government Act 1972, for ensuring an effective system of internal financial control and proper financial administration of the Council's affairs.

10.5 The Head of Internal Audit has direct and unrestricted access to the Chief Executive, who carries the responsibility as head of paid service for the proper management of the Council and for ensuring that the principles of good governance are reflected in sound management arrangements.

10.6 The Head of Internal Audit has the opportunity to meet with the chair and deputy chair of the Audit Committee before each committee meeting and at any other time as necessary. The Head of Internal Audit and the Chair of the Audit Committee have mutual direct and unrestricted access to each other as they consider appropriate.

10.7 Where it is considered necessary to the proper discharge of the internal audit function, the Head of Internal Audit has direct access to all elected Members of the Council and in particular those who serve on the Audit Committee.

10.8 For the purposes of the PSIAS the Audit Committee is regarded as the 'board'. It meets at least four times each year, and the Head of Internal Audit reports to that committee under its terms of reference. The Audit Committee is responsible for approving (but not directing) the annual internal audit plan. Final approval of the Internal Audit Charter also resides with the Audit Committee.

10.9 The internal audit service co-operates with council's external auditor to ensure that duplication of work is minimised and to make certain that scarce resources are used as effectively as possible and address the areas of highest risk.

10.10 The work of internal audit is reported to Corporate Directors, Heads of Service and the Audit Committee by means of specific reports, and also in summary form to Audit Committee via half yearly monitoring and activity reports.

11. Head of Internal Audit

11.1 The Head of Internal Audit plays a critical role in delivering the Council's strategic objectives by championing best practice in governance and management, objectively assessing the adequacy of governance and management of existing risks and commenting on responses to emerging risks and developments.

11.2 The Head of Internal Audit is the most senior audit officer of the Council and must:

be a professionally qualified (CMIIA, CCAB or equivalent) and suitably experienced auditor

be of sufficient status to permit effective discussion and negotiation on the results of audit work, audit strategies, audit reports and action plans with Directors, senior management and the Audit Committee

hold a senior position in the organisation that reflects the influence of the post on the internal control environment

report to and be managed at corporate management team level

lead and direct an internal audit service that is resourced to be fit for purpose

11.3 Management Team recognises the unique status of the Head of Internal Audit and welcomes constructive challenge and positive criticism from the internal audit service in pursuit of

organisational improvement, the enhancement of governance processes and the strengthening of the control environment.

11.4 To ensure the independence of the Chief Internal Auditor is safeguarded and that remuneration and performance assessment are not inappropriately influenced by those subject to audit, the Chief Executive will both countersign and contribute feedback to the performance appraisal of the Chief Internal Auditor. Feedback will also be sought from the Chair of the Governance Committee.

11.5 Decisions of management concerning the appointment and removal of the Head of Internal Audit must be approved by the Audit Committee.

11.6 The Head of Internal Audit is responsible for recruiting appropriate internal audit staff, in accordance with the Council's human resources processes.

12 Fraud and Corruption

12.1 Internal audit does not have responsibility for the prevention and detection of fraud and corruption. Managing this risk is the responsibility of management. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected.

12.2 Internal audit must evaluate the risk of fraud and the manner in which it is managed by the organisation, but is not expected to have the expertise of those whose primary responsibility is detecting and investigating fraud. The internal audit activity must evaluate the potential for the occurrence of fraud and how the organisation manages fraud risk.

12.3 In accordance with the annual audit plan, internal auditors will plan and evaluate their work so as to have a reasonable expectation of identifying any significant weaknesses in internal controls that may result in exposure to fraud. Additionally, proactive fraud reviews will be incorporated within the plan to deter and detect fraud, covering known areas of high risk.

12.4 Internal auditors should always be alert in their work to the risks and exposures that could allow fraud or corruption to occur and to any indication that fraud or corruption may have taken place. The Head of Internal Audit considers all suspected or detected internal fraud, corruption or irregularity and evaluates the implications for the internal control environment.

12.5 Internal audit should be informed of all suspected or detected fraud, corruption and irregularity for the purpose of informing opinion on the control environment and internal audit work programme. At the request of management internal audit may go beyond the work needed to meet its assurance responsibilities and actively respond to and assist management in the investigation of such reported instances.

