

Agenda



Audit Committee

Date	Wednesday, 30 January 2013 at 7:00 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, Kath Harper, Howard Henshaw, Linda Nulty, Louis Rigby

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2	Confirmation of Minutes: To confirm the minutes of the previous meeting held on 14 November 2012 as a correct record.	1
3	Substitute Members: Details of any substitute members notified in accordance with council procedure rule 24.3.	1
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REPORT



REPORT OF	MEETING	DATE	ITEM NO
RESOURCES DIRECTORATE	AUDIT COMMITTEE	30 JANUARY 2013	4

AUDIT PLAN – 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 forthcoming financial year. The report will be presented by KPMG.

Recommendation

The Committee is recommended to consider and comment on the KPMG External Audit Plan for 2012/13 which is attached to this covering report.

Reasons for recommendation

Alternative options considered and rejected

None

Cabinet Portfolio

The item falls within the following Cabinet portfolio:

Finance & Resources: Councillor Karen Buckley

Continued....

1.0 Report

1.1 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.

Report Author	Tel	Date	Doc ID
Paul O'Donoghue Chief Financial Officer	(01253) 658566	14th January 2013	

List of Background Papers		
Name of document	Date	Where available for inspection
None.		

Attached documents

1. Report of KPMG – External Audit Plan 2012/13

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



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Fylde Borough Council

External Audit Plan 2012/13

January 2013



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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.auditcommission.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, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

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 2012/13* presented to you in August 2012. It describes how we will deliver our financial statements audit work for Fylde Borough Council ('the Authority'). It sets out our approach to value for money (VFM) work for 2012/13.

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*, the *Local Government Act 1999* 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, focusing on the key risks identified this year for the financial statements 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.
- 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.

We have identified a number of key risks that we will focus on during the audit of the 2012/13 financial statements.

These are described in more detail on pages 10 to 11.

The remainder of this document provides information on our:

- approach to the audit of the financial statements;
- approach to VFM work; and
- audit team, proposed deliverables, timescales and fees for our work.

Area	Risk	Audit work
Savings plans	<p>The Authority is currently forecasting a budget surplus of £893k for 2012/13 compared with a budgeted deficit of £530k. This is due to additional savings of £1,423k being identified during the financial year.</p> <p>A deficit of £428k is currently forecast for 2013/14 and deficits for the three subsequent financial years. By March 2017, the Authority is budgeting to use £2,129k of the General Fund reserves to cover these deficits.</p> <p>The Authority will need to manage its savings plans to secure longer term financial and operational sustainability and ensure that any related liabilities are accounted for in its 2012/13 financial statements as appropriate.</p>	<p>In conjunction with our VFM work we will critically assess the controls the Authority has in place to ensure a sound financial standing and review how the Authority is planning and managing its savings plans.</p> <p>We will also review the Authority's assessment of potential liabilities and any provisions in its 2012/13 financial statements.</p>
Local Authority Mortgage Scheme	<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. The Authority has earmarked a maximum of £1m for this scheme.</p>	<p>We will review the accounting treatment and disclosures for this scheme in the 2012/13 financial statements to ensure they are in line with the requirements of the CIPFA Code.</p>
Premises Schemes	<p>The Authority is scheduled to start refurbishments of the Town Hall in 2013. The Authority is intending to fund these through the disposal of surplus and under-used assets.</p>	<p>We will review the accounting treatment of the premise expenditure incurred prior to the year end to ensure that it has been appropriately recognised and disclosed within the 2012/13 financial statements. We will review capital transactions which have occurred within 2012/13.</p>

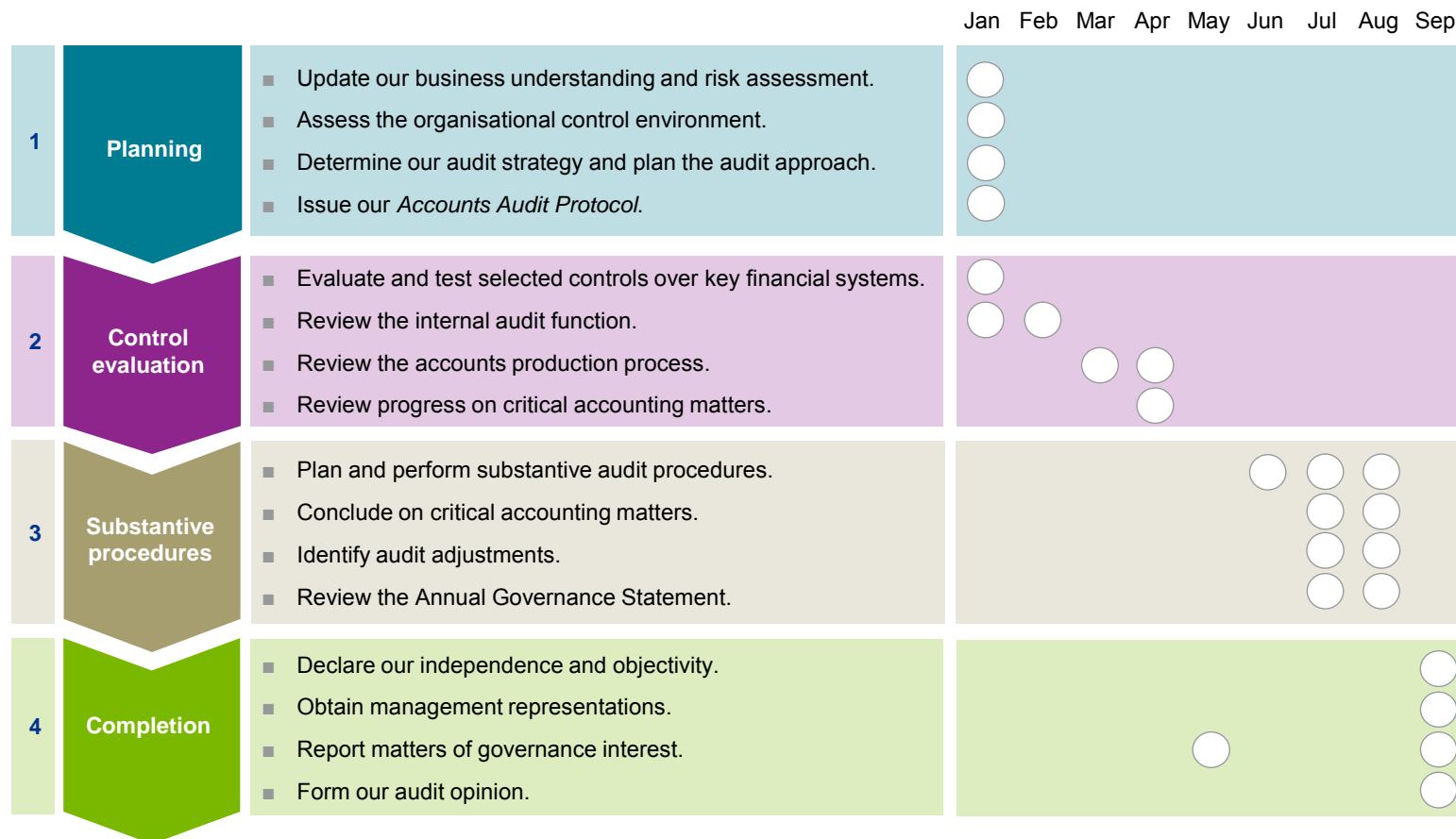
Section three

Our audit approach

We undertake our work on your financial statements in four key stages during 2013:

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

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



Section three

Our audit approach - planning

During January 2013 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.

We determine our audit strategy and approach, and agree a protocol for the accounts audit, specifying what evidence we expect from the Authority to support the financial statements.

Our planning work takes place in January 2013. 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. The risks identified to date 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 their 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

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.

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 Section 151 Officer to discuss mutual learning points from the 2011/12 audit. These will be incorporated into our work plan for 2012/13. We revisit progress against areas identified for development as the audit progresses.

During January 2013 we will complete our interim audit work.

We assess if controls over key financial systems were effective during 2012/13. We work with your Internal Audit team to avoid duplication.

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

Our interim visit on site will be completed 21 January to 25 January. 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.

Appendix 1 illustrates how we determine the most effective balance of internal controls and substantive audit testing.

Where our audit approach is to undertake controls work on financial systems, we seek to rely on any relevant work they 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 have met with the Head of Internal Audit to discuss the principles and timetables for the managed audit process for 2012/13.

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 raised no recommendations in our *Report to Those Charged with Governance (ISA 260 Report) 2011/12* 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.

During July 2013 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 2013.

Our final accounts visit on site has been provisionally scheduled for the period 8 July to 19 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 the key risk areas as 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 Section 151 Officer in July 2013, prior to reporting to the Audit Committee in September 2013.

Audit adjustments

During our on site work, we will meet with the Section 151 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 to Audit Committee in September 2013.

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.

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 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 17.

Use of off-shore audit resources

During our audit work we may make use of our KPMG Global Services (KGS Audit) team in India to undertake certain basic audit tasks and functions. Use of this 'off-shore' team is one of many initiatives we employ to deliver a cost-effective audit service for our clients. Although based in India, the KGS Audit team works closely with our local audit teams to undertake certain audit procedures remotely. We have provided our UK teams with guidance on the types of audit procedures and other tasks that it is suitable and permissible to use KGS Audit for - we do not use KGS Audit for any audit procedures that involve access to personal, confidential or sensitive information. Audit tasks are then allocated by our UK-based engagement teams to dedicated teams in India, allowing local staff to control what work KGS Audit undertakes and what information is accessed. They operate to our same quality standards and all work undertaken by KGS Audit is reviewed by the UK team.

