

Agenda

Audit Committee

Date:

Thursday, 30 January 2014 at 6:15 pm

Venue:

Town Hall, St Annes

Committee members:

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

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

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1	Declarations of Interest: Any member needing advice on Declarations of Interest should contact the Monitoring Officer before the meeting.	1
2	Confirmation of Minutes: To confirm the minutes of the previous meeting held on 14 November 2013 as a correct record, as attached at the end of the agenda.	1
3	Substitute Members: Details of any substitute members notified in accordance with council procedure rule 23(c)	1
4	External Audit Plan 2013/14 - KPMG	3 - 30
5	KPMG Certification of Claims and Returns – Annual Report 2012/13	31 – 33
6	Internal Audit Interim Report 2013/14	34 – 41
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8	Regulation of Investigatory Powers Act 2000 : Authorisations	46 - 48

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

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REPORT



REPORT OF	MEETING	DATE
RESOURCES DIRECTORATE	AUDIT COMMITTEE	30 January 2014

EXTERNAL AUDIT PLAN 2013/14 – KPMG

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 2013/14 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 2013/14 which is attached to this covering report.

CABINET PORTFOLIO

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

Finance and Resources - Councillor Karen Buckley

SUMMARY OF PREVIOUS DECISIONS

The External Audit Plan is considered annually by the Audit Committee.

REPORT

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

IMPLICATIONS	
Finance	No specific implications - the cost of external audit 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

REPORT AUTHOR	TEL	DATE	DOC ID
Paul O'Donoghue Chief Financial Officer	(01253) 658566	14th January 2014	

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

Attached documents

1. Report of KPMG - External Audit Plan 2013/14



cutting through complexity™

External Audit Plan 2013/14

Fylde Borough Council

January 2014

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.audit-commission.gov.uk.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tim Cutler, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 0303 444 8330.

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 2013/14* presented to you in April 2013. 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 2013/14.

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 *Code of Audit Practice* summarises our responsibilities into two objectives, requiring us to 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.

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 and Value for Money audit.
- 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 and areas for consideration.
- Section 5 explains our approach to VFM 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.

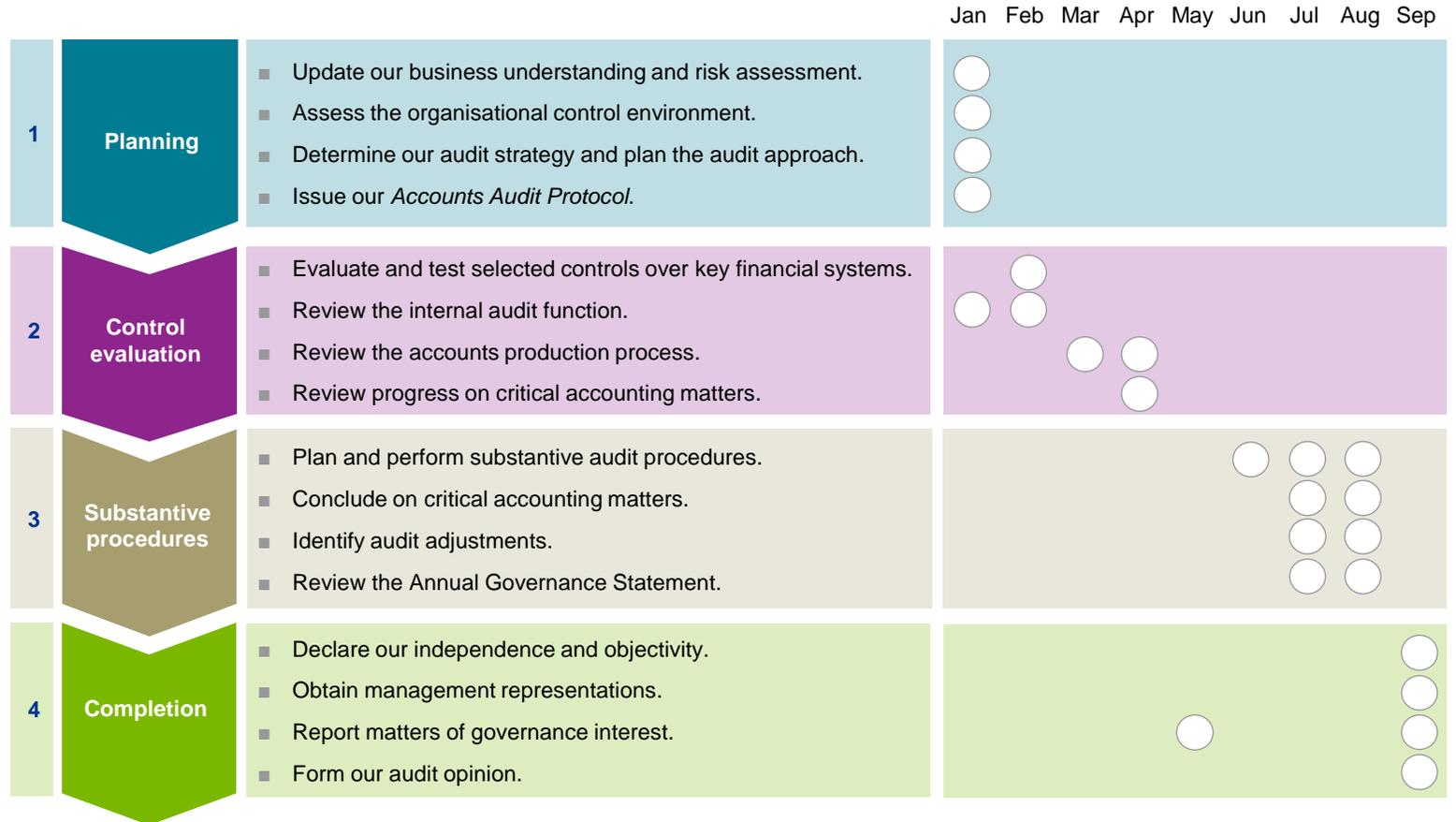
This table summarises the headline messages. The remainder of this report provides further details on each area.

Audit approach	<p>Our overall audit approach is unchanged from last year. Our work is carried out in four stages and the timings for these, and specifically our on site work, have been agreed with the 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 and areas for consideration	<p>We have completed our initial risk assessment for the financial statements audit and have identified the following key risk:</p> <ul style="list-style-type: none"> ■ LGPS Triennial Valuation – The LGPS actuary has undertaken their triennial valuation as at 31/3/13. The IAS 19 numbers to be included in the financial statements for 2013/14 will be based on the output of the triennial valuation rolled forward to 31 March 2014. We will need to agree the data provided to the actuary back to the systems and reports from which it was derived, and test the accuracy of this data. <p>We identified two areas in our 2012/13 plan that, due to the timing of relevant transactions, we have brought forward as areas for further consideration in 2013/14:</p> <ul style="list-style-type: none"> ■ Local Authority Mortgage Scheme – the Authority is participating in the Local Authority Mortgage Scheme and earmarked a maximum of £1m for this during 2012/13. No mortgage indemnities were provided in 2012/13, so we will continue to monitor the application of the scheme during 2013/14 and review the accounting treatment of any mortgage indemnities provided. ■ Premises schemes – the authority is continuing to consolidate its premises portfolio and improve and refurbish continuing assets. Some capital expenditure for this project is expected to be incurred during 2013/14, so we will review the accounting treatment to ensure it is appropriately recognised and disclosed within the 2013/14 financial statements. <p>These are described in more detail on pages 10 to 12. We will assess the Authority's progress in addressing these areas as part of our interim work and conclude this 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. The approach is described in more detail on pages 13 to 16.</p>
Audit team, deliverables, timeline and fees	<p>There has been no change to the audit team from last year.</p> <p>Our main year end audit is currently planned to commence in early 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 2013/14 audit is £62,700. This is unchanged from the position set out in our <i>Audit Fee Letter 2013/14</i>.</p>

We undertake our work on your financial statements in four key stages during 2014:

- Planning (January).
- Control Evaluation (January to April).
- Substantive Procedures (June to August).
- Completion (September).

