



## Meeting Agenda

**Audit Committee  
Town Hall, St Annes  
Thursday 28<sup>th</sup> January 2010, 7:00p.m.**

**The main doors to the Town Hall will be open to the public at 6:40pm**  
The maximum capacity for this meeting room is 60 persons –  
once this limit is reached no other person can be admitted.

# AUDIT COMMITTEE

## MEMBERSHIP

CHAIRMAN - Councillor John Singleton  
VICE-CHAIRMAN – Councillor Linda Nulty

### Councillors

Ben Aitken	Paul Rigby
Christine Akeroyd	Janine Owen
Linda Nulty	Elizabeth Oades
Louis Rigby	Keith Hyde

Contact: Lyndsey Lacey, St. Annes (01253) 658504, Email:  
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## **Our Vision**

*To establish Fylde Borough Council as a high performing local authority*

## **Our Corporate Objectives**

To improve the economic, social and environmental well-being of our communities through:

- The promotion and enhancement of the natural built environment
- Increasing the availability and access to good quality housing for all
- Maintaining healthy and safe communities to reduce the fear of crime
- Supporting and sustaining a strong and diverse Fylde coast economy to further enhance employment prospects

## **We will achieve this by:**

Focusing on customer requirements  
Clear community and organisational leadership  
Delivering high quality, cost-effective services  
Partnership working



## A G E N D A

### PART I - MATTERS DELEGATED TO COMMITTEE

ITEM	PAGE
1. <b>DECLARATIONS OF INTEREST:</b> <i>If a member requires advice on Declarations of Interest he/she is advised to contact the Monitoring Officer in advance of the meeting. (For the assistance of Members an extract from the Councils Code of Conduct is attached).</i>	4
2. <b>CONFIRMATION OF MINUTES:</b> <i>To confirm as a correct record the minutes of the Audit Committee held on 29<sup>th</sup> September 2009. As attached at the end of the agenda.</i>	4
3. <b>SUBSTITUTE MEMBERS:</b> <i>Details of any substitute members notified in accordance with council procedure rule 25.3</i>	4
4. <b>PROJECT PROGRESS UPDATE – NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)</b>	7 - 10
5. <b>ANNUAL AUDIT AND INSPECTION LETTER – 2008/09</b>	11 - 19
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**Personal interests**

8.—(1) You have a personal interest in any business of your authority where either—

(a) it relates to or is likely to affect—

- (i) any body of which you are a member or in a position of general control or management and to which you are appointed or nominated by your authority;
- (ii) any body—
  - (aa) exercising functions of a public nature;
  - (bb) directed to charitable purposes; or
  - (cc) one of whose principal purposes includes the influence of public opinion or policy (including any political party or trade union),

of which you are a member or in a position of general control or management;

- (i) any employment or business carried on by you;
  - (ii) any person or body who employs or has appointed you;
  - (iii) any person or body, other than a relevant authority, who has made a payment to you in respect of your election or any expenses incurred by you in carrying out your duties;
  - (iv) any person or body who has a place of business or land in your authority's area, and in whom you have a beneficial interest in a class of securities of that person or body that exceeds the nominal value of £25,000 or one hundredth of the total issued share capital (whichever is the lower);
  - (v) any contract for goods, services or works made between your authority and you or a firm in which you are a partner, a company of which you are a remunerated director, or a person or body of the description specified in paragraph (vi);
  - (vi) the interests of any person from whom you have received a gift or hospitality with an estimated value of at least £25;
  - (vii) any land in your authority's area in which you have a beneficial interest;
  - (viii) any land where the landlord is your authority and you are, or a firm in which you are a partner, a company of which you are a remunerated director, or a person or body of the description specified in paragraph (vi) is, the tenant;
  - (ix) any land in the authority's area for which you have a licence (alone or jointly with others) to occupy for 28 days or longer; or
- (b) a decision in relation to that business might reasonably be regarded as affecting your well-being or financial position or the well-being or financial position of a relevant person to a greater extent than the majority of other council tax payers, ratepayers or inhabitants of the ward, as the case may be, affected by the decision;