The KGS Audit team operates in a paperless environment and we apply robust processes to control how data is accessed and used:

- all work is conducted electronically;
- all data files are maintained on servers in the UK with restricted access and only viewed on screen in India. These servers are governed by established KPMG IT controls;
- policy and technology restrictions are in place to protect data, for example locked down USB ports, no external emailing, no printing;
- KGS Audit staff are based in an office with restricted access and security; and
- the team members adhere to global KPMG ethics and independence standards, along with requirements governing the non-disclosure of client information.

Our independence and objectivity responsibilities under the Code are summarised in Appendix 2. We confirm our audit team's independence and objectivity is not impaired.

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 lead and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

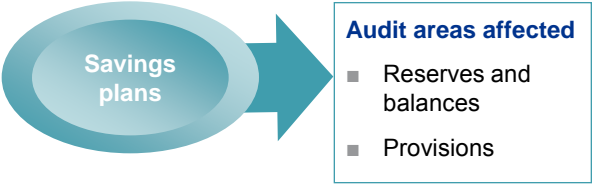
The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit Committee.

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, 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.



Confirmation statement

We confirm that as of January 2013 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.

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

Key audit risks	Impact on audit
	<p>Risk</p> <p>The 2012/13 budget was set in accordance with the Medium Term Financial Plan, which aims to achieve significant revenue savings. As at January 2013, the Authority is forecasting a budget surplus of £893k for 2012/13 compared with a budgeted deficit of £530k. This is due to additional savings of £1,423k being identified during the financial year. £716k of the additional savings are due to payroll efficiencies and savings from right-sizing exercises beyond those originally budgeted for.</p> <p>The Authority is currently budgeting for a deficit of £428k in 2013/14 and deficits for the three subsequent financial years. These deficits are to be funded from General Fund reserves. By March 2017, the Authority is budgeting to use £2,129k of the General Fund reserves to cover these deficits. This is 46% of the forecasted General fund balance at March 2013.</p> <p>Against a backdrop of continued demand pressures it will become more and more difficult to deliver these saving plans in a way that secures longer term financial and operational sustainability.</p> <p>If there are any related liabilities at year end, these will need to be accounted for in the 2012/13 financial statements as appropriate.</p> <p>Our audit work</p> <p>In conjunction with our VFM work we will critically assess the controls the Authority has in place to ensure a sound financial standing, specifically that its Medium Term Financial Plan has duly taken into consideration the potential funding reductions and that it is sufficiently robust to ensure that the Authority can continue to provide services effectively. We will also review how the Authority is planning and managing its savings plans.</p> <p>As part of our final accounts audit we will review the Authority's assessment of any potential liabilities arising from its savings plans against the Code. If applicable, we will review the Authority's provisions, including the methodology, assumptions and calculations.</p>

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"> ■ Section 106 funds ■ Disclosures 	<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 will make available a total of £1m for this scheme. The funding will be allocated from Section 106 funds. A maximum value of £147k for individual loans has been set.</p> <p>Our audit work</p> <p>We will review the accounting treatment for the LAMS loans to ensure that they have been disclosed in accordance with the CIPFA Code.</p>
 <p>Audit areas affected</p> <ul style="list-style-type: none"> ■ Premises Costs; ■ Capital Disposals 	<p>Risk</p> <p>The Authority is currently rationalising the premises it uses for operational purposes. This involves a refurbishment scheme for the Town Hall. The Authority has budgeted for decant costs of £184k with work on the refurbishment to commence in 2013.</p> <p>The refurbishments are to be funded through the disposal of surplus or under used assets. The St. Davids Road North, Derby Road Wesham and Public Offices sites have been identified for disposal. These premises are currently at different points in the disposal process.</p> <p>Our audit work</p> <p>We will review the accounting treatment of the disposals to ensure this is in line with the SORP. Subject to materiality, we may review any Town Hall refurbishment costs to ensure that they are appropriately disclosed and capital transactions which have occurred as a result of the scheme.</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

Section five

VFM audit approach (continued)

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 the Audit Commission, other inspectorates and review agencies.

Section five

VFM audit approach (continued)

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, the Audit Commission, other inspectorates and 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.

Section five

VFM audit approach (continued)

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

We will report on the results of our *Report to those charged with governance*.

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>Report to those charged with governance</i>. These reports will summarise our progress in delivering the VFM audit, the results of the risk assessment and 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 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, the Section 151 Officer and Head of Internal Audit.”



Matthew Geddes
Assistant Manager

“I will be responsible for the on-site delivery of our work. I will liaise with the Accountancy Service Managers and Internal Audit Managers. I will also supervise the work of our audit assistants.”

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 agreed each report with the Authority's officers prior to publication.

Deliverable	Purpose	Committee dates
Planning		
External Audit Plan	<ul style="list-style-type: none"> ■ Outline audit approach. ■ Identify areas of audit focus and planned procedures. 	January 2013
Substantive procedures		
Report to Those Charged with Governance (ISA 260 Report)	<ul style="list-style-type: none"> ■ Details the resolution of key audit issues. ■ Communication of adjusted and unadjusted audit differences. ■ Performance improvement recommendations identified during our audit. ■ Commentary on the Authority's value for money arrangements. 	September 2013
Completion		
Auditor's report	<ul style="list-style-type: none"> ■ Providing an opinion on your accounts (including the Annual Governance Statement). ■ Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion). 	September 2013
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 2013

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

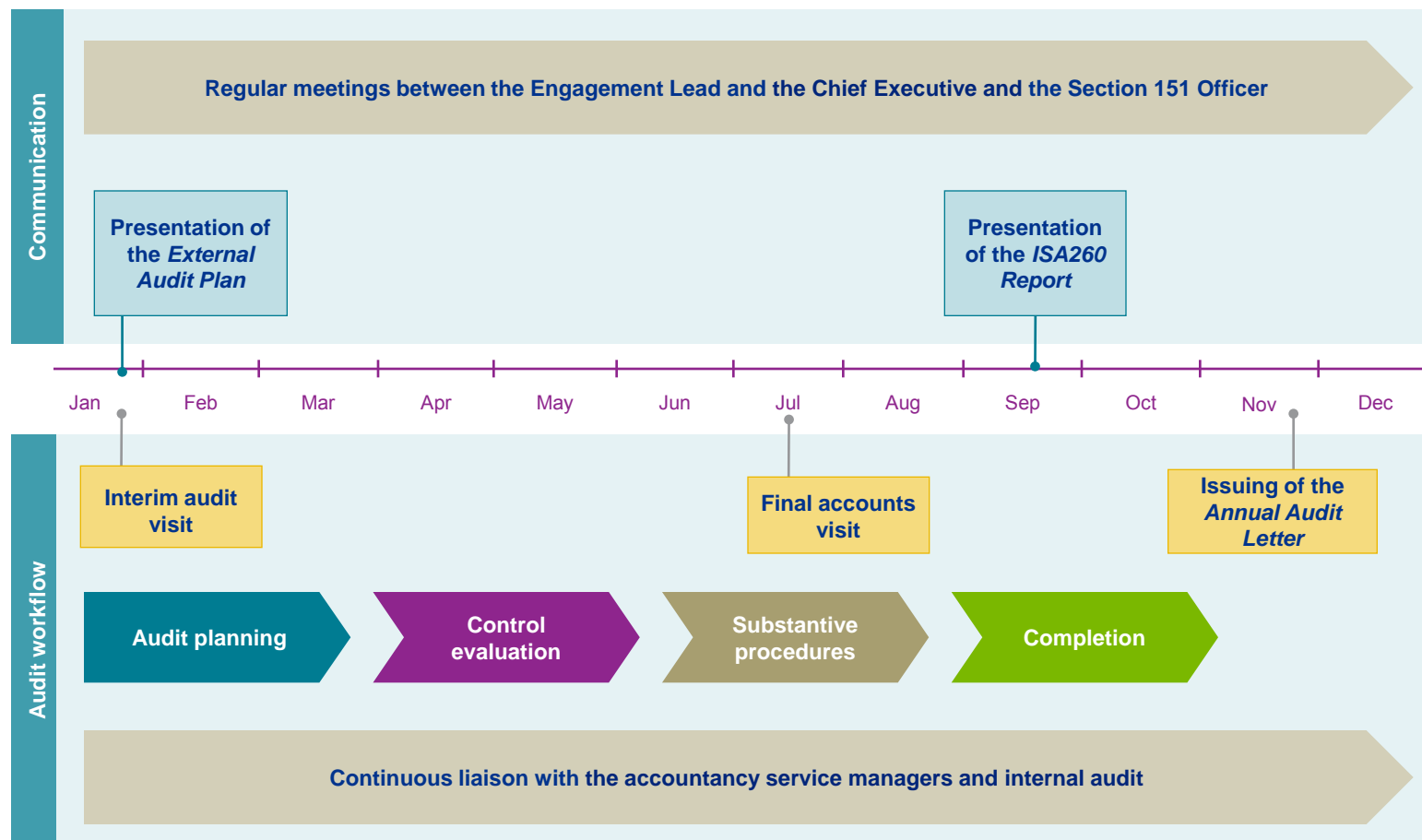
Key formal interactions with the Audit Committee are:

- January – Financial Statements Audit Plan;
- September – ISA 260 Report;
- November – Annual Audit Letter.