13. Proficiency and Due Professional Care

13.1 Internal audit will be resourced appropriately to meet its objectives. It will have sufficient numbers of staff in terms of grades, qualifications, personal attributes and experience or have access to appropriate resources in order to meet its objectives and comply with the PSIAS. The

Head of Internal Audit should obtain competent advice and assistance if the service is unable to perform all or part of an assignment.

13.2 The Head of Internal Audit will be professionally qualified in accordance with the Statement on the Role of the Head of Internal Audit and have wide internal audit and management experience, reflecting the responsibilities that arise from the need to liaise internally and externally with members, senior management and other professionals.

13.3 Internal auditors will perform work with due professional care, competence and diligence. Internal auditors cannot be expected to identify every control weakness or irregularity but their work should be designed to enable them to provide reasonable assurance regarding the controls examined within the scope of their review. Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

13.4 Internal auditors will have a continuing duty to develop and maintain their professional skills, knowledge and judgement based on appropriate training, ability, integrity, objectivity and respect.

13.5 Internal auditors will apprise themselves of the 'Definition of Internal Auditing', the 'Public Sector Internal Audit Standards' and the 'Code of Ethics' contained therein and will work in accordance with them in the conduct of their duties.

13.6 Internal auditors will not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation.

13.7 Internal auditors will treat the information they receive in carrying out their duties as confidential. There will be no unauthorised disclosure of information unless there is a legal or professional requirement to do so. Confidential information gained in the course of internal audit work will not be used to effect personal gain.

14. Quality assurance

14.1 The Head of Internal Audit operates a quality assurance and improvement framework that assesses on-going compliance with the PSIAS, and whether the internal audit service is consistently meeting its internal quality standards.

14.2 The Head of Internal Audit is responsible for ensuring that audit staff maintain appropriate standards of due care in completing audit assignments. Essential to this requirement is the audit procedure manual, which is kept current by regular review. The manual provides guidance on overall quality of work and performance standards to be achieved. Feedback on quality and effectiveness is also actively sought from clients.

14.3 A regular assessment of the internal audit service's conformance with the PSIAS will be conducted using the checklist included within CIPFA's Application Note and presented to Management Team and the Audit Committee. The outcome of the exercise will form part of the annual governance statement.

14.4 Periodically, but not less than once every five years, the Internal Audit Service will be subject to an external assessment by a qualified, independent assessor from outside the organisation. This

will take the form of a self-assessment in accordance with CIPFA's Application Note, together with an independent external validation by peer review organised through the Lancashire District Council Audit Group, providing there is no conflict of interest. The results will be reported to the Audit Committee.

15. Review

15.1 The Head of Internal Audit will periodically review the Internal Audit Charter and present it to Management Team for agreement and the Audit Committee for final approval.

REPORT

REPORT OF	MEETING	DATE	ITEM
RESOURCES	AUDIT COMMITTEE	26 MARCH 2015	7

PAYROLL FOLLOW UP

PUBLIC ITEM

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

SUMMARY

At its meeting in January 2015 the committee considered the Internal Audit Annual Interim Report for 2014/15. The Head of Internal Audit was requested to provide a further report concerning the outstanding items on the Payroll action plan. This report sets out the current position.

RECOMMENDATION

The Audit Committee is asked to note the current position with regard to the Payroll Follow Up.

CABINET PORTFOLIO

This item falls within the following cabinet portfolio(s):

Finance and Resources - Councillor Karen Buckley

CORPORATE PRIORITIES

To Promote the Enhancement of The Natural & Built Environment (Place)		To Encourage Cohesive Communities (People)	
To Promote a Thriving Economy (Prosperity)		To Meet Expectations of our Customers (Performance)	√

SUMMARY OF PREVIOUS DECISIONS

At the Audit Committee meeting on 29 January it was resolved to request a further update regarding the implementation of agreed actions on the Payroll audit, at a future meeting.