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



During January 2014 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, including the Authority's IT systems, that would impact on our audit.

Our planning work takes place in January 2014. This involves the following aspects:

Planning

- Update our business understanding and risk assessment.
- Assess the organisational control environment.
- Determine our audit strategy and plan the audit approach.
- Issue our *Accounts Audit Protocol*.

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 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 work of your internal auditors also informs our risk assessment.

The Authority relies on information technology (IT) to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations. Whilst we undertake some general IT controls work, we also focus on testing the specific applications and reports that are pivotal to the production of the financial statements.

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 judgement and is set by the Engagement Lead.

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

An indicative level of materiality for 2013/14 is £1.3 million. This is based on the prior year Statement of Accounts and on our understanding of the projected outturn for the current year. This figure is a guide only. The overriding objective is to preserve the true and fair view presented by the financial statements and we will consider any audit differences, individually and cumulatively, in that context. See appendix 3 for further details.

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 2012/13 audit. These will be incorporated into our work plan for 2013/14. We revisit progress against areas identified for development as the audit progresses.

During February 2014 we will complete our interim audit work.

We assess if controls over key financial systems were effective during 2013/14. 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 interim visit on site will be completed during 10th to 14th 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.

Where our audit approach is to undertake controls work on financial systems, we seek to rely on any relevant work internal audit have completed to minimise unnecessary duplication of work. 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 2013/14.

Review of internal audit

Where we intend to rely on internal audit's 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 did not raise any recommendations in our *ISA 260 Report 2012/13* relating to the accounts production process.

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 in a timely manner.

During July 2014 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 2014.

Our final accounts visit on site has been provisionally scheduled for the period 7th to 23rd 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 2014, prior to reporting to the Audit Committee in September 2014.

Audit adjustments

During our on site work, we will meet with the Accountancy Services Manager and Chief Financial Officer on a weekly 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 key to this.

We report the findings of our final accounts work in our *ISA 260 Report*, which we will issue in September 2014.

In addition to the financial statements, we also audit the Authority's Whole of Government Accounts pack.

We may need to undertake additional work if we receive objections to the accounts from local electors.

We will communicate with you throughout the year, both formally and informally.

Whole of government accounts (WGA)

We are required to review and issue an opinion on your WGA consolidation to confirm that this is consistent with your financial statements. The audit approach has been agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and issue of our opinion on the pack have not yet been confirmed.

Elector challenge

The Audit Commission Act 1998 gives electors certain rights. These are:

- the right to inspect the accounts;
- the right to ask the auditor questions about the accounts; and
- the right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the Audit Commission's fee scales.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Audit Committee. Our deliverables are included on page 18.

Independence and objectivity confirmation

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 Integrity, Objectivity and Independence requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, which in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Appendix 1 provides further detail on auditors' responsibilities regarding independence and objectivity.

Confirmation statement

We confirm that as of January 2014 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.

In this section we set out our assessment of the significant risks to the audit of the Authority's financial statements for 2013/14.

For each key risk area we have outlined the impact on our audit plan.

We have also set out other key areas that we will consider during our audit of the 2013/13 financial statements.

Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our *ISA 260 Report*.

- Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.
- Fraudulent revenue recognition – We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

The table on page 11 sets out the significant risk we have identified through our planning work that are specific to the audit of the Authority's financial statements for 2013/14.

We identified two areas in our 2012/13 plan that, due to the timing of relevant transactions, did not impact on the 2012/13 financial statements. We have therefore brought these forward to our 2013/14 plan as areas for further consideration, so that we can continue to monitor them and review any significant transactions in the 2013/14 financial statements. These are outlined in more detail on page 12.

We will revisit our assessment throughout the year and should any additional risks present themselves we will adjust our audit strategy as necessary.

Key financial statements audit risks and areas for consideration (continued)

For each key risk area we have outlined the impact on our audit plan.

Key audit risks	Impact on audit
 <p>Audit areas affected</p> <ul style="list-style-type: none"> ■ Pensions Liability ■ Actuarial gains or losses 	<p>Risk</p> <p>During the year, the Local Government Pension Scheme for Lancashire County (the Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2013 in line with the Local Government Pension Scheme (Administration) Regulations 2008. The Authority’s share of pensions assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out this triennial valuation.</p> <p>The IAS 19 numbers to be included in the financial statements for 2013/14 will be based on the output of the triennial valuation rolled forward to 31 March 2014. For 2014/15 and 2015/16 the actuary will then roll forward the valuation for accounting purposes based on more limited data.</p> <p>There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data is provided to the actuary by Lancashire County Council who administer the Pension Fund</p> <p>Our audit work</p> <p>As part of our audit, we will need to agree the data provided to the actuary back to the systems and reports from which it was derived, and test the accuracy of this data.</p> <p>We will liaise with Grant Thornton UK LLP, who are the auditors of the Pension Fund, where this data was provided by the Pension Fund on the Authority’s behalf. The Pension Fund may seek to recharge any additional costs arising from this work.</p>

Key financial statements audit risks and areas for consideration (continued)

For each area we have outlined the impact on our audit plan.

Area for Consideration	Impact on audit
	<p>Risk</p> <p>The Authority is participating in the Local Authority Mortgage Scheme (LAMS). The scheme is designed to encourage home buying within the local area. The Authority will provide mortgage indemnities, which would remain in place for the first 5 years of the mortgage. These will be limited to 20% of the total property value.</p> <p>The Authority's LAMS scheme was approved by Council in December 2012, and £1m of s106 funding was set aside .</p> <p>Our audit work</p> <p>Although the scheme was approved in 2012/13, no loans were made to individuals under the scheme before the end of the financial year. We will therefore continue to review the accounting treatment of any LAMS loans made during 2013/14 to ensure that they have been disclosed in accordance with the CIPFA Code.</p>
	<p>Risk</p> <p>The Authority's project to rationalise the premises it uses for operational purposes started in 2012/13 and has continued into 2013/14. The project includes improvement and refurbishment work for continuing premises such as the Town Hall.</p> <p>The refurbishments are to be funded through the disposal of surplus or under-used assets. St David's Road Depot was sold in 2013, the sale of Derby Road Wesham is expected to be completed in January 2014, and the Authority is actively marketing its Public Offices sites for disposal.</p> <p>Our audit work</p> <p>We will review the accounting treatment of the disposals to ensure they are in line with the SORP. Subject to materiality, we will review capital additions to ensure they are consistent with accounting requirements and appropriately disclosed.</p>

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 follow a risk based approach to target audit effort on the areas of greatest audit risk.

Overview of the VFM audit approach

The key elements of the VFM audit approach are summarised below.



Each of these stages are summarised further below.