We work with the Section 151 Officer and internal audit throughout the year.

Our main work on site will be our:

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



Key: ● Audit Committee meetings.

The main fee for 2012/13 audit of the Authority is £62,700. The fee has not changed from that set out in our *Audit Fee Letter 2012/13* issued in August 2012.

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 2012/13* presented to you in August 2012 first set out our fees for the 2011/12 audit. We have not considered it necessary to make any changes to the agreed fees at this stage.

Element of the audit	2012/13 (planned)	2011/12 (actual)
Gross audit fee	£62,700	£104,500

Our audit fee includes our work on the VFM conclusion and our audit of the Council's financial statements. The fee for 2012/13 is £62,700. This is a reduction of 40 percent compared to the 2011/12 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 2011/12;
- 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 2012/13* within your 2012/13 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.

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.

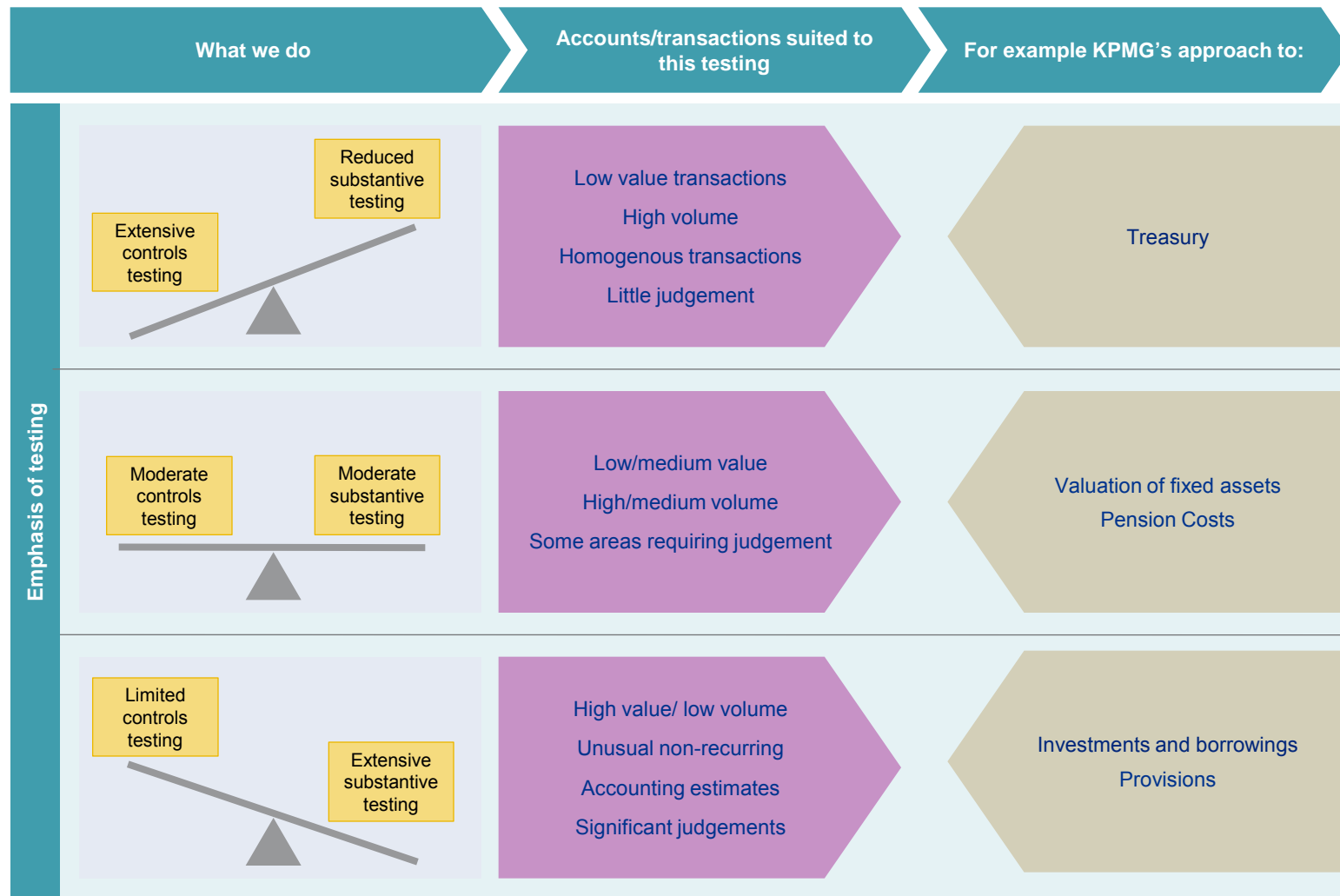
Changes to the audit plan

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 Section 151 Officer.

This appendix illustrates how we determine the most effective balance of internal controls and substantive audit testing.



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:

- Any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Engagement Lead.
- Audit staff are expected not to accept appointments as lay school inspectors.
- Firms are expected not to risk damaging working relationships by bidding for work within an audited body's area in direct competition with the body's own staff without having discussed and agreed a local protocol with the body concerned.

- Auditors are expected to comply with the Commission's statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors' conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors' independence.
- 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 each audit at least once every five years (subject to agreed transitional arrangements). Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- The Commission must be notified of any change of second in command within one month of making the change. Where a new Engagement Lead or second in command has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual's relevant qualifications, skills and experience.

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.

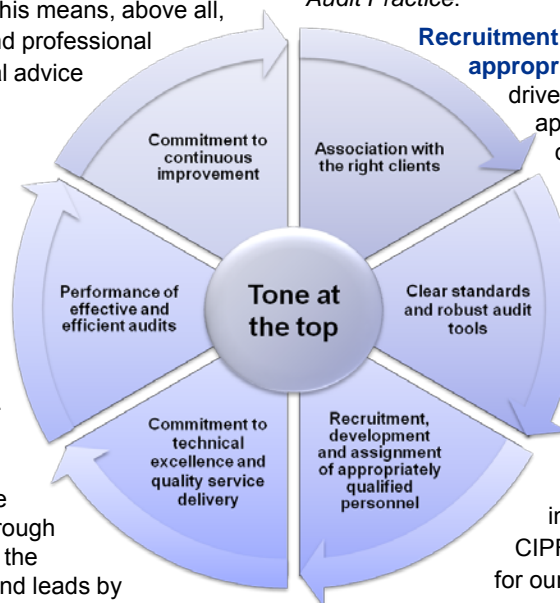
We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

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 drives of quality through a focused and consistent voice. Tim Culter 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.
- 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*.
- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based bi-monthly 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- 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. I

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 behaviors 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 results of the Audit Commission's annual quality review process is made publicly available each year (http://www.audit-commission.gov.uk/audit-regime/Pages/qualityreviewprocess_copy.aspx). The latest report dated October 2012 showed that we performed highly against all the Commission's criteria.



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REPORT



REPORT OF	MEETING	DATE	ITEM NO
RESOURCES DIRECTORATE	AUDIT COMMITTEE	30 JANUARY 2013	5

CERTIFICATE OF GRANTS AND RETURNS 2011/12

Public Item

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

Summary

The report presents the Certificate of Grants and Returns 2011/12 from KPMG. The report will be presented by KPMG.

Recommendation

The Committee is recommended to consider and comment on the Certificate of Grants and Returns 2011/12 report by KPMG which is attached to this covering report.

Alternative options considered and rejected

None

Cabinet Portfolio

The item falls within the following Cabinet portfolio:
Finance & Resources: Councillor Karen Buckley

1.0 Report

1.1 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 2011/12.

Report Author	Tel	Date	Doc ID
Paul O'Donoghue Chief Financial Officer	(01253) 658566	14th January 2013	

List of Background Papers		
Name of document	Date	Where available for inspection
None.		

Attached documents

1. Report of KPMG - Certificate of grants and returns 2011/12

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



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Certification of grants and returns 2011/12

Fylde Borough Council

January 2013

**The contacts at KPMG
in connection with this
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	Page
■ Headlines	2
■ Summary of certification work outcomes	3
■ Fees	4

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.

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, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by e mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

Introduction and background	<p>This report summarises the results of work on the certification of the Council's 2011/12 grant claims and returns</p> <ul style="list-style-type: none"> ■ For 2011/12 we certified: <ul style="list-style-type: none"> – Housing and Council Tax Benefit grant claim with a total value of £24,370,239; and – NNDR return with a total value of £21,854,129. 	-
Certification results	<p>We issued unqualified certificates for all grants and returns</p> <ul style="list-style-type: none"> ■ We issued an unqualified certificate for the Housing Council Tax Benefit grant claim in 2011/12; ■ We issued an unqualified certificate for the NNDR return in 2011/12. 	Page 3
Audit adjustments	<p>Adjustments were necessary to one of the Council's grants and returns as a result of our certification work this year</p> <ul style="list-style-type: none"> ■ One adjustment was required in 2011/12. This was an adjustment of £401.32 to the NNDR return. 	Page 3
The Council's arrangements	<p>The Council has good arrangements for preparing its grants and returns and supporting our certification work</p> <ul style="list-style-type: none"> ■ The authority has robust systems in place with experienced staff to accurately record and compile grants and returns. ■ The authority has appropriate accounting records in place to verify grants and returns. 	-
Fees	<p>Our overall fee for the certification of grants and returns is £20,415, a decrease of £5,455 on the previous year</p> <ul style="list-style-type: none"> ■ The Housing and Council Tax Benefit claim cost £17,965, a 20% decrease on the prior year. The new benefits system went live in October 2010 – running two systems during 10/11 meant some audit tests had to be completed twice, while other tests required both systems to be interrogated, increasing the time and costs of completing the work in the prior year. ■ The NNDR fee was in line with prior year. 	Page 4

Certification of grants and returns 2011/12

Summary of certification work outcomes

Overall, we certified two grants and returns:

- One was unqualified with no amendment; and
- One was unqualified but required an amendment to the final figures.