REPORT

Background

1. The Council's Payroll Service is delivered externally by Blackpool Council and during 2013/14 a joint audit review was undertaken in conjunction with Blackpool internal audit. As a result of the review we were able to provide substantial assurance for the payroll system, suggesting there was a sound system of control designed to achieve the system objectives, but with some weaknesses that may put some system objectives at risk.
2. To address these issues an action plan was agreed by management that contained nine joint and 'Fylde-specific' actions. The detailed wording of the actions was suggested by and agreed with the responsible managers, together with the timeframe for implementation. There were no High Priority actions, but seven Medium and two Low priority actions.
3. At the Audit Committee meeting on 29 January the Head of Internal Audit provided an update on the progress of the various reviews that had been followed up during 2014/15. The number of agreed recommendations that were implemented was provided, together with the percentage implementation rate.
4. For the Payroll audit five of the nine agreed actions had been implemented, giving an implementation rate of 56%. This was considerably below the rate for any other review and much less than the average implementation rate of 93.5%. As a result the Audit Committee sought an update on the situation.
5. Subsequent to this the Head of Internal Audit contacted the senior officer responsible for the implementation of the agreed actions, who is an employee of Blackpool Council. The four outstanding recommendations are set out below with the current position as it is currently understood.

Current Position

6. **Recommendation 2: To mitigate the risk of overtime being paid at an incorrect rate, one generic overtime claim form should be in place that is updated centrally when changes in the hourly rates occur. This form should include a tick box to be completed by the approving manager to indicate whether the overtime claimed is contractually or non-contractually to ensure that the employee is paid at the correct rate.**

Blackpool payroll proposed to action this recommendation by developing an appropriate e-form, however, this proved more difficult than had been originally anticipated and delays ensued. Ultimately, however an appropriate generic e-form for claiming overtime has been developed and is now ready for launching. It is anticipated that the form will go live before the end of March in accordance with the revised target date.

7. **Recommendations 4: Details held about leavers should be retained in accordance with the Data Protection Act 2003 and the Council's Data Retention Policy. If there is a legal requirement for information to be held for longer periods then this data should be archived with access limited to authorised staff.**

Blackpool approached the software supplier with a request for software development designed to restrict access to data older than 5 years. This change was accepted, however there was a lengthy process to gain the support of the software user group. Subsequent to their approval it then went on the supplier's development plan and the work was planned in accordance with

their work schedule. The supplier only releases new developments at certain intervals and this caused a further delay. Blackpool payroll was dependent on the developer regarding timelines despite their efforts to expedite this.

The archiving process is scheduled to begin during the week commencing 23 March, but the process may run into April before it is completed. Thereafter, archiving is planned to take place on an annual basis to keep within data protection legislation and the Council's policy.

- 8. Recommendation 8: Consideration should be given to reviewing the managerial checks carried out, to ensure the payroll team is making best use of the available resources. A risk-based analysis of the key areas which could be spot-checked by management should be carried out, to identify how management time could be most appropriately allocated to spot checking.**

A template spreadsheet of key areas for management checks has been developed. We have received evidence that risk-based management checks are taking place as envisaged. This action is now completed.

- 9. Recommendation 9: Whilst appropriate authorisation levels are built into the payroll software, arrangements should be put in place for the payroll activity logs and the system usage by system administrators to be periodically reviewed going forward, to identify any inappropriate or unauthorised activity. This should include reviews of the system activity by the supplier's staff, to ensure they are not accessing the system other than when specifically requested to do so by a member of the Payroll team.**

Blackpool approached the software supplier with a request for the development of payroll activity logs but it was subsequently confirmed that this was not achievable. In order to mitigate the risk a Third Party Agreement was signed by the software supplier confirming details of which of their employees is enabled to access the system and all of the vetting that has taken place on those individuals.

We accept that nothing further can be achieved in terms of this action, and we welcome the mitigation provided. In the circumstances we will disregard this action from the calculation of the overall implementation rate for the audit.

10. At the time of writing the number of actions implemented has increased to six. Two more actions are on the brink of completion and one has been disregarded for the purpose of calculating the rate of implementation. On this basis the current implementation rate is 75% and the anticipated outturn is 100%. If there are any further developments a verbal update will be provided at the meeting.