VFM audit stage	Audit approach
VFM audit risk assessment	<p>We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the <i>Code of Audit Practice</i>.</p> <p>In doing so we consider:</p> <ul style="list-style-type: none"> the Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks; information from the Audit Commission's VFM profile tool and financial ratios tool; evidence gained from previous audit work, including the response to that work; and the work of other inspectorates and review agencies.

Our VFM audit will draw heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit.

We will then form an assessment of residual audit risk to identify if there are any areas where more detailed VFM audit work is required.

VFM audit stage	Audit approach
Linkages with financial statements and other audit work	<p>There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.</p> <p>We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.</p>
Assessment of residual audit risk	<p>It is possible that further audit work may be necessary in some areas to ensure sufficient coverage of the two VFM criteria.</p> <p>Such work may involve interviews with relevant officers and /or the review of documents such as policies, plans and minutes. We may also refer to any self assessment the Authority may prepare against the characteristics.</p> <p>To inform any further work we must draw together an assessment of residual audit risk, taking account of the work undertaken already. This will identify those areas requiring further specific audit work to inform the VFM conclusion.</p> <p>At this stage it is not possible to indicate the number or type of residual audit risks that might require additional audit work, and therefore the overall scale of work cannot be easily predicted. If a significant amount of work is necessary then we will need to review the adequacy of our agreed audit fee.</p>
Identification of specific VFM audit work	<p>If we identify residual audit risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including:</p> <ul style="list-style-type: none"> ■ considering the results of work by the Authority, inspectorates and other review agencies; and ■ carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Where relevant, we may draw upon the range of audit tools and review guides developed by the Audit Commission.

We will conclude on the results of the VFM audit through our ISA 260 Report.

VFM audit stage	Audit approach
Delivery of local risk based work	<p>Depending on the nature of the residual audit risk identified, we may be able to draw on audit tools and sources of guidance when undertaking specific local risk-based audit work, such as:</p> <ul style="list-style-type: none"> ■ local savings review guides based on selected previous Audit Commission national studies; and ■ update briefings for previous Audit Commission studies. <p>The tools and guides will support our work where we have identified a local risk that is relevant to them. For any residual audit risks that relate to issues not covered by one of these tools, we will develop an appropriate audit approach drawing on the detailed VFM guidance and other sources of information.</p>
Concluding on VFM arrangements	<p>At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.</p> <p>If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.</p>
Reporting	<p>We will report on the results of the VFM audit through our <i>ISA 260 Report</i>. This will summarise any specific matters arising, and the basis for our overall conclusion.</p> <p>The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.</p>

Our audit team were all part of the Fylde Borough Council audit last year.

Contact details are shown on page 1.

The audit team will be assisted by other KPMG specialists as necessary.



Tim Cutler
Director

“My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion.

I will be the main point of contact for the Audit Committee and Executive Directors.”



Jillian Burrows
Senior Manager

“I am responsible for the management, review and delivery of the whole audit and providing quality assurance for any technical accounting areas. I will work closely with Tim to ensure we add value. I will liaise with the Director of Resources, Chief Financial Officer and Head of Internal Audit.”



Keith Illingworth
Assistant Manager

“I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.”

I will liaise with the Accountancy Service Manager and Internal Audit Managers.”

At the end of each stage of our audit we issue certain deliverables, including reports and opinions.

Our key deliverables will be delivered to a high standard and on time.

We will discuss and agree as appropriate each report with the Authority's officers prior to publication.

Deliverable	Purpose	Committee dates
Planning		
External Audit Plan	<ul style="list-style-type: none"> ■ Outlines our audit approach. ■ Identifies areas of audit focus and planned procedures. 	January 2014
Substantive procedures		
Report to Those Charged with Governance (ISA 260 Report)	<ul style="list-style-type: none"> ■ Details control and process issues. ■ Details the resolution of key audit issues. ■ Communicates adjusted and unadjusted audit differences. ■ Highlights performance improvement recommendations identified during our audit. ■ Comments on the Authority's value for money arrangements. 	September 2014
Completion		
Auditor's Report	<ul style="list-style-type: none"> ■ Provides an opinion on your accounts (including the Annual Governance Statement). ■ Concludes on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion). 	September 2014
Whole of Government Accounts	<ul style="list-style-type: none"> ■ Provide our opinion on the Authority's WGA pack submission. 	September 2014
Annual Audit Letter	<ul style="list-style-type: none"> ■ Summarises the outcomes and the key issues arising from our audit work for the year. 	November 2014

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

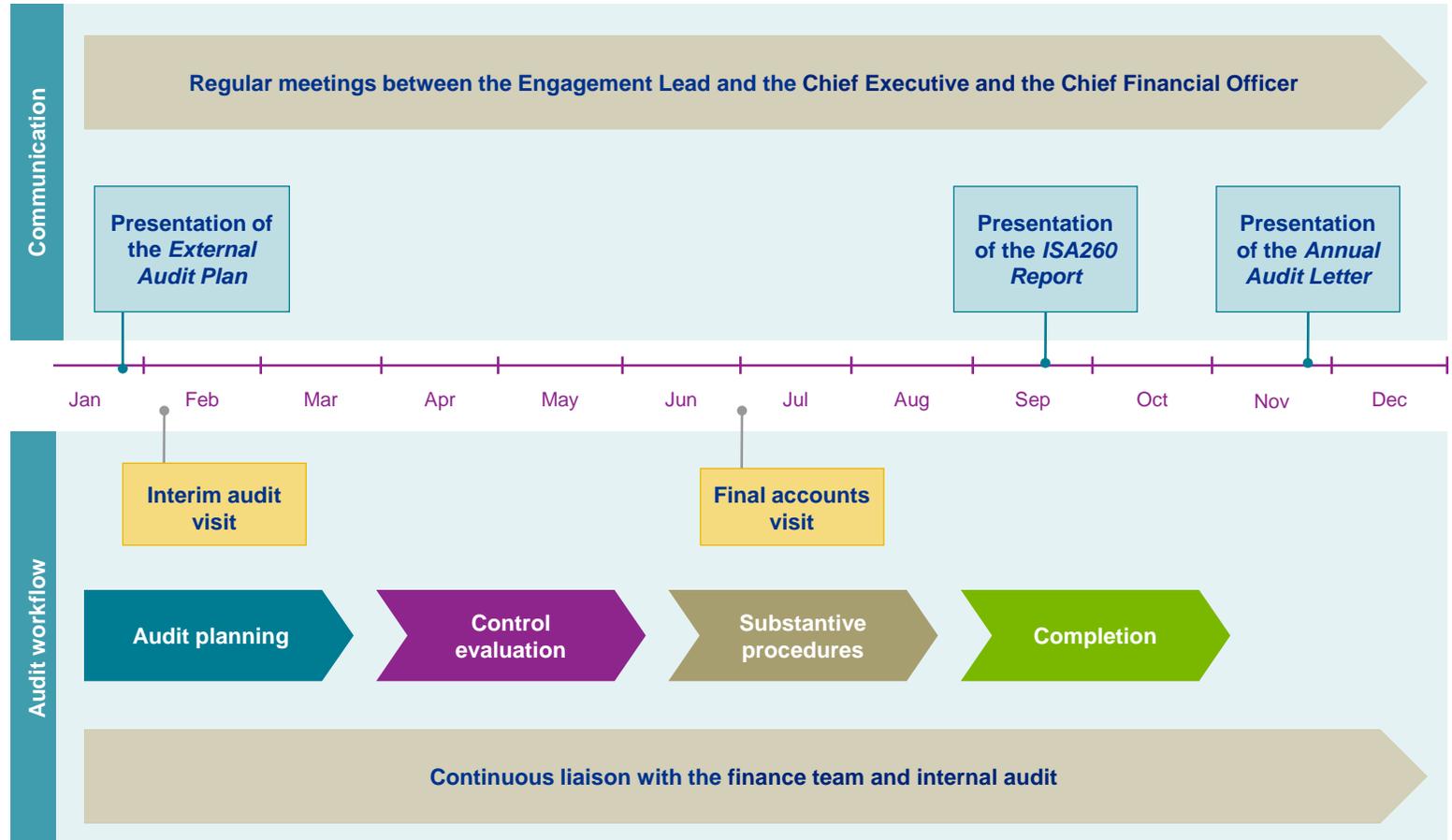
Key formal interactions with the Audit Committee are:

- January – 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.