Detailed comments are provided.

Detailed below is a summary of the key outcomes from our certification work on the Council's 2011/12 grants and returns, showing where either audit amendments were made as a result of our work or where we had to qualify our audit certificate.

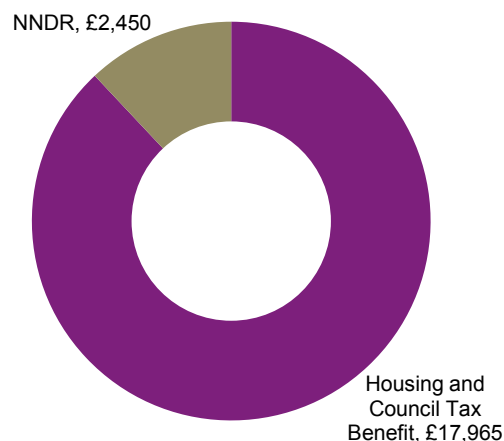
A qualification means that issues were identified concerning the Council's compliance with a scheme's requirements that could not be resolved through adjustment. In these circumstances, it is likely that the relevant grant paying body will require further information from the Council to satisfy itself that the full amounts of grant claimed are appropriate.

	Comments overleaf	Qualified certificate	Significant adjustment	Minor adjustment	Unqualified certificate
Housing and Council Tax Benefit					
NNDR	1				
		-	-	1	2

Ref	Summary observations	Amendment
1	NNDR <ul style="list-style-type: none"> The Authority incorrectly rounded the NNDR bad debt provision to the nearest £1,000. Rounded figures cannot be included in the return form as per Audit Commission guidance. Therefore, an amendment was required to include the actual bad debt provision value in the return. Losses in collection were increased by £401.32, which reduced the overall contribution to the pool by £401.32. 	- £401.32

Our overall fee for the certification of grants and returns is in line with the original estimate.

Breakdown of certification fees 2011/12



Breakdown of fee by grant/return		
	2011/12 (£)	2010/11 (£)
Housing and Council Tax Benefit	17,965	22,545
NNDR	2,450	2,575
Disabled facilities Grant	0	750
Total fee	20,415	25,870

Our initial estimated fees for certifying 2011/12 grants and returns was £20,000. The actual fee charged was in line with that estimate. The 2011/12 fee is 21% lower than the 2010/11 fee. The main reasons for this are:-

- The Benefits shared service at Blackpool BC implemented a new benefits system during 2010/11;
- As a result in 2010/11, there were a number of tests that were required to be undertaken on the parameters included in the system, and ensuring that the latest version of the software has been used – these tests needed to be undertaken on both systems, doubling the time taken on this element of the audit;;
- Also in 2010/11, when reviewing specific cases, the claim history on both systems had to be reviewed as the information from the old system was not copied forward onto the new. Therefore both systems had to be reviewed and the results aggregated, taking additional time to complete each test;
- These issues were not repeated in 2011/12. Therefore, the one off additional costs due to this issue were not incurred again in 2011/12.

We have not identified any improvements points as a result of our audit work on the Housing and Council Tax Benefit Subsidy Claim and the NNDR return in 2011/12.



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REPORT

REPORT OF	MEETING	DATE	ITEM NO
RESOURCES DIRECTORATE	AUDIT COMMITTEE	30 JANUARY 2013	6

CORPORATE GOVERNANCE IMPROVEMENT PLAN 2012/13

Public Item

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

Summary

The Audit Committee is charged with adopting the Annual Governance Statement and monitoring the progress in fulfilling the Corporate Governance Improvement Plan. The Plan is attached showing the most recent performance.

Recommendation

1. The Committee approves the Corporate Governance Improvement Plan and notes progress.

Reasons for recommendation

The report indicates the current situation

Alternative options considered and rejected

This report is for information and comment only

Cabinet Portfolio

Finance & Resources

Councillor Karen Buckley

Report

1. The Audit Committee is charged with adopting the Annual Governance Statement and monitoring the progress in fulfilling the Corporate Governance Improvement Plan. The Plan is attached showing the most recent performance.

Report Author	Tel	Date	Doc ID
Tracy Morrison	(01253) 658521	Date of report	14/01/13

List of Background Papers		
Name of document	Date	Where available for inspection
Delivering Good Governance in Local Government	2007	All background papers or documents can be obtained from Savile Sykes – Head of Internal Audit on 01253 658413 or e-mail saviles@fylde.gov.uk

Attached documents

1. Corporate Governance Improvement Plan 2012/13.

IMPLICATIONS	
Finance	Good governance ensures development of the capacity and capability of the Council to be financially effective and efficient
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	Good governance encourages informed and transparent decisions which are subject to effective risk management
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Corporate Governance Improvement Plan 2012/13

SIGNIFICANT GOVERNANCE ISSUES		AGREED IMPROVEMENT PLAN			
Objective	Actions	Officer	Date	Status	Comment
AGS 1. Deliver effective staff appraisals to 100% of workforce as part of the corporate performance management framework, to provide feedback to employees, counselling and professional development opportunities.	1. Develop and pilot an effective and targeted employee performance appraisal model for use across the whole Council	AO	Sep 12	Complete	An effective employee performance appraisal model has been developed and the piloting phase is almost completed
	2. Complete the roll-out process such that the standard employee performance appraisal model is delivered to 100% of the Council's workforce.	AO	Mar 13	Complete	Appraisals implemented and no evidence of failure to implement
AGS 2. Equalities training and guidance will be provided for all employees to help maintain a positive and inclusive culture throughout the workforce and to ensure that corporate practices and the services continue to meet the needs of all citizens.	3. Develop and deliver a targeted programme of equalities training and guidance for all staff	IC	Mar 13	Outstanding	Action brought forward from 2011/12 CGIP
AGS 3. Procurement arrangements will be reviewed and enhanced to achieve best value and effective use of resources.	4. Develop and upgrade the Procurement Strategy to achieve best value and effective use of resources subject to review by scrutiny with recommendations to Cabinet	IC	Nov 12	Complete	Strategy developed and updated
AGS 4. Review of Codes of Conduct for both members (in light of the new standards framework) and officers with appropriate training/guidance.	5. Adopt a revised Code of Conduct for Members in accordance with prevailing regulations/guidance and provide appropriate training/guidance	TM	Jul 12	Complete	Revised Code of Conduct adopted by Council on 30 July 2012
	6. Review and refresh the Code of Conduct for Officers in line with current best practice and provide appropriate training/guidance for all staff	IC	Mar 13	Outstanding	
AGS 5. Upgrade the Communications Strategy to protect and enhance the Council's reputation and through high quality communications strengthen links with local people, service users, partner organisations and staff	7. Review and upgrade the corporate Communications Strategy to ensure high quality communications are an integral part of the work of all staff	NG	(Dec 12) Feb 13	In progress	Work has commenced on the review. The target date has been revised to Feb 13 as other work pressures have delayed the work being finalised

Corporate Governance Improvement Plan 2012/13

SIGNIFICANT GOVERNANCE ISSUES		AGREED IMPROVEMENT PLAN			
Objective	Actions	Officer	Date	Status	Comment
AGS 6. In agreement with Blackpool Council, achieve further refinements to reporting capabilities on the revenues and benefits Academy system as to the frequency, format and details of all reports required	8. Secure agreement with the Revenues and Benefits Shared Service Team concerning the Council's reporting requirements and set agreed timescales for implementation	POD	Apr 12	Complete	
AGS 7. Business Continuity arrangements will be reviewed and refreshed to ensure that contingency plans remain robust in light of any emergency which may face the Council	9. Review and refresh the Business Continuity arrangements to ensure that contingency plans remain robust	AW	Mar 13	In progress	Action brought forward from 2011/12 CGIP Revised Action Plan agreed by Strategic RM Group
AGS 8. Review and refine the project management framework to achieve a consistency of approach and best practice across all Council departments in the delivery of key business objectives	10. Review and refine the project management framework to meet the Council's requirements in accordance with prevailing best practice	AS	May 12	Complete	

REPORT



REPORT OF	MEETING	DATE	ITEM NO
RESOURCES DIRECTORATE	AUDIT COMMITTEE	30 JANUARY 2013	7

REGULATION OF INVESTIGATORY POWERS ACT 2000: AUTHORISATIONS

Public/Exempt 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 2012, there were no authorised operations.

Recommendation/s

1. Note the information in the report.

Cabinet portfolio

The item falls within the following cabinet portfolio[s]: Finance & resources: (Councillor Karen Buckley).