(2) In sub-paragraph (1)(b), a relevant person is—

- (a) a member of your family or any person with whom you have a close association; or
- (b) any person or body who employs or has appointed such persons, any firm in which they are a partner, or any company of which they are directors;
- (c) any person or body in whom such persons have a beneficial interest in a class of securities exceeding the nominal value of £25,000; or
- (d) any body of a type described in sub-paragraph (1)(a)(i) or (ii).

**Disclosure of personal interests**

9.—(1) Subject to sub-paragraphs (2) to (7), where you have a personal interest in any business of your authority and you attend a meeting of your authority at which the business is considered, you must disclose to that meeting the existence and nature of that interest at the commencement of that consideration, or when the interest becomes apparent.

- (2) Where you have a personal interest in any business of your authority which relates to or is likely to affect a person described in paragraph 8(1)(a)(i) or 8(1)(a)(ii)(aa), you need only disclose to the meeting the existence and nature of that interest when you address the meeting on that business.
- (3) Where you have a personal interest in any business of the authority of the type mentioned in paragraph 8(1)(a)(viii), you need not disclose the nature or existence of that interest to the meeting if the interest was registered more than three years before the date of the meeting.
- (4) Sub-paragraph (1) only applies where you are aware or ought reasonably to be aware of the existence of the personal interest.

- (5) Where you have a personal interest but, by virtue of paragraph 14, sensitive information relating to it is not registered in your authority's register of members' interests, you must indicate to the meeting that you have a personal interest, but need not disclose the sensitive information to the meeting.
- (6) Subject to paragraph 12(1)(b), where you have a personal interest in any business of your authority and you have made an executive decision in relation to that business, you must ensure that any written statement of that decision records the existence and nature of that interest.
- (7) In this paragraph, "executive decision" is to be construed in accordance with any regulations made by the Secretary of State under section 22 of the Local Government Act 2000(d).

**Prejudicial interest generally**

- 10.—**(1) Subject to sub-paragraph (2), where you have a personal interest in any business of your authority you also have a prejudicial interest in that business where the interest is one which a member of the public with knowledge of the relevant facts would reasonably regard as so significant that it is likely to prejudice your judgement of the public interest.
- (2) You do not have a prejudicial interest in any business of the authority where that business—
- (a) does not affect your financial position or the financial position of a person or body described in paragraph 8;
  - (b) does not relate to the determining of any approval, consent, licence, permission or registration in relation to you or any person or body described in paragraph 8; or
  - (c) relates to the functions of your authority in respect of—
    - (i) housing, where you are a tenant of your authority provided that those functions do not relate particularly to your tenancy or lease;
    - (ii) school meals or school transport and travelling expenses, where you are a parent or guardian of a child in full time education, or are a parent governor of a school, unless it relates particularly to the school which the child attends;
    - (iii) statutory sick pay under Part XI of the Social Security Contributions and Benefits Act 1992, where you are in receipt of, or are entitled to the receipt of, such pay;
    - (iv) an allowance, payment or indemnity given to members;
    - (v) any ceremonial honour given to members; and
    - (vi) setting council tax or a precept under the Local Government Finance Act 1992.

**Prejudicial interests arising in relation to overview and scrutiny committees**

- 11.—** You also have a prejudicial interest in any business before an overview and scrutiny committee of your authority (or of a sub-committee of such a committee) where—
- (a) that business relates to a decision made (whether implemented or not) or action taken by your authority's executive or another of your authority's committees, sub-committees, joint committees or joint sub-committees; and
  - (b) at the time the decision was made or action was taken, you were a member of the executive, committee, sub-committee, joint committee or joint sub-committee mentioned in paragraph (a) and you were present when that decision was made or action was taken.