IMPLICATIONS	
Finance	The Accounts and Audit Regulations 2011 require the Council to ensure that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.
Legal	None
Community Safety	None
Human Rights and Equalities	None
Sustainability and Environmental Impact	None
Health & Safety and Risk Management	Internal audit work covers key areas of risk and should therefore strengthen the internal control framework.

LEAD AUTHOR	TEL	DATE	DOC ID
Savile Sykes	01253 658413	26 March 2015	

LIST OF BACKGROUND PAPERS		
Name of document	Date	Where available for inspection
Payroll – Final Report	17 June 2013	All background papers or copies can be obtained from Savile Sykes, Head of Internal Audit on 658413 or email saviles@fylde.gov.uk

REPORT



REPORT OF	MEETING	DATE	ITEM
RESOURCES	AUDIT COMMITTEE	26 MARCH 2015	8

COUNTER FRAUD POLICIES ANNUAL REVIEW

PUBLIC ITEM

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

SUMMARY

The Audit Committee’s terms of reference include the adoption and approval of counter fraud policies, which include the Anti-fraud & Corruption Policy and Strategy, the Anti-Money Laundering Policy, Anti-Bribery Policy, Housing Benefits Sanctions Policy, Council Tax Reduction Scheme Sanctions Policy and the Forensic Readiness Policy. Together these policies create an integrated approach to tackling fraud.

RECOMMENDATION

To note the report.

CABINET PORTFOLIO

This item falls within the following cabinet portfolio(s):

Finance and Resources - Councillor Karen Buckley

CORPORATE PRIORITIES

To Promote the Enhancement of The Natural & Built Environment (Place)		To Encourage Cohesive Communities (People)	
To Promote a Thriving Economy (Prosperity)		To Meet Expectations of our Customers (Performance)	√

SUMMARY OF PREVIOUS DECISIONS

The suite of counter fraud policies were previously approved in March 2014.

REPORT

1. The Audit Committee's terms of reference and the work plan include the approval of counter fraud policies. It was agreed in March 2010 that an annual review would take place as part of the committee's work plan to avoid dealing with this important area in a piecemeal fashion.
2. All counter fraud policies were approved by the committee twelve months ago. In order to ensure that an effective and up-to-date framework for countering fraud and corruption is maintained a further comprehensive review of all the following policies and strategies has been undertaken:
 - ◆ Anti-fraud and Corruption Policy
 - ◆ Anti-fraud and Corruption Strategy
 - ◆ Anti-Bribery Policy
 - ◆ Anti-Money Laundering Policy
 - ◆ Housing Benefits Sanctions Policy
 - ◆ Council Tax Reduction Scheme Sanctions Policy
 - ◆ Forensic Readiness Policy
3. All the above policies have been refreshed and updated but there are no significant amendments requiring committee approval.
4. Although there have been no substantial legislative changes affecting the suite of counter fraud policies, it should be noted that the Council's responsibility for investigating housing benefit fraud ceases on 1 June 2015. Consequently the Housing Benefits Sanctions Policy will cease to have effect from this date.
5. The Whistleblowing Policy is now maintained as part of the HR suite of policies. However, there have been no changes since last year.

IMPLICATIONS	
Finance	The policies seek to minimise the financial impact of fraud and corruption and support the public stewardship of funds
Legal	The policies assist in good governance and the probity of Council actions and decision-making. Where appropriate the policies will ensure the Council is compliant with prevailing legislation and regulations
Community Safety	None
Human Rights and Equalities	None
Sustainability and Environmental Impact	None
Health & Safety and Risk Management	None

LEAD AUTHOR	TEL	DATE	DOC ID
Savile Sykes	01253 658413	26 March 2015	

LIST OF BACKGROUND PAPERS		
Name of document	Date	Where available for inspection
Anti-fraud and Corruption Policy Anti-fraud and Corruption Strategy Anti-Bribery Policy Anti-Money Laundering Policy Housing Benefits Sanctions Policy Council Tax Reduction Scheme Sanctions Policy Forensic Readiness Policy	March 2014	All background papers or copies can be obtained from Savile Sykes, Head of Internal Audit on 658413 or email saviles@fylde.gov.uk