Report

The RIPA framework

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.

Continued....

2. Fylde Borough 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
Jun - Sep 2012	0	0	0	0
Oct - Dec 2012	0	0	0	

IMPLICATIONS	
Finance	No direct financial implications. This work will be delivered within existing revenue budget resources.
Legal	<p>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.</p> <p>The council is only able to authorise surveillance under RIPA if it is for the purpose of preventing or detecting crime or preventing disorder.</p>
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	None arising directly from this report.

Health & Safety and Risk Management	None arising directly from this report.
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REPORT AUTHOR	TEL	DATE	DOC ID
Ian Curtis	(01253) 658506	14 January 2013	

LIST OF BACKGROUND PAPERS		
NAME OF DOCUMENT	DATE	WHERE AVAILABLE FOR INSPECTION
None		

REPORT

REPORT OF	MEETING	DATE	ITEM NO
RESOURCES	AUDIT COMMITTEE	30 JANUARY 2013	8

STRATEGIC RISK 2012/2013

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 2012-2013 Risk Register

Recommendations

1. That the progress made on completing the Strategic Risk Actions for 2012-2013 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

Reasons for recommendation

Report for information only

Alternative options considered and rejected

Report for information only.

Cabinet Portfolio

The item falls within the following Cabinet portfolio:
Finance and Resources Councillor K Buckley

Continued....

Report

1 Background

1.1 In June 2012 the Risk Management Officer reported to the Audit Committee on the compilation of the 2012-2013 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 2012-2013. 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 2012 six 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	IT	Chief Financial Officer
3	Performance Management	Chief Executive
4	Planning / LDF	Dir. of Development Services
5	Organisational Management	Chief Executive
6	Governance	Dir. of Resources

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 2012-2013 the Portfolio Holder was Cllr K Buckley. The group is also attended by all directorate heads, the 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 six action plans in the register adopted in June 2012 had 57 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 2012, is as follows. Of the 38 risk actions due for completion by 31 December 2012, a total of 29 (76%) had been fully completed. The current position with regard to the remaining 9 risk actions due for completion by 31 December 2012, is detailed in the table 2 below.

Table 2

Risk Action Plan	Risk Action / Completion Date	Reason for delay & new completion date
Accommodation	Completion of contracts for St Davids and Derby Rd	Completion date for St Davids now expected by 31/01/13 and Derby Rd by 30/06/13
	Procure alternative facilities for depots	Report to Cabinet regarding acquisition of Snowdon Rd site Jan 13
	Accommodation Working Group (AWG) agree to appointment of project manager/Quantity Surveyor	AWG/Cabinet agreed no action on this point until funds secured via sales of 3 sites
	Report presented to Cabinet for approval	AWG/Cabinet agreed no action on this point until funds secured via sales of 3 sites
	Report presented to Council for comment	AWG/Cabinet agreed no action on this point until funds secured via sales of 3 sites
	Appoint Project Manager/Quantity Surveyor to work up draft scheme and tender the work	AWG/Cabinet agreed no action on this point until funds secured via sales of 3 sites
	Procure temporary office accommodation including one stop shop	AWG/Cabinet agreed no action on this point until funds secured via sales of 3 sites
Planning/LDF & Water Management	Coastal Protection Strategy – Strategic Appraisal Report accepted by National Review Group	Fylde Peninsular Coastal Programme Board has moved submission of the StAR to March 2013 due to feedback received following submissions of strategic appraisal reports for Blackpool and Wyre Councils.
	Seek funding for progression of PAR (Project Appraisal Report)	Work cannot commence until the adoption of the StAR which is delayed until after submission in Mar 13.

Risk Assessment

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

Report Author	Tel	Date	Doc ID
Andrew Wilsdon	(01253) 658412	08/01/2013	

List of Background Papers		
Name of document	Date	Where available for inspection
Risk Register 2012-2013	June 2012	Risk Management Officers office by arrangement

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



REPORT OF	MEETING	DATE	ITEM NO
INTERNAL AUDIT	AUDIT COMMITTEE	30 JANUARY 2013	9

INTERNAL AUDIT INTERIM REPORT 2012-2013

Public Item

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

Summary

At its meeting in March 2012 the committee endorsed the Internal Audit Annual Plan for 2012/12. This report summarises the work undertaken by internal audit from April to December 2012 and performance information for the same period.

Recommendations

To note the Internal Audit Interim Report

Reasons for recommendation

The report is principally informative and provided for the purpose of assurance. It presents an update on the progress made during the year and allows members to consider the work undertaken by the internal audit team.

Alternative options considered and rejected

Not applicable

Cabinet Portfolio

The item falls within the following Cabinet portfolio:

Finance & Resources (Councillor Karen Buckley)

Continued....

Report

1. Background

The Accounts and Audit Regulations 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 2012.

2. Assurance on Internal Control

2.1 During the period from April to December 2012 seventeen (17) 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
Disabled Facilities Grants ¹	1	5	4	Moderate
FMS - Fuel & Payments ¹	-	4	10	Moderate
FMS - Fuel & Payments (Finance) ^{1/2}	-	2	-	-
Post Opening ¹	-	1	4	Substantial
FMS Cash Handling	-	10	1	Limited
Fraud Awareness	-	2	3	Substantial
Fraud Awareness (HR) ²	-	-	1	-
Purchasing	-	5	3	Substantial
Procurement	1	3	7	Moderate
Creditors	-	2	4	Substantial
Housing Benefits	-	1	3	Substantial
Sundry Debtors	-	4	6	Substantial
Localised Support for CTax (Project Man)	-	5	5	Substantial
Localised Support for CTax (Consultation)	-	-	-	Full
Localised Support for CTax (Collection)	-	1	-	Substantial
Data Protection	-	12	8	Moderate
Data Protection (IT) ²	-	1	1	-
Total	2	58	55	

¹ Reviews from 2011/12 finalised in 2012/13

² Additional/Subsidiary action plan

2.5 For 2012/13 systems reviewed 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 4.1, also the equivalent of substantial assurance.

2.6 There were two important internal control weaknesses brought to the attention of management during the period, one of which has been addressed. The other relates to quotations for housing grants work. Four issues were brought forward from the previous year and two remain unresolved – one concerning IT system upgrades and the second in relation to car park penalty notice arrangements.

2.7 Resolution of the issue concerning quotations for grant work has been delayed and a new date for implementation was agreed after the first follow up.

2.8 The first of the brought forward issues was originally reported as implemented subject to evidential review but additional verification work undertaken suggested this was not the case. A revised approach to IT system upgrades and date for implementation has now been agreed with the newly responsible manager.

2.9 With regard to the car parking issue, the formal contract with the service provider has now been obtained, but the document has not yet been signed by either party. The contract was drawn up jointly by eight Lancashire Councils in 2009 and it is unclear why a formal sign-off was not undertaken at the time. In the circumstances the present responsible car parking manager is reluctant to sign the contract.

2.10 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 Annual system upgrades and bug fixes were not carried out as required by contract terms	Resources ¹	Jan 11 Feb 13
2 Arrangements for car park cash collection and ticketing will be formalised in a signed contract and retained	Development	Completed
3 Arrangements for penalty notice administration will be reviewed and updated in a signed contract and retained	Development	Mar 12 Jun12
4 The volume/cost of fuel stock held will be determined and reconciled to fuel issued quarterly & agreed with accountancy	Community Services	Completed
2012/13 Risks		
5 Two quotations from suitable contractors will be sought for housing grant work, except in the case of stair lift installations	Development ¹	Jul 12 Jan 13
6 The link between the Fylde Council contract opportunities page and the Chest navigation page will be restored	Resources	Completed

¹ Implementation in progress

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. Twelve (12) 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			
Main Accounting	2	2	100%
Penetration Testing	1	1	100%
FMS Fuel & Payments (Finance)	2	2	100%
Post Opening	5	5	100%
Cheque Receipting	1	1	100%
Risk Management	12	11	92%
Cash Collection (Remote)	3	3	100%
Fraud Awareness (HR)	1	1	100%
Treasury Management	2	2	100%
Cheque Production (Main)	9	4	44%
Cemetery/Crematorium	8	5	63%

Car Parking ¹	20	13	65%
Current Years' Reports			
Localised Support for CTax (Project Man)	10	10	100%
Total	76	60	79%

¹ Report issued awaiting sign-off

3.3 The overall implementation rate to 31 December stands at 79% compared to the best overall implementation of 95% for 2010/11. The 5-year average rate for overall implementation stands at 86%, which is also higher than the current position.

4 Special Investigations and Counter Fraud Work

Investigations

4.1 During the year to the 31st December the audit team commenced two special investigations into allegations of fraud and corruption. One arose as a result of concerns expressed by a councillor but the investigation found no evidence to substantiate them. The responsible Director was made aware of the outcome. The second investigation was prompted by an unexplained cash discrepancy. The investigation is concluded but the matter is not yet resolved.

4.2 Table Five summarises the results of the various special investigations during April to December compared with the outturn for previous years.