**Effect of prejudicial interests on participation**

- 12.—**(1) Subject to sub-paragraph (2), where you have a prejudicial interest in any business of your authority—
- (a) you must withdraw from the room or chamber where a meeting considering the business is being held—
    - (i) in a case where sub-paragraph (2) applies, immediately after making representations, answering questions or giving evidence;
    - (ii) in any other case, whenever it becomes apparent that the business is being considered at that meeting;

unless you have obtained a dispensation from your authority's standards committee;
  - (b) you must not exercise executive functions in relation to that business; and
  - (c) you must not seek improperly to influence a decision about that business.
- (2) Where you have a prejudicial interest in any business of your authority, you may attend a meeting (including a meeting of the overview and scrutiny committee of your authority or of a sub-committee of such a committee) but only for the purpose of making representations, answering questions or giving evidence relating to the business, provided that the public are also allowed to attend the meeting for the same purpose, whether under a statutory right or otherwise.

# REPORT



REPORT OF	MEETING	DATE	ITEM NO
FINANCE	REPORT TO AUDIT COMMITTEE	28 <sup>TH</sup> JANUARY 2010	4

## PROJECT PROGRESS UPDATE – NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

### Public Item

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

### 1. Summary

- 1.1 The purpose of this report is to brief the Audit Committee on the project progress made to the end of December 09 in relation to the introduction of a new financial reporting framework, whereby the accounts for local authorities will be prepared under International Financial Reporting Standards (IFRS), with effect from 2010/11 (1/4/2010).
- 1.2 This paper provides an update on the background to the introduction of IFRS and summarises the key issues and main areas of the review that will be required in order to ensure that the Council is fully compliant with IFRS for the year ending 31<sup>st</sup> March 2011.

### Recommendation

1. That Audit Committee note the project progress on the implementation of the IFRS project to the end of December 2009 and planned work from January 2010 to March 2010.

### Cabinet Portfolio

The item falls within the following Cabinet portfolio:

Corporate Resources & Finance      Councillor Roger Small

### Report

### 2. Information

- 2.1 As a reminder for Members, Local Authorities are currently required to prepare their annual Statement of Accounts in accordance with United Kingdom Generally

Accepted Accounting Practice (referred to as 'UK GAAP'), as modified for the public sector. Publicly listed (private sector) companies within the European Union have been required to report under IFRS since 2005.

- 2.2 In the 2008 Central Government Budget Report it was stated that Local Government must implement IFRS from 2010/11 onwards.
- 2.3 Even though IFRS is to be effectively implemented in the 2010/11 financial year, the actual IFRS transition date is 31<sup>st</sup> March 2010 for comparison purposes. Therefore the Council must:
- (i) Re-state the opening balance sheet as at 1<sup>st</sup> April 2009 to comply with IFRS.
  - (ii) Prepare the 2009/10 accounts in accordance with UK GAAP and then restate the 2009/10 results to comply with IFRS, this will enable prior year comparatives. This will mean that the 2009/10 financial statements will be prepared in both UK GAAP and IFRS format.
  - (iii) Prepare the 2010/11 results on an IFRS basis only.

### **3. Progress to Date**

- 3.1 The detailed IFRS project plan has been compiled for Fylde and summarised under the following categories :
- Project Planning
  - Communication and Training
  - Systems and Processes
  - Area Specific Issues and Plans
  - Key Future Milestones