The fee for the 2013/14 audit of the Authority is £62,700. The fee has not changed from that set out in our *Audit Fee Letter 2013/14* issued in April 2013.

Our audit fee remains indicative and based on you meeting our expectations of your support.

Meeting these expectations will help the delivery of our audit within the proposed audit fee.

Audit fee

Our *Audit Fee Letter 2013/14* presented to you in April 2013 first set out our fees for the 2013/14 audit. We have not considered it necessary to make any changes to the agreed fees at this stage.

Our audit fee includes our work on the VFM conclusion and our audit of the Authority's financial statements.

The planned audit fee for 2013/14 is **£62,700**. This is the same as the final 2012/13 audit fee.

Audit fee assumptions

The fee is based on a number of assumptions, including that you will provide us with complete and materially accurate financial statements, with good quality supporting working papers, within agreed timeframes. It is imperative that you achieve this. If this is not the case and we have to complete more work than was envisaged, we will need to charge additional fees for this work. In setting the fee, we have assumed:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2012/13;
- you will inform us of any significant developments impacting on our audit;
- you will identify and implement any changes required under the *CIPFA Code of Practice on Local Authority Accounting in the UK 2013/14* within your 2013/14 financial statements;
- you will comply with the expectations set out in our *Accounts Audit Protocol*, including:
 - the financial statements are made available for audit in line with the agreed timescales;
 - good quality working papers and records will be provided at the start of the final accounts audit;

- requested information will be provided within the agreed timescales;
- prompt responses will be provided to queries and draft reports;
- internal audit meets appropriate professional standards;
- internal audit adheres to our joint working protocol and completes appropriate work on all systems that provide material figures for the financial statements and we can place reliance on them for our audit; and
- additional work will not be required to address questions or objections raised by local government electors or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998.

Meeting these expectations will help ensure the delivery of our audit within the agreed audit fee.

The Audit Commission requires us to inform you of specific actions you could take to keep the audit fee low. Future audit fees can be kept to a minimum if the Authority achieves an efficient and well-controlled financial closedown and accounts production process which complies with good practice and appropriately addresses new accounting developments and risk areas.

Changes to the audit plan

Changes to this plan and the audit fee may be necessary if:

- new significant audit risks emerge;
- additional work is required of us by the Audit Commission or other regulators; and
- additional work is required as a result of changes in legislation, professional standards or financial reporting requirements.

If changes to this plan and the audit fee are required, we will discuss and agree these initially with the Chief Financial Officer.

This appendix summarises auditors' responsibilities regarding independence and objectivity.

Independence and objectivity

Auditors are required by the Code to:

- carry out their work with independence and objectivity;
- exercise their professional judgement and act independently of both the Commission and the audited body;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the Code. If the Authority invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under section 35 of the Audit Commission Act 1998.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of Commission-related work, and senior members of their audit teams should not take part in political activity.
- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.

- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Firms are expected to comply with the requirements of the Commission's protocols on provision of personal financial or tax advice to certain senior individuals at audited bodies, independence considerations in relation to procurement of services at audited bodies, and area wide internal audit work.
- Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission.
- Auditors are expected to comply with the Commission's policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the standing guidance.

Appendix 2: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

The diagram summarises our approach and each level is expanded upon.

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG.

We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

Tone at the top: We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drivers of quality through a focused and consistent voice. Tim Cutler as the Engagement Lead sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

Association with right clients: We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

Clear standards and robust audit tools: We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAUDIT application has significantly enhanced

existing audit functionality. eAUDIT enables KPMG to deliver a highly technically enabled audit. All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.



Recruitment, development and assignment of appropriately qualified personnel: One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.

- A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.

- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based quarterly technical training.

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

Quality must build on the foundations of well trained staff and a robust methodology.

Commitment to technical excellence and quality service delivery: Our professionals bring you up-to-the minute and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensic, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes.

Performance of effective and efficient audits: We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviours in the performance of effective and efficient audits. The key behaviors that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- timely Engagement Lead and manager involvement;
- critical assessment of audit evidence;
- exercise of professional judgment and professional scepticism;
- ongoing mentoring and on the job coaching, supervision and review;
- appropriately supported and documented conclusions;
- if relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- clear reporting of significant findings;
- insightful, open and honest two-way communication with those charged with governance; and
- client confidentiality, information security and data privacy.

Commitment to continuous improvement: We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

Our quality review results

We are able to evidence the quality of our audits through the results of National Audit Office and Audit Commission reviews. The Audit Commission publishes information on the quality of work provided by KPMG (and all other firms) for audits undertaken on behalf of them (<http://www.audit-commission.gov.uk/audit-regime/audit-quality-review-programme/principal-audits/kpmg-audit-quality>).

The latest Annual Regulatory Compliance and Quality Report (issued June 2013) showed that we performed highly against the Audit Commission's criteria. We were one of only two firms to receive a combined audit quality and regulatory compliance rating of green for 2012/13.

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

For 2013/14 we have provisionally set this at £1.3 million.

We will report all audit differences over £0.07 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 £1.3 million, which equates to around 3 percent of 2012/13 gross revenue.

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, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 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 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 £0.07 million.

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.



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REPORT

REPORT OF	MEETING	DATE
RESOURCES DIRECTORATE	AUDIT COMMITTEE	30 JANUARY 2014

KPMG CERTIFICATION OF CLAIMS AND RETURNS – ANNUAL REPORT 2012/13

PUBLIC ITEM

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

SUMMARY

The report presents the Certification of Claims and Returns - annual report for 2012/13 from KPMG. The report will be presented by KPMG.

RECOMMENDATION

The Committee is recommended to consider and comment on the Certification of Claims and Returns - annual report for 2012/13 from KPMG which is attached to this covering report.

CABINET PORTFOLIO

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

Finance and Resources - Councillor Karen Buckley

SUMMARY OF PREVIOUS DECISIONS

This item is considered annually by the Audit Committee in respect of the previous financial year's grant claims.

REPORT

1. The attached report has been prepared by the Council's external auditors, KPMG. It summarises the results of work carried out by KPMG on the certification of the Council's grant claims and returns relating to 2012/13.

IMPLICATIONS	
Finance	No specific implications
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

REPORT AUTHOR	TEL	DATE	DOC ID
Paul O'Donoghue Chief Financial Officer	(01253) 658566	14th January 2014	

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

Attached documents

1. Certification of Claims and Returns - annual report for 2012/13 from KPMG

Private & confidential

Paul O'Donoghue
Chief Financial Officer
Fylde Borough Council
The Town Hall
St Annes Road West
St Annes
Lancashire
FY8 1LW

Our ref **jb/16/let-62**

13 January 2014

Dear Paul

Certification of claims and returns - annual report 2012/13

The Audit Commission requires its external auditors to prepare an annual report on the claims it certifies for each client. This letter is our annual report for 2012/13.