Table Five: Results of Special Investigations

Outcome	2008-09	2009-10	2010-11	2011-12	2012-13 Apr-Dec
Disciplinary action	3	-	-	1	-
Employee Resigned prior to conclusion	-	-	-	-	-
No evidence to support allegation	-	1	-	-	1
Inconclusive evidence	-	-	-	-	-
Investigation aborted	-	-	1	1	-
Police investigation, inconclusive	-	-	-	-	-
Standards Board referral, no action	-	-	-	-	-
Investigation Ongoing	-	-	-	-	1
Total	3	1	1	2	2

4.3 Only 8 days have been taken up dealing with reactive fraud work during the period 1st April to the 31st December 2012. 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. The 2012/13 exercise matches will be available for investigation from the end of January 2013. Savings generated from the previous exercise totalled £53,000 most of which will be ongoing in future years.

Benefit Fraud

4.5 The Head of Internal Audit is responsible for overseeing the delivery of the benefit fraud service provided by Preston City Council. The Benefit Fraud Service Level Agreement is operating well with all performance measures on target. In the first three quarters of the year overpayments of £140,000 have been identified against the annual target of £150,000 with 28 prosecutions and sanctions against a target of 40.

Whistleblowing

4.6 There has been no employee whistleblowing during the current year to date.

5 Performance of Internal Audit

5.1 A set of performance indicators for internal audit was adopted by the Audit Committee in 2009 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 2011/12	Current to 31/12/12
IA1 % of audit plan completed	90%	95.3%	72.2%
IA2 % satisfaction rating indicated by post-audit surveys	90%	90.8%	87.6%
IA3 % of audit recommendations agreed with management	95%	100%	93.5%
IA4 % of agreed actions implemented by management	90%	89.7%	78.9%
IA5 % of 'High Priority' actions implemented by management	100%	100.0%	66.7%
IA6 % of 'High/Medium Priority' actions implemented by management	95%	92.0%	75.0%
IA7 % of recommendations implemented by the first agreed date	75%	52.1%	69.7%

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 2012 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 2012/13 at 31 December 2012

Audit Areas	Qtr	Plan Days	Actual Days	Bal	Status
Main Financial Systems					

Council Tax FCAT	VAR	17	14	3	Ongoing
Creditors	1	18	17	1	Complete
Housing & Council Tax Benefits ¹	1/2	28	36	-8	Complete
Localised Support for Council Tax ¹	2	5	16	-11	Complete
National Non-Domestic Rates FCAT	VAR	19	11	8	Ongoing
Payroll ¹	4	20	0	20	To commence Q4
Sundry Debtors	3	18	23	-5	Complete
Follow Up Work (3)	VAR	4	2	2	Complete

Planned Reviews

Car Allowances & Expenses ¹	4	18	0	18	To commence Q4
Development Services - Licensing	2	18	18	0	Work in Progress
FMS – Fuel & Payments	1	5	5	0	Complete
FMS – MOT Service	2	12	6	6	Work in Progress
Homelessness	4	12	6	6	Work in Progress
Procurement	1	15	13	2	Complete
Purchasing	1	5	8	-3	Complete
Vehicle & Plant	3	20	0	20	To commence Q4
Follow Up Work (5)	VAR	10	7	3	Ongoing

Corporate Governance

Annual Governance Statement	ALL	8	7	1	Ongoing
Audit Committee - Effectiveness	1	2	1	1	Complete
Internal Audit - Effectiveness	4	4	0	4	To commence Q4
Risk Management	3	16	12	4	Work in Progress

Computer Audit

Data Protection	2	18	17	1	Complete
ICT Audit/Liaison/Assistance	4	18	0	18	To commence Q4
Follow Up Work (1)	1	1	1	0	Complete

Anti- Fraud

Fraud Awareness	1	5	4	1	Complete
National Fraud Initiative	ALL	10	3	7	Ongoing
Prevention of Fraud & Corruption	4	3	0	3	To commence Q4
Follow Up Work (3)	VAR	3	1	2	Complete

Other Audit Work

Authorisation Schedules	ALL	5	9	-4	Ongoing
Cancelled/Replacement Cheques	ALL	11	7	4	Ongoing

Reactive Work

General Consultancy/Advice	ALL	23	30	-7	Ongoing
IA Communication/Liaison	ALL	23	14	9	Ongoing
Contingency	ANY	45	34	11	Ongoing

Total		439	322	117	
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¹ Joint Audit with Blackpool Council

6.2 The percentage of the 2012/13 audit plan completed to 31st December was 72.2%, suggesting that the 90% target for the year should be achieved.

6.3 The new working arrangements for the internal audit service previously reported to the committee mean that there will be a reduction in resources that affects the fourth quarter of the current audit year. No specific change to the plan is proposed but it is probable that some additional slippage may occur.

Risk Assessment

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

Report Author	Tel	Date	Doc ID
Savile Sykes	(01253) 658413	Date of report	30/01/13

List of Background Papers		
Name of document	Date	Where available for inspection
Audit Plan 2012/13	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

IMPLICATIONS	
Finance	<p>The Accounts and Audit Regulations 2003 require the Council to ensure that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.</p> <p>The report also contributes towards the production of the Annual Governance Statement which forms part of the Financial Statements of the Annual Accounts published each year by the Council.</p>
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

REPORT OF	MEETING	DATE	ITEM NO
INTERNAL AUDIT	AUDIT COMMITTEE	30 JANUARY 2013	10

SANCTION & PROSECUTION POLICY

Public Item

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

Summary

The Audit Committee's terms of reference include the adoption and approval of counter fraud policies, which include the Sanction & Prosecution Policy. This Policy has been amended to reflect changes required by the Welfare Reform Act 2012 with regard to Administrative Penalties.

Recommendation

1. The Committee approves the policy documents attached as an Appendix to this report and the amendments described.

Reasons for recommendation

To ensure that the Council has up-to-date policies in place as key elements of the corporate approach to fraud and corruption in support of the zero tolerance culture

Alternative options considered and rejected

No other course of action is advocated.

Cabinet Portfolio

Finance & Resources

Councillor Karen Buckley

Continued....

Introduction

The Audit Committee's terms of reference and the work plan include the approval of counter fraud policies. All counter fraud policies were approved by the committee in March 2012. The Welfare Reform Act 2012 changes the arrangements with regard to administrative penalties.

The revised policy is attached as an Appendix.

Sanction and Prosecution Policy

The Council's Sanction and Prosecution Policy for use in connection with Housing Benefit and Council Tax Benefit frauds was adopted by the Audit Committee on 30 March 2010 replacing the 2005 policy. It has been refreshed annually to reflect any changes to corporate arrangements but there are now some amendments as a result of legislation requiring committee approval as follows:

Paragraph/Section	Comment
6.1	Refers to date of offence and changes to arrangements applicable
6.2	Sets out changes to penalties that may be levied and the 'cooling off' period
6.4	Change to the 'cooling off' period
7.1	Adds an additional factor to consider when deciding whether to prosecute
11.6	Includes next review date

Risk Assessment

There are some minor risks associated with the actions referred to in this report. Where necessary directorate operational risk registers can accommodate these.

Report Author	Tel	Date	Doc ID
Savile Sykes	(01253) 658413	30 January 2013	

List of Background Papers		
Name of document	Date	Where available for inspection
Welfare Reform Act	2012	All background papers or copies can be obtained from Savile Sykes, Head of Internal Audit on 658413 or email saviles@fylde.gov.uk

Attached documents

Appendix – Sanction & Prosecution Policy

IMPLICATIONS	
Finance	The policy seeks to minimise the financial impact of fraud and corruption and support the public stewardship of funds.
Legal	The policy assists in good governance and the probity of Council actions and decision-making. The changes to the policy will ensure the Council is compliant with prevailing

	legislation and regulations.
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 policy seeks to address the risk of the Council being a victim to fraud and corruption.

Sanction & Prosecution Policy (Housing Benefit & Council Tax Benefit)

1. Introduction

- 1.1 This document sets out the Council's policy for applying sanctions to persons and organisations external to the Council who commit benefit fraud against it.
- 1.2 The principle guiding the policy is that the Council will seek to prosecute or apply other appropriate sanctions to perpetrators of benefit fraud and corruption. Consequently any person or group of persons who commits benefit fraud against the Council can expect to be sanctioned accordingly.
- 1.3 In recognition of the Council's stated aim and its status as a responsible steward of public funds this Policy aims to enable fraud to be effectively countered and deterred. Its specific objectives are to:
 - ♦ ensure that fraud is punished through effective sanctions,
 - ♦ assist in the selection of the most appropriate sanction,
 - ♦ ensure that sanctions are successfully applied,
 - ♦ maximise the deterrent effect of successful sanctions,
 - ♦ help obtain adequate recompense where necessary,
 - ♦ maintain and generate public confidence in and respect for the Council, by helping to ensure that justice is seen as being done.
- 1.4 The Council is committed to equality and will operate this policy fairly and in accordance with the legislative framework.

2 Scope and Definitions

- 2.1 For the purposes of this Policy, fraud means: 'the intentional distortion of financial statements or records by any persons which is carried out to conceal assets or otherwise for gain'.
- 2.2 This meaning also includes making financial gain, or an attempt to make financial gain, by knowingly failing to advise of changes to information previously supplied.
- 2.3 This Policy covers only Housing Benefits and Council Tax Benefit fraud against the Council by external persons or organisations. This may include, amongst others benefit claimants, landlords and agents.
- 2.4 The Policy sets out:
 - ♦ the sanctions which are available,
 - ♦ the criteria for deciding which sanction to apply,
 - ♦ the responsibilities for deciding which sanction to apply,
 - ♦ voluntary disclosure,

- ♦ publicity and reporting,
- ♦ keeping the Policy timely and relevant.