The project work is scheduled for completion by 28<sup>th</sup> February 2010

- 3.2 The IFRS Project Manager is working with both Fylde BC Finance and Property Services staff to ensure that the tasks on the project plan are completed within the relevant timescales. The main focus of this work will concentrate on;
- Fixed Assets review £13.8m (current valuation at as 31<sup>st</sup> March 09)
  - The classification of all Fylde leases – splitting them into Finance or Operating Leases.
  - Calculation of holiday pay/flexi-time accrual un-taken at year end
- 3.3 Detailed guidance on IFRS has been provided by CIPFA in early December and it is the Council's intention to restate the opening balance sheet as at 1 April 2009 by the beginning of Quarter 1 2010 (April 2010), and it is hoped the audit of these results will take place by the end of Quarter 1 2010 (June 2010) depending on timescales agreed with the Council's external auditors, KPMG.
- 3.4 To re-state the opening balance sheet as at 1/4/09 so that comparatives as at 31/3/2010 will be compliant with IFRS guidelines will require the rewrite of all the relevant notes to the accounts. This will involve changes to current process and procedures across the council and will not just be limited to Finance.
- 3.5 Detailed training has taken place with relevant Finance and Property Services employees to ensure knowledge transfer on relevant applicable standards.

#### 4.0 Work to be undertaken during next quarter (Jan to Mar 10)

- 4.1 Using the detailed project plan Fylde BC Finance Team & Property Team staff will continue their detailed financial accounts review as required to assess the impact of IFRS on the Financial Statements.
- 4.2 Continuing review of the fixed asset register and a look at all of the leases to ensure that they are classified correctly.
- 4.3 A further update on progress will be provided at the next audit committee meeting.
- 4.4 Training of Council staff will continue through this next quarter.
- 4.5 Ongoing progress updates will be provided to KPMG.

#### 5.0 Estimated Project Costs

- 5.1 Project costs are still expected to be maintained within the budget allocated of £15,000. However Members need to be aware that additional resources may still be required by the Property Team (see work needed under 4.1). These potential additional costs are not known at time of writing this report.

#### 6. Conclusions

- 6.1 The implementation of the IFRS will be challenging and will have an impact on how the Council records, analyses and presents financial (and financial related) information. As the detailed guidance becomes available further reports will be presented to Audit Committee and Portfolio Holder (Finance & Resources) and Management Team as appropriate.

#### 7. Impact Statement

- 7.1 The Council's annual Statement of Accounts must be completed in accordance with statutory accounting standards and relevant recommended practice.

#### 8.0 Reason for Decision

- 8.1 Statutory requirements must be adhered to.

Report Author	Tel	Date	Doc ID
J.Scott (AD( Head of Finance)	(01772) 906059	December 2009	IFRS Project Update Reports June 09 & Sept 09

List of Background Papers		
Name of document	Date	Where available for inspection
Document name		Council office or website address

## Attached documents

IMPLICATIONS	
Finance	Included in Body of Report
Legal	Level of Legal involvement not known at this stage
Community Safety	N/A
Human Rights and Equalities	N/A
Sustainability and Environmental Impact	N/A
Health & Safety and Risk Management	N/A

# REPORT



REPORT OF	MEETING	DATE	ITEM NO
GOVERNANCE AND PARTNERSHIPS	AUDIT COMMITTEE	28 JANUARY 2010	5

## ANNUAL AUDIT AND INSPECTION LETTER – 2008/09

### Public Item

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

### Summary

To consider the contents of the Annual Audit letter issued by the Council's Auditors, KPMG for the 2008/09. This details performance in relation to the Use of Resources aspect of the new Comprehensive Area Assessment Organisational Assessment. Use of Resources relates to managing money, governing the business and managing resources. The opinion of KPMG is also provided on the council's preparation of its financial statements. The report will be presented by KPMG.

### Recommendation

**That the Audit Committee are invited to make comments for referral to, and consideration by, the Cabinet.**

### Cabinet Portfolio

The item falls within the following Cabinet portfolio:

Leader: Councillor John Coombes

### Report

1. The Annual Audit letter is produced each year by the Council's external auditors and the judgements contained within it are based on inspection activity which has been undertaken during the previous financial year.
2. Key messages are contained with relate to the Council's ability to manage money, its business and resources. The judgements are collectively referred to as 'use of

resources'. The opinion on our use of resources is a key part of the new Organisational Assessment judgement under the new Comprehensive Area Assessment framework. A report on the Organisational Assessment judgement as a whole will be made to the Council's Cabinet in February.