In 2012/13 we carried out certification work on the following claims:

- Claim 1: NNDR - £22,976,138
- Claim 2: Housing Benefits - £25,303,255

Our certification work did not identify any issues or errors with the claims, and we certified all the claims unqualified without amendment. Consequently we have made no recommendations to the Council to improve its claims completion process. There were no recommendations made last year and there are no further matters to report to you regarding our certification work.

The Audit Commission changed the basis of the certification fee in 2012/13 and set an indicative fee of £15,100. Our actual fee was lower than the indicative fee and is £14,743 (£1,193 NNDR and £13,550 Housing benefits), and this compares to the 2011/12 fee for these claims of £17,735. The housing benefits cost at this stage is still a draft indication as we anticipate a further reduction to the certification costs.

Yours sincerely



Tim Cutler
Director

REPORT



REPORT OF	MEETING	DATE
INTERNAL AUDIT	AUDIT COMMITTEE	30 JANUARY 2014

INTERNAL AUDIT INTERIM REPORT 2013/14

PUBLIC ITEM

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

SUMMARY

At its meeting in March 2013 the committee endorsed the Internal Audit Annual Plan for 2013/14. This report summarises the work undertaken by internal audit from April to December 2013 and performance information for the same period in accordance with the reporting requirements set out in the Public Sector Internal Audit Standards.

RECOMMENDATION

To note the internal audit interim report

CABINET PORTFOLIO

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

Finance & Resources

Councillor Karen Buckley

SUMMARY OF PREVIOUS DECISIONS

The internal audit annual plan for 2013/14 was approved by the Audit Committee at its meeting on 21 March 2013.

REPORT

1. Background

1.1 The Accounts and Audit Regulations 2011 require the Council to maintain an adequate and effective internal audit of its accounting records and control systems. This report provides the Audit Committee with information on work undertaken and assurances gained in these respects between April and December 2013.

2. Assurance on Internal Control

2.1 During the period from April to December 2013 fifteen (15) action plans have been issued and agreed where appropriate. Copies of the reports and action plans are available to view via the Audit Work page on the Intranet.

2.2 In the action plans arising from audit work we categorise recommendations as high, medium or low priority. High indicates a significant control weakness that may result in failure to achieve corporate objectives, reputational damage, material loss, exposure to serious fraud or failure to meet legal/statutory requirements. Medium suggests a less important vulnerability not fundamental to system integrity that could result in failure to achieve operational objectives, non-material loss, or non-compliance to departmental operational/financial procedures. Low priorities relate to good practice improvements or enhancements to procedures, although several low risks in combination may give rise to concern.

2.3 We also measure the overall level of assurance, where appropriate, based on the adequacy and effectiveness of internal control in a system on a five-point scale. Table One sets out the assurance levels and definitions as follows:

Table One: Levels of Assurance

Level	Definition
5 Full Assurance	There is a sound system of control designed to achieve the system objectives and manage the risks to achieving those objectives, which is consistently applied
4 Substantial Assurance	There is essentially a sound system of control but there are some minor weaknesses, which may put achievement of certain system objectives at risk
3 Moderate Assurance	While there is on the whole a sound system of control, some controls are not consistently applied resulting in more significant weaknesses that may put some system objectives at risk
2 Limited Assurance	There are significant/serious weaknesses and inconsistent application of controls in key areas that put the system objectives at risk
1 No Assurance	The control framework is generally weak leaving the system open to significant error or abuse and is not capable of meeting its objectives

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

Table Two: Reports, Risk & Assurance

Audit Area	High Risks	Medium Risks	Low Risks	Assurance Level
Risk Management ¹	-	4	3	Substantial
Licensing ¹	2	6	4	Moderate

FMS – MOT Service ¹	-	10	1	Limited
Payroll ¹	-	9	3	Substantial
Council Tax - FCAT	-	-	-	Full
Business Rates - FCAT	-	-	-	Full
National Fraud Initiative	-	-	1	Full
Corporate Governance	-	6	12	Substantial
IT Contract Management	1	2	-	Limited
Homelessness	-	15	1	Moderate
Heritage Assets	-	9	2	Moderate
Travel & Expenses Claims	-	11	4	Moderate
Mayoralty	1	6	5	Substantial
Treasury Management	-	-	2	Full
Council Tax/Business Rates ²	-	3	6	Substantial
Total	4	81	44	

¹ Reviews from 2012/13 finalised in 2013/14

² Report issued in draft only; final details subject to amendment

2.5 For 2013/14 reviews undertaken by Internal Audit to 31st December the average assurance score was 3.7 on the scale of 1 to 5. This equates to substantial assurance overall and indicates that the control framework is sound but some weaknesses may put system objectives at risk. Main financial systems reviewed to date had a better average score of 4.7, the equivalent of full assurance.

2.6 There were four important internal control weaknesses brought to the attention of management during the period, two of which in relation to licensing have been addressed. The agreed implementation dates for the two remaining issues have not yet passed.

2.7 Table Three sets out the issues, the responsible Directorates and the current position or date for resolution.

Table Three: High Priority Risks Identified

Risk	Director	Resolution Date
Previous Years' Risks		
1 Licensing - confidential item (charges)	Development	Completed ¹
2 Licensing - confidential item (safeguarding)	Development	Completed ¹
2013/14 Risks		
3 A process will be developed to support contract and service agreement negotiations for ICT services & equipment	Resources	Mar 2014
4 Arrangements to mitigate Town Hall access and security concerns during mayoral functions will be agreed	Development	Mar 2014

¹ Completed during 2013/14 in accordance with agreed action plan

3 Follow-Up Work

3.1 Follow-up reviews are performed to appraise management of post audit actions and provide assurance that audit recommendations have been implemented. Seven (7) follow-up reviews have been completed to 31 December.

3.2 Table Four shows the total number of agreed recommendations that were implemented by managers.

Table Four: Agreed Recommendations Implemented

Audit Area	R e c o m m e n d a t i o n s		
	Total Agreed	Number Implemented	% Implemented
Previous Years' Reports			
Risk Management	7	7	100%
Purchasing	8	8	100%
Creditors	6	5	83.3%
Disabled Facilities Grants	10	10	100%
Fraud Awareness (Resources)	5	4	80.0%
Sundry Debtors	10	9	90.0%
Procurement via 'The Chest'	11	8	72.7%
Total	57	51	89.5%

3.3 The implementation rate for follow-up reviews to 31 December stands at 89.5% against a target of 90%. This compares to last year's overall implementation figure of 92.1% and the 5-year average rate for overall implementation which stands at 88.4%.

4 Special Investigations and Counter Fraud Work

Investigations

4.1 During the year to the 31st December the audit team commenced one special investigation into alleged of fraud and corruption. This arose as a result of whistleblowing concerns expressed anonymously. The responsible Head of Service was made aware of the issue. The initial assessment of evidence is concluded but the matter is not yet resolved.

4.2 Table Five summarises the results of the investigations into fraud and corruption during April to December compared with the outturn for previous years.