3 **Sanctions Available**

There are four sanctions available:

- 3.1 Prosecution - Criminal proceedings may be brought against alleged offenders and the case heard in Court with a view to obtaining a criminal conviction and an appropriate sentence.
- 3.2 Formal Caution - An oral warning may be given in certain circumstances to a person who has committed an offence.
- 3.3 Administrative Penalty - In accordance with Social Security legislation¹, Administrative Penalties will be considered as an alternative to prosecution in Housing / Council Tax Benefit fraud cases. A financial penalty amounting to a statutorily determined percentage of the gross adjudicated overpayment can be offered to a person where there is enough evidence to prosecute.
- 3.4 Overpayment Recovery and Civil Court Action - A strict requirement to repay monies fraudulently obtained is in itself another major deterrent to fraud, and may be additional to any other sanctions that are applied. Recovery may also include Civil Court action.

4 **Criteria For Deciding Which Sanction To Apply**

- 4.1 The Council is committed to protecting public funds through its investigations into cases of Housing/Council Tax Benefit fraud. Where it is suspected that a claimant or landlord has committed fraud against the Council, and enough evidence has been gathered to sustain a prosecution, the Council must decide what course of action to follow
- 4.2 This policy has been written on the basis that the following courses of action are available. In **all** cases where a fraud is identified in respect of Housing/Council Tax Benefit, the Council will seek to recover the debt from the fraudulent party.
- 4.3 The initial decision about what action may be most appropriate lies with the Fraud Manager who will submit a report to the Director of Resources or his/her nominated representative making recommendations on the appropriate sanction, taking into account the factors outlined further in this policy. If approved the report will be counter signed. If it is not approved, a case conference will take place to discuss what action, if any, is appropriate.

¹ Section 115A of the Social Security Administration Act 1992 as inserted by section 15 of the Social Security Administration (Fraud) Act 1997 and the Social Security (Penalty Notice) Regulations 1997

- 4.4 It must be understood that all frauds will be treated rigorously and prosecution will be regarded as the optimum sanction. The Council reserves the right to seek to prosecute in every fraud case
- 4.5 However, where the evidential requirement for prosecution is satisfied but the overpayment is less than £2,000 consideration will be given to individual customer's circumstances in deciding the appropriateness of issuing a formal caution or offering an administrative penalty.

5. Local Authority Caution

5.1 The Council may consider issuing a Local Authority Caution if:

- ♦ To the Council's knowledge the claimant has never previously offended
- ♦ The person has fully admitted the offence in an interview under caution. It can not be issued if the claimant refutes or denies the allegation
- ♦ Criminal proceedings are not the first option
- ♦ An administrative penalty is not appropriate
- ♦ The offence is minor
- ♦ The overpayment is under £2000
- ♦ An additional factor that will be taken into account is the person's subsequent attitude e.g. genuine expression of remorse for their actions
- ♦ The claimant is elderly or suffering from either significant mental or physical ill health, but their fraudulent act is considered too serious to go unpunished, and they have admitted the offence.

If the person refuses the caution, the case will usually be referred for prosecution

6. Administrative Penalties

- 6.1 Section 115A of the Social Security Administration Act 1992, as amended by Section 15 of the Social Security (Fraud) Act 1997, allows the Local Authority to apply a penalty (30% for offences committed wholly before 8th May 2012 of the total overpayment), as an alternative to prosecution. This penalty is levied in addition to the amount of overpayment.
- 6.2 For offences committed wholly on or after 8th May 2012 the Welfare Reform Act 2012 amends the Social Security Administration Act 1992 as follows:
- ♦ To allow administrative penalties to be offered in attempt cases as an alternative to prosecution, where an offence of benefit fraud has been committed but the fraud is discovered and stopped before any overpayment

of benefit is made. In these cases the amount of the administrative penalty would be £350.

- ♦ To provide for a minimum penalty of £350 or 50% of the overpayment, whichever is greater (up to a maximum penalty of £2000).
- ♦ To reduce the period which an individual (including a colluding employer) may withdraw their agreement to pay the penalty ('cooling off period') from 28 to 14 days.

6.3 Upon accepting the penalty the claimant has 28 days in which to change their decision. If a penalty is not accepted or it is withdrawn the Authority must consider whether to prosecute, therefore all cases must be up to prosecution standard.

6.4 It should be noted that the offer of a penalty should happen at a special interview. The claimant should be told at the interview that:

- ♦ It is not an interview under caution;
- ♦ In light of the evidence available, it is believed there are grounds for instigating criminal proceedings for the offence;
- ♦ It has been decided to offer them the alternative of agreeing to pay an administrative penalty instead of their case being referred for prosecution;
- ♦ They will be expected to make a decision on whether to agree to pay a penalty, by the end of the interview;
- ♦ Acceptance of the penalty is not an admission of guilt;
- ♦ Recovery of the penalty will occur in the same way as recovery of the overpayment;
- ♦ They have 28 days in which to change their mind should they accept the penalty, or 14 days if the offence was wholly committed on or after 8th May 2012;
- ♦ Failure to repay the debt or default on instalments will result in them facing civil proceedings for recovery.

6.5 The officer who conducted the interview under caution will not conduct the administrative penalty interview.

The Council may consider issuing an Administrative penalty if:

- ♦ To the Council's knowledge the claimant has never previously offended
- ♦ The person has not admitted the offence during an interview under caution
- ♦ The overpayment is under £2000
- ♦ Criminal proceedings are not the first option

- ♦ A Local Authority Caution is not appropriate
- ♦ The claimant is elderly or suffering from either significant mental or physical ill health, but their fraudulent act is considered too serious to go unpunished.

If the person refuses the Administrative Penalty, the case will usually be referred for prosecution.

7. Prosecution

- 7.1 In cases where the fraudulent overpayment identified is greater than £2000, the Council will seek to prosecute. The decision on whether to **refer** a case for prosecution lies with the Fraud and Verification Manager and/or the Director of Resources or his/her nominated representative. The following tests will be considered:

Is there sufficient evidence for a realistic prospect of a conviction?

In making this decision all circumstances surrounding the case will be considered, with particular emphasis on the following;

- ♦ Is there sufficient evidence
- ♦ Any failure in investigation
- ♦ Any failure in benefit administration, including delay
- ♦ Is a prosecution in the public interest?

In making this decision all circumstances surrounding the case will be considered, with particular emphasis on:

- ♦ The amount of the overpayment and duration of the alleged offence
- ♦ Any abuse of position or privilege
- ♦ Whether the claimant is elderly or suffering from either significant mental or physical ill health
- ♦ Any voluntary disclosure
- ♦ Any previous incidence of fraud
- ♦ Social factors
- ♦ Whether a conviction is likely to result in significant sentence or nominal penalty
- ♦ Whether there is evidence that the suspect was a ring leader or an organiser of the offence

- ♦ Whether there was planning in the process
- ♦ Whether the claim was false from inception
- ♦ Whether there are grounds for believing that the offence is likely to be continued or repeated, based on any history of recurring conduct
- ♦ Whether the alleged offence, irrespective of its seriousness, is widespread in the area where it was committed
- ♦ The person shows no regret for their actions and does not consider the offence to be serious or shows little or no regard for Social Security legislation
- ♦ The person has refused to accept a Local Authority Caution or Administrative Penalty
- ♦ Where Authorised Officer Powers have been obstructed
- ♦ There has been a lack of co-operation with the investigation

7.2 It should be noted that it may be appropriate to prosecute a person who has not been paid any benefit but where the attempt to defraud was so serious as to justify a prosecution.

8. Overpayment Recovery and Civil Court Action

- 8.1 Regardless of what criminal proceedings or other sanctions have been deemed appropriate in accordance with this Policy, recovery through the Council's Debtors system or from ongoing benefit entitlement will be made.
- 8.2 Civil Court Action may also be considered as a means of recovering any amounts deemed to be lost due to fraud or corruption. Such action shall be conducted under arrangements approved by the Director of Resources.

9. Voluntary Disclosure

- 9.1 This will occur when claimants, of their own free will, reveal a fraud of which the Council has been unaware. It does not apply to cases where, for example:
- ♦ The disclosure is prompted by a belief that the fraud would have been discovered;
 - ♦ The claimant has discovered that they were already being investigated;
 - ♦ The disclosure was prompted by, for example, a verification visit.

Any voluntary disclosure will be taken into consideration when the decision on appropriate action is taken.

- 9.2 Each case arising from voluntary disclosure will be considered on its own merits to determine the most appropriate course of action. In all cases considered for sanction, it is essential that each case is subject to scrutiny on the basis of its own particular details. The circumstances of each individual case will ultimately determine the eventual sanction route.

10. Publicity and Reporting

- 10.1 Since a principal objective of this policy is to deter fraud, then any successful prosecutions or other sanctions should be suitably publicised where appropriate.
- 10.2 While any successful prosecution result will be considered for publicity, particular attention will be given to frauds that are large in value and/or where the offender has received a significant sentence. Only when damage to the Council's reputation is threatened, will publicity not be considered.
- 10.3 Following a successful prosecution the Benefits Fraud Manager shall arrange with the Council's Communication Officer for a suitably worded press release to be prepared.
- 10.4 Other press releases may be considered from time to time, regardless of particular recent cases, such as reports of sanctions applied over a period.
- 10.5 Use shall also be made of Council-produced publications such as 'Grapevine' and the Council e-newsletter, intranet and internet websites to report results both to the public and to staff.
- 10.6 The Benefit Fraud Manager shall, at least annually, provide Housing Benefits assessment staff with a summary of results. Many of the results will be due to their vigilance and it is in the Council's best interest to support and encourage this.