3. Detailed commentary is also provided within the letter about the external auditor's opinion on the Council's financial statements, including its accounts and International Financial Reporting Standards.
4. A copy of the Annual Audit Letter for 2008/09 is attached.

<b>IMPLICATIONS</b>	
Finance	Implications are detailed within the body of the Letter.
Legal	Implications are detailed within the body of the Letter.
Community Safety	None arising directly from the report.
Human Rights and Equalities	None arising directly from the report.
Sustainability	None arising directly from the report.
Health & Safety and Risk Management	None arising directly from the report.

Report Author	Tel	Date	Doc ID
Tracy Scholes	01253658521	19 Jan 10	Annualletter2007-08/Auditcommittee

<b>List of Background Papers</b>		
Name of document	Date	Where available for inspection
As attached		Town Hall or <a href="http://www.fylde.gov.uk">www.fylde.gov.uk</a>

#### **Attached documents**

1. Annual Audit and Inspection Letter 2007/08



PUBLIC SECTOR

## **Annual Audit Letter 2008/09**

Fylde Borough Council  
December 2009

AUDIT

The contacts at KPMG in connection with this report are:

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1. Audit reports issued

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 Trevor Rees, who is the engagement partner to the Authority, telephone 0161 246 4063, email [trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk) who will try to resolve your complaint. Trevor is also the national contact partner for all of KPMG's work with the Audit Commission. If you are 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 Investigation Officer, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by e mail to: [complaints@audit-commission.gov.uk](mailto:complaints@audit-commission.gov.uk). Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421

## Executive summary

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### Purpose

This Annual Audit Letter (the letter) summarises the key issues arising from our 2008/09 audit at Fylde Borough Council (the Council). Although this letter is addressed to the Members of the Council, it is also intended to communicate these issues to key external stakeholders, including members of the public. The letter will also be published on the Audit Commission website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk). It is the responsibility of the Council to publish the letter on its website. Throughout our audit we have highlighted areas of good performance and also provided recommendations to help you improve performance. We have reported all the conclusions in this letter to you throughout the year and a list of all reports we have issued is provided in Appendix 1.

### Scope of our audit

The statutory responsibilities and powers of appointed auditors are set out in the Audit Commission Act 1998. Our main responsibility is to carry out an audit that meets the requirements of the Audit Commission's *Code of Audit Practice* (the Code) which requires us to review and report on your:

- *use of resources* – whether you have made proper arrangements for securing economy, efficiency and effectiveness ('value for money') in your use of resources (UoR). Our work in this area is summarised in section two; and
- *accounts* – the Financial Statements and the Annual Governance Statement, summarised in section three.

### Key messages

The key areas which we draw to your attention to are:

- Our use of resources assessment, the first under the Audit Commission's new UoR regime, demonstrated that the Council had sound processes in place for most elements of the assessment. However, we identified some weaknesses during our audit affecting aspects of each of the themes. These weaknesses had a specific impact on our assessment of the Council's arrangements for understanding costs, commissioning and procurement, and workforce planning. Despite the identification of such weaknesses, we concluded that the Council had for the most part made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
- Our value for money conclusion was not qualified, but on the basis of these weaknesses we issued an 'except for' opinion. We identified no significant issues in the course of the financial statements audit and we issued an unqualified audit opinion on the Council's financial statements for 2008/09.

### Comprehensive Area Assessment framework

The Audit Commission and the other public service inspectorates introduced a new assessment framework during 2009, Comprehensive Area Assessment (CAA). CAA is a new way of assessing local public services in England. It examines how well councils are working together with other public bodies to meet the needs of the people they serve. It is a joint assessment made by a group of six independent watchdogs. Assessments will be made publicly available every year and will provide an annual snapshot of quality of life in the area. The first results will appear on a new 'Oneplace' website.

Work in this area is being led by the local Comprehensive