Table Five: Results of Special Investigations

Outcome	2009-10	2010-11	2011-12	2012-13	2013-14 Apr-Dec
Disciplinary action	-	-	1	-	-
Third Party Restitution	-	-	-	1	-
No evidence to support allegation	1	-	-	1	-
Inconclusive evidence	-	-	-	1	-
Investigation aborted	-	1	1	-	-
Investigation Ongoing	-	-	-	-	1
Total	1	1	2	3	1

4.3 Only 4 days have been taken up dealing with reactive fraud work during the period 1st April to the 31st December 2013. The amount of investigative work required is not predictable although its impact on the achievement of the audit plan has not been significant in recent years.

National Fraud Initiative

4.4 Internal audit has acted as key contact for the National Fraud Initiative biennial data matching exercise; nominating data download contacts and co-ordinating the production of housing benefit, payroll, council tax, creditor and electoral register information for the data matching exercise. The live data has been extracted from the participant systems in accordance with the data specifications and uploaded to the NFI web application.

4.5 To date the current exercise has revealed overpayments totalling of £32,000 with ongoing savings in future years. The next phase of the exercise during January/February 2014 involves the comparison of datasets from council tax to the electoral register, and student loans to benefits records, which will result in further matches for investigation.

Benefit/Council Tax Reduction Scheme (CTRS) Fraud Investigation

4.6 The Head of Internal Audit is responsible for overseeing the delivery of the benefit/CTRS fraud investigation service provided by Preston City Council. The Fraud Service Level Agreement is operating well with all performance measures expected to meet target. In the year to 31st December overpayments of £143,000 have been identified against the annual target of £150,000 with 21 prosecutions and sanctions against a target of 40. Although this figure appears relatively low a considerable number of sanctions are currently pending. For example, 6 cases are with the Crown Prosecution Service awaiting prosecution.

Whistleblowing

4.7 There have been two instances of employee whistleblowing during the current year to date not including benefit fraud contacts. One related to an allegation of attempted fraud, mentioned above, while the second was in connection to a recruitment concern that was separately addressed by management.

5 Performance of Internal Audit

5.1 A set of performance indicators for internal audit was adopted by the Audit Committee following an exercise to canvass the views of interested stakeholders. Table Six sets out the current performance information against the agreed targets:

Table Six: Performance Indicator Results

Performance Indicator	Target	Actual 2012/13	Current to 31/12/13
IA1 % of audit plan completed	90%	90.4%	67.6%
IA2 % satisfaction rating indicated by post-audit surveys	90%	90.7%	88.6%
IA3 % of audit recommendations agreed with management	95%	100%	99.2%
IA4 % of agreed actions implemented by management	90%	92.1%	89.5%
IA5 % of 'High Priority' actions implemented by management	100%	100.0%	100.0%
IA6 % of 'High/Medium Priority' actions implemented by management	95%	91.7%	79.3%
IA7 % of recommendations implemented by the first agreed date	75%	77.5%	61.4%

5.2 The first two performance indicators reflect specifically on the work and service of the internal audit team. The remaining indicators relate to the effectiveness of the audit service as a result of management's action or inaction.

6 Internal Audit Plan

6.1 The original Audit Plan was approved by the Audit Committee in March 2013 and reflected the prevailing organisational risks and priorities for Internal Audit input at that time. Table Seven summarises the current position with each of audit reviews included in the plan and the number of days to complete them.

Table Seven: Internal Audit Plan 2013/14 at 31 December 2013

Audit Areas	Qtr	Plan Days	Actual Days	Bal	Status
Main Financial Systems					
Cash Collection	2	20	24	-4	Work in Progress
Council Tax/Business Rates ¹	3	20	19	1	Complete
Council Tax FCAT	ALL	22	12	10	Ongoing
Main Accounting	2	20	15	5	Work in Progress
National Non-Domestic Rates FCAT	ALL	22	10	12	Ongoing
Payroll ¹	1	20	22	-2	Complete
Treasury Management	2	11	15	-4	Complete
Follow Up Work (6)	VAR	6	3	3	Ongoing
Planned Reviews					
Development Management - PAS	3	14	11	3	Work in Progress
Mayoralty	3	16	19	-3	Complete

Procurement	4	18	0	18	To Commence Q4
Trade Refuse	2	18	15	3	Work in Progress
Travel & Expenses	2	15	23	-8	Complete
Vehicle & Plant	4	18	3	15	To commence Q4
Follow Up Work (9)	VAR	9	3	6	Ongoing
Corporate Governance					
Annual Governance Statement	ALL	8	12	-4	Ongoing
Audit Committee - Effectiveness	1	2	1	1	Complete
Internal Audit - Effectiveness	1	1	1	0	Complete
Business Continuity	3	16	4	12	Work in Progress
Individual Voter Registration	3	16	0	16	To Commence Q4
Follow Up Work (3)	VAR	3	1	2	Ongoing
Performance					
Sickness Absence - Data Quality Rev	4	8	0	8	To Commence Q4
Follow Up Work (1)	VAR	1	1	0	Complete
Computer Audit					
IT Contract Management	1	13	11	2	Complete
IT Service Management	4	19	0	19	To Commence Q4
Follow Up Work (2)	VAR	2	1	1	Complete
Anti- Fraud					
National Fraud Initiative	ALL	10	2	8	Ongoing
Prevention of Fraud & Corruption	4	2	1	1	Ongoing
Other Audit Work					
Authorisation Schedules	ALL	4	1	3	Ongoing
Cancelled/Replacement Cheques	ALL	10	1	9	Responsibility Transferred
Reactive Work					
General Consultancy/Advice	ALL	26	22	4	Ongoing
IA Communication/Liaison	ALL	25	10	15	Ongoing
Contingency	ANY	45	48	-3	Ongoing
Total		460	311	149	

¹ Joint Audit with Blackpool Council

6.2 The percentage of the 2013/14 audit plan completed to 31st December was 67.6%, suggesting that the 90% target for the year should be achieved.

Risk Assessment

This item is for information only and makes no active recommendations. Therefore there are no risks to address.

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	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	Internal audit work covers key areas of risk and should therefore strengthen the internal control framework. The Interim Internal Audit report arises from that work and is an important element of the assurance process for the effectiveness of the Council's systems of internal control

REPORT AUTHOR	TEL	DATE	DOC ID
Savile Sykes	01253 658413	30 th January 2014	

LIST OF BACKGROUND PAPERS		
Name of document	Date	Where available for inspection
Audit Plan 2013/14	Latest update	All background papers or copies can be obtained from Savile Sykes – Head of Internal Audit on 01253 658413 or e-mail saviles@fylde.gov.uk

REPORT

REPORT OF	MEETING	DATE
RISK & EMERGENCY PLANNING OFFICER	AUDIT COMMITTEE	30 JANUARY 2014

STRATEGIC RISK 2013/2014

PUBLIC ITEM

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

SUMMARY

The report summarises the work undertaken in completing the Strategic Risk Actions contained in the 2013/2014 Risk Register.

RECOMMENDATIONS

1. That the progress made on completing the Strategic Risk Actions for 2013/2014 be noted.
2. That any observations the committee have on the content of this report are passed to the Cabinet Portfolio Holder and /or the Strategic Risk Management Group.

CABINET PORTFOLIO

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

Finance and Resources - Councillor Karen Buckley

SUMMARY OF PREVIOUS DECISIONS

The 2013/2014 Strategic Risk Action Plan was approved by the Audit Committee at its meeting in June 2013.

REPORT

1 Background

1.1 In June 2013 the Risk & Emergency Planning Officer reported to the Audit Committee on the compilation of the 2013/2014 Risk Register. The purpose of the Register is to identify, analyse and prioritise those risks/opportunities that may affect the ability of the Council to achieve its corporate objectives in the financial year 2013/2014. It forms part of the Council's corporate governance

requirement to manage its risk/opportunities. The risk register is renewed annually as part of the Council’s Risk Management Strategy which was first adopted by the Council in 2003.