11. Keeping the Policy Available and Relevant

- 11.1 This policy is available to all elected members and Council employees via its inclusion in the Corporate Policies and Strategies page on the Intranet.
- 11.2 Copies of the Policy are available for reference by staff involved in fraud investigation, prosecution, and the application of other sanctions, and reference to it is included in those employees' training plans.
- 11.3 Copies of the Policy are also given to any partner organisations involved in the combat of fraud, such as the Department for Work and Pensions.
- 11.4 It may also be made available on request to any interested external parties. This could include those against whom it is intended to apply sanctions, witnesses, solicitors, and advisors.

11.5 The Director of Resources or his/her nominated representative shall review the Policy. This will include:

- ♦ monitoring its effectiveness,
- ♦ taking account of any relevant changes in legislation and government guidance,
- ♦ taking account of any structural changes either within the Council or between the Council and external organisations,
- ♦ reviewing its relevance in view of changes in technology,
- ♦ reviewing it in the light of comments received both inside and outside the Council.

11.6 The next review date for this Policy is March 2014.

Audit Committee



Date:	Wednesday, 14 November 2012
Venue:	Town Hall, St. Annes
Committee members:	Councillor John Singleton(Chairman) Councillor Brenda Ackers (Vice Chairman) Councillors Ben Aitken, Christine Akeroyd, Leonard Davies, Kath Harper, Linda Nulty, Louis Rigby
Other Councillors:	Councillor Charlie Duffy
Officers:	Paul O'Donoghue, Ian Curtis, Paul Rogers
Other Attendees:	Jillian Burrows (KPMG),

1. Declarations of interest

Members were reminded that any personal/prejudicial interests should be declared as required by the Council's Code of Conduct adopted in accordance with the Localism Act 2011. No declarations were declared.

2. Confirmation of minutes

RESOLVED: To approve the minutes of the Audit Committee meeting held on 20 September 2012 as a correct record for signature by the Chairman.

3. Substitute members

There were no substitutions.

4. Annual Audit Letter 2011-12

Jillian Burrows, representing KPMG, presented the Annual Audit letter for the financial year 2011-12. 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. She referred to the headlines on pages 7 and 8 of the report and, in particular, drew the committee's attention to two audit issues which were set out under the heading 'Financial Statements Audit'. She informed members that the issue relating to the revaluations of heritage assets was being progressed by the Council and it was likely that

this would be actioned before the end of the current financial year. The other matter related to an error in data flow of pension data by Lancashire County Council to Mercers. This was a case of clarification and did not result in any amendment to the financial statements. In conclusion she advised that for 2012-13 the audit fee would be reduced by 40 per cent due to a change in audit requirements and the Audit Commission's commitment to reduce the burden of audit regime on local authorities.

In answering questions posed by the Chair, Ms Burrows informed the Committee that over the past two years since she was last involved with the Council there had been an improvement in the financial position of the Council and that KPMG were happy with the way that the Council's Finance team worked with KPMG to deliver the audit. She made particular reference to the summary of reports issued since the last annual audit letter which were set out on page 10, and that KPMG had issued all the reports that were highlighted in the initial audit fee letter. She informed members that at the next Audit Committee meeting members will receive the overview on the certification of grants and returns which would be the conclusion of the 2011-12 work.

Mr O'Donoghue, Chief Financial Officer, endorsed Ms Burrow's view that having dealt with Heritage assets for the first time last year there were no significant accounting code changes on the horizon for this year. Mr.O'Donoghue asked the committee to note however that there would be changes around the business rate retention proposals, and the council tax benefit scheme which would need to be accounted for. The local authority mortgage scheme which would be considered by Council at its next meeting and the accounting arrangements for that would also need to be dealt with.

Following discussion it was RESOLVED that

- (1) the content of the audit letter be noted and that particular note be taken that since Jillian Burrows was last involved with the Council's audit, there had been an improvement in the financial position of the Council;
- (2) the comments in (1) above be commended for consideration by Cabinet.

5. Mid Year Prudential Indicators and Treasury Management Monitoring Report 2012/13

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 informed members that it was a technical report which had within it a number of treasury indicators and he took the committee through those. He referred members to the economic background and outlook on page 14 which remained bleak. The interest rate forecast provided by the Council's treasury advisors Sector was set out in Table 1 on page 15 and the key risks were highlighted. He drew members' attention to the key prudential indicators in paragraph 4. Each of the tables from paragraph 4 onwards in the report set out the original indicator together with the latest indicator or revised estimate.

In referring to Table 4 on page 17, regarding the Authorised Limit indicator, this had been revised from £14.8 million to £15 million. He emphasised that the figure included a contingency which was available to the Council in the event of exceptional circumstances such as a service delivery failure or emergency. He highlighted the fact that the contingency sum was a CIPFA requirement and was indeed best practice throughout local government. He took members through the remaining paragraphs relating to the Investment Strategy Update where there were no changes and the Treasury Indicators.

Councillor Linda Nulty asked why the authorised limit in Table 4 cannot remain at £14.8 million. Mr. O'Donoghue re-emphasised that the figures shown in that Table were based on CIPFA requirements and advice from Sector the Council's treasury advisors.

In reply to Councillor Louis Rigby's question regarding slippage, Mr O'Donoghue reminded members that all schemes with detailed costings are considered and approved by Cabinet before any expenditure is committed and that slippage referred to the re-phasing of approved scheme expenditure between financial years.

Councillor John Singleton, Chairman, asked how the existing capital borrowing figure of £3.8 million in Table 4 had been calculated. Mr. O'Donoghue informed members that the Council approved a capital programme each year which contained a variety of capital schemes, including the Bins to Boxes scheme, depot improvements, cremator replacements, etc The Council can also receive grants and capital receipts each year which are used to fund capital expenditure. The difference between expenditure and the grants and receipts received was the Capital Financing Requirement or Gross Borrowing Indicator, which currently stands at £8.5m. The Council therefore has an underlying need to borrow £8.5m, but to date has only borrowed £3.8m which is the first figure in table 4.

Councillor Singleton referred to the Additional Capital Borrowing figure of £4.7 million and asked how this was calculated. Mr O'Donoghue informed the committee that this was the difference between the Council's underlying need to borrow of £8.5m and the current borrowing of £3.8m, and represented the amount of additional borrowing that the Council would need to take in order to fund the Capital schemes approved by the Council.

Councillor Singleton also referred to the contingency figure in Table 4 of the report, and expressed concern that this had grown from £4.3m in 2011/12 to £6.5m in 2012/13. Mr O'Donoghue informed the committee that this was a contingency which was available to the Council in the event of exceptional circumstances such as a service delivery failure or emergency. He highlighted the fact that the contingency sum was a CIPFA requirement and was indeed best practice throughout local government and that for the first time the figure included a contingency for potential short term cash borrowing of £2m which accounted for the increase. The figures had been calculated having taking professional advice from the Council's treasury advisors.

Councillor Nulty asked what happens to the interest on unused Section 106 monies. Mr O'Donoghue informed members that unless Section 106 agreements specify that the money contained in the agreement plus any interest gained should be spent for specific purposes as set out in that agreement, only the original amount would be used for Section 106 purposes. Where the s106 agreement remained silent on interest, it was usual that interest gained on those monies become part of the Council's general cash.

Following detailed discussion it was RESOLVED to

- (1) approve the revised prudential indicators and limits set out in the report, and these be submitted to Full Council accordingly.
- (2) note the committee's concern that there is a need to increase the borrowing limit contingency amount to £6.5 million in line with CIPFA guidelines and the advice of professional treasury management advisors .

6. Guide/Criteria for Members Serving on Outside Bodies

Ian Curtis, Head of Governance, presented a report which addressed some issues that had been raised in relation to the matter at the previous meeting of the Committee. The report examined those issues and recommended changes to the draft Guidance/Protocol

to (1) add the requirement of skills, experience and knowledge of the work of an outside body to the core competencies for appointments to outside bodies, and (2) add additional guidance on conflicts between the interests of the council and those of a company to which the council is invited to nominate a director. He emphasised to the Committee that the competences were not a regulation but were a tool to help members to assess their development needs in relation to appointments to outside bodies.

Members expressed the view that transparency with regard to appointments to outside bodies was an issue and that there was need for the guidance and protocols to be robust to address that issue.

Councillor Charlie Duffy was present at the meeting and was allowed to comment. He informed the committee that the points he had raised at the previous meeting had been addressed in the report and that he was content with the recommendations.

It was RESOLVED to approve the Protocol for Members Serving on Outside Bodies and commend the same to Council for approval as a formal procedure to be included within the council's constitution, subject to the changes to the draft set out in 8 and 18 of the report.

With regard to the above decision a recorded vote was taken and the voting was as follows:

For the above decision - Councillors John Singleton, Brenda Ackers, Ben Aitken, Christine Akeroyd, Kath Harper, Linda Nulty.

Against the above decision - Councillor Louis Rigby.

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