1.2 The strategy requires the Corporate Management Team to hold a risk workshop to prioritise the risk/opportunities each year. In 2013 five separate risk areas were identified at the initial risk workshop as requiring additional management and attention, over and above that which would normally be expected and these areas were formulated into individual action plans, see table 1 below. Each action plan was assigned to a “champion” (a member of the corporate management team) who was responsible for the assignment of the individual tasks identified in the plan. The “champion” is responsible for ensuring that these actions are completed.

Table 1

Risk No.	Strategic Risk	Risk Champion
1	Accommodation	Dir. of Development Services
2	Development Management – Cost of Appeals	Chief Financial Officer
3	Local Plan	Dir. Of Development Services
4	Staff Issues	Chief Executive
5	Travellers – (Hardhorn site)	Dir. Development Services

2 Monitoring

2.1 Monitoring of the Action Plans is carried out by the Strategic Risk Management Group (SRMG). This group is chaired by the Director of Resources who has responsibility for Risk Management. The Cabinet Portfolio Holder is invited to the SRMG. In 2013/2014 the Portfolio Holder was Cllr K Buckley. The group is also attended by directorate heads, Chief Financial Officer, Head of Governance, Head of Internal Audit along with representatives of the Council’s Insurers (Zurich Municipal) and Health & Safety providers (Blackpool Council) and the Council’s Risk Management Officer.

2.2 The five action plans in the register adopted in June 2013 had 46 individual actions to be undertaken by assigned officers by certain key dates throughout the year.

2.3 The current position with regard to individual risk actions as at 31 December 2013, is as follows. Of the 37 risk actions due for completion by 31 December 2013, a total of 25 (68%) had been fully completed. The current position with regard to the remaining 12 risk actions due for completion by 31 December 2013, 5 of these are currently in progress (14%) and the remaining 7 (18%) are currently not started. Details of these delayed/not started actions are in table 2.

Table 2

Risk Action Plan	Risk Action / Completion Date	Reason for delay
Accommodation	Process Planning Application for Derby Rd (in progress)	Application considered by the DM Committee. Planning Permission delegated to the Head of Planning & Regeneration subject to resolving outstanding ecological issues in order to comply with ecological protection legislation and the completion of a s106 agreement. These issues are to be resolved.
	Completion of contracts for Derby Rd (in progress)	Completion date for Derby Road is subject to resolution of the above.
	Exchange of Contracts on Public Offices site (not started)	Two Preferred bidders withdrew. Building re-advertised – no interest shown in property at present. Current strategy to be reviewed by the Accommodation Working Group.
	Determine Planning Application for Public Offices (not started)	As above
Cost of Appeals	Carry out review of procedures for decisions which are made by DM Cttee contrary to Officer recommendations (in progress)	Review body approved at Cabinet in Nov 2013 – some work progressed and will report to DM/Cabinet.
Local Plan	Evaluation of consultation responses received (in progress)	Action delayed by large number of consultations received. All consultations now inputted and evaluation underway in consultation with small member group.
Travellers (Hardhorn)	Refresh of Gypsy Travellers Accommodation Assessment (in progress)	Original report was to be updated but this was not possible. A new report commissioned in partnership with Blackpool & Wyre Councils is due to be completed in March 2014
	Revised GTA agreed by Members (not started)	See above
	Member awareness raising session re need for Travellers' site (not started)	See above

Table 2 continued

Risk Action Plan	Risk Action / Completion Date	Reason for delay
Travellers (Hardhorn) cont'd	Formal report to Cabinet to agree way forward re site provision (not started)	See Above
	Prepare for evictions if required after legal process (not started)	Appeal to Supreme Court to be determined before the appropriate action can be taken.
	Establish potential site(s) to evict to. (not started)	See above

Risk Assessment

This item is for information only and makes no active recommendations. Therefore there are no risks to address.

IMPLICATIONS	
Finance	The Accounts and Audit Regulations require the Council to ensure that its financial management is adequate and effective and includes arrangements for the management of risk.
Legal	The Council is required to make arrangements for the management of risk as part of its corporate governance arrangements
Community Safety	None arising directly from the report
Human Rights and Equalities	None arising directly from the report
Sustainability and Environmental Impact	None arising directly from the report
Health & Safety and Risk Management	The satisfactory completion of the action plans is essential to reducing the Strategic Risks facing the Council and assists in fulfilling the requirements of the Accounts Regulations and Corporate Governance requirements

REPORT AUTHOR	TEL	DATE	DOC ID
Andrew Wilsdon	01253 658412	January 2014	

LIST OF BACKGROUND PAPERS		
Name of document	Date	Where available for inspection
Risk Management Report	27 June 2013	www.fylde.gov.uk

REPORT



REPORT OF	MEETING	DATE
RESOURCES	AUDIT COMMITTEE	30 JANUARY 2014

REGULATION OF INVESTIGATORY POWERS ACT 2000: AUTHORISATIONS

PUBLIC ITEM

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

SUMMARY

Councillors are obliged to review the use of covert surveillance and covert human intelligence sources by the council at least quarterly. In the quarters to September and December 2013, there were no authorised operations.

RECOMMENDATION

To note the information in the report.

CABINET PORTFOLIO

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

Finance and resources: Councillor Karen Buckley

SUMMARY OF PREVIOUS DECISIONS

A report about the use of covert surveillance and covert human intelligence sources is brought regularly to the Audit Committee for noting.

On 29 July 2013, the council resolved to note a report about the council's use of surveillance powers and changes in the legal framework governing them and to adopt an updated policy on the council's use of such powers.

REPORT

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. Regulations under RIPA require councillors to consider a report on the use of RIPA at least quarterly.
6. 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 quarters concerned.

Quarter	Directed surveillance	CHIS	Total	Purpose
Jul – Sep 2013	0	0	0	
Oct – Dec 2013	0	0	0	

IMPLICATIONS	
Finance	No direct financial implications. This work will be delivered within existing revenue budget resources
Legal	The report is for the information of councillors and is produced to comply with the council’s obligations under the Regulation of Investigatory Powers (Directed Surveillance and Covert Human Intelligence Sources) Order 2010. The council is only able to authorise surveillance under RIPA if it is for the purpose of preventing or detecting crime or preventing disorder. Such authorisation must be endorsed by a Justice of the Peace.
Community Safety	An authorising officer should consider any community safety issues among the other relevant factors in deciding whether to authorise surveillance
Human Rights and Equalities	None arising directly from this report.
Sustainability and Environmental Impact	None arising directly from this report.
Health & Safety and Risk Management	None arising directly from this report.

REPORT AUTHOR	TEL	DATE	DOC ID
Ian Curtis	01253 658506	12 December 2013	

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

Audit Committee



Date:	Thursday, 14 November 2013
Venue:	Town Hall, St Annes
Committee members:	Councillor Brenda Ackers (Chairman) Councillors Ben Aiken, Leonard Davies, Louis Rigby, Gail Goodman JP.
Other Councillors:	Councillor Karen Buckley (Portfolio Holder for Finance and Resources)
Officers:	Paul O'Donoghue, Ian Curtis, Savile Sykes, Andrew Wilsdon, Sharon Wadsworth
Other Attendees:	Jillian Burrows (KPMG)

On commencement of the meeting Councillor Brenda Ackers, Chairman, requested a one minute silence to reflect on the recent and sudden death of committee member Councillor Kath Harper.

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 no declarations of interest.

2. Confirmation of minutes

RESOLVED: To approve the minutes of the Audit Committee meeting, held on 26 September 2013, as a correct record for signature by the Chairman.

3. Substitute members

The following substitutions were reported under Council procedure rule 25:

Councillor Gail Goodman JP for Councillor Christine Akeroyd.

4. Annual Audit Letter – 2012/13

Jillian Burrows, representing KPMG, presented the Annual Audit letter for the financial year 2012-13. The letter detailed the auditor's opinion on performance and financial management and provided the auditor's opinion on the Council's preparation of its financial statements. She reminded members that the ISA 260 report relating to Governance had been presented to the September Audit Committee meeting which had identified the key issues during the audit of the Council's financial statements for the year ended 31 March 2012.

Ms Burrows highlighted that the audit fee charged was in line with the scale fees of the Audit Commission and added that KPMG would be in a position to report on the national non-domestic rates work in January 2014.

No questions were raised by the Committee and no comments for referral to Cabinet.

It was RESOLVED that the content of the audit letter be noted, and that KPMG be thanked for their work.

5. Mid-Year Prudential Indicators and Treasury Management Monitoring report 2013-14.

Paul O'Donoghue, Chief Financial Officer, presented the mid-year review of Treasury Strategy and Prudential Indicators for Audit Committee to scrutinise in line with the recommendations of CIPFA (Chartered Institute of Public Finance Accountants) Code of Practice on Treasury Management 2011. He referred members to the economic background, which showed some improvement in growth. The Bank of England had indicated it would be unlikely to consider a change in interest rates until the rate of unemployment falls below 7%. The latest forecast for interest rates, from the Council's Treasury Advisors Arlingclose, are set out in Table 1 on page 14. Mr O'Donoghue highlighted that the Council has long-term debt of £3.8m at an average interest rate of 2.856%. There has been no change in this figure since the last financial period as no additional borrowing had taken place during the current financial year and it was not envisaged that there would be a requirement to make further borrowing this year. He added that the Council would qualify for the "Certainty Rate" (0.20% below the Public Works Lending Board standard rate) for a further 12 months from 1st November 2013 on any new borrowing and that all the Council's debt was on a fixed rate rather than being exposed to interest rate fluctuations.

Mr O'Donoghue went through the prudential indicators, as set out in Appendix B. Each table showed the original indicator together with the latest estimate or revised indicator. Regarding the Forecast Capital Expenditure, Table 1 on page 20, he highlighted that the increase from £3.9m to £6m was as a consequence of slippage from 2012/13 totalling £1.487m and additions to the capital programme in 2013/14, most notably the refurbishment of the St Annes Pool in the sum of £635k.

In reply to a question from Councillor Ben Aiken, regarding repayment of borrowing from reserves, Mr O'Donoghue reminded members that as the Council had an underlying need to borrow a further £3.6m, it was prudent, due to continuing low interest rates, to maintain cash reserves and 106 monies in the short term.

In response to Councillor Louis Rigby's enquiry, as to how long it would take to repay the loans, Mr O'Donoghue confirmed that there was a total of four loans, all on fixed interest rates, and that those specific loans were all due to be repaid within the next six years.

It was RESOLVED to approve the revised prudential indicators and limits as set out in the report and that these be submitted to Full Council for approval.

6. Mid-Year Update on Strategic Risk Action Plans.

Andrew Wilsdon, Risk and Emergency Planning Officer, presented a report on the mid-year progress to date made in relation to the action plans contained in the Strategic Risk Register 2013-14, which was requested by the Audit Committee at its meeting dated 27 June 2013. Table 2, on page 25, illustrated the number of actions that were due to be completed by 31 October 2013. A total of 25 actions out of the 34 had been completed in full with a further two actions currently ongoing and seven actions delayed.

Mr Wilsdon advised the Committee that the date '2014' on the third line of paragraph 6, on page 26, should read '2013'.

The ongoing actions related to the Derby Road sale, which would be completed when planning permission was granted to the developer, the other action being the cost of planning appeals. In relation to the latter, a report with learning points, had been considered by Development Management committee and was scheduled to be reported to Cabinet on 27 November 2013. This report would complete the task.

One delayed action related to the sale of the Public Offices which has had to be remarketed after the failure of the negotiations with the highest bidder. The other six delayed actions related to the issues around the accommodation of travellers. Four of these depended on the revised Gypsy Travellers Accommodation Assessment which had been due to be completed in August 2013. This action relied on the original assessment, carried out by the University of Salford, being updated. However, this had not been possible and as a consequence a new assessment was now being undertaken on behalf of Blackpool, Fylde and Wyre Councils. This is due to be completed by March 2014. The remaining two delayed actions related to the site at Hardhorn and the ongoing legal process. Mr Wilsdon highlighted that the underlying issues causing the delayed actions are outside the direct control of the Council.

In reply to Councillor Rigby's question, Ian Curtis (Head of Governance), explained that the two leading bidders for the Public Offices site had been seeking to acquire the site for disposal to a particular end user, but that the potential end user was no longer interested in the site. Cllr Rigby also asked a question about the possibility that earlier intelligence about traveller movements could assist landowners to secure their land against unauthorised occupation. Ian Curtis replied that this would not have assisted in relation to the land at Hardhorn as the land being used was owned by the Travellers.

Councillor Goodman raised concerns about costs that have been incurred on the Gypsy Travellers Accommodation Assessment. Mr Wilsdon confirmed that the new assessment would incur costs but as it was a joint assessment with Blackpool and Wyre Councils the costs would be split three ways. The assessment would also be more geographically complete than the original assessment done by the University of Salford which was now deemed out of date.

Councillor Karen Buckley, portfolio holder for Finance and Resources, responded to a question from Councillor Rigby asking if it would have been prudent to have included Preston Borough Council in the assessment. Councillor Buckley referred to the statutory duty to co-operate and assured Councillor Rigby that the planning team, would as a matter of course, contact Preston Borough Council on any issues that they had an interest in.

Following discussion it was RESOLVED that the committee note the information in the report.

7. Internal Audit Charter 2013.

Savile Sykes, Chief Internal Auditor, introduced a report that set out the requirements for a new Internal Audit Service Charter. The Public Sector Internal Audit Standards ("PSIAS") introduced in April 2013 the requirement for the adoption of an Internal Audit Charter by the Council, to establish the framework in which the Internal Audit Service can operate to best serve the Council and meet its professional obligations.

The new Internal Audit Standards supersede the CIPFA Code of Practice and one of its requirements is the need to set out an Internal Audit Charter to replace the "Terms of Reference" formerly in place.

Mr Sykes proceeded to take the committee members through the different sections of the Internal Audit Service Charter.

The Internal Audit Charter will be reviewed periodically and any significant amendments brought to the Audit committee for approval at such time.

Councillor Goodman made reference to section 9 in the Charter, referring to fraud and corruption, which states that internal audit does not have responsibility for the prevention and detection of fraud and corruption. Mr Sykes confirmed that managing the risk of fraud is the responsibility of management. However, the Charter requires that any suspected fraud or corruption has to be brought to the attention of internal audit. If management requests assistance this may result in internal audit being involved in any subsequent investigation.

It was RESOLVED that the committee approve the contents of the Internal Audit Charter and support Internal Audit in its undertakings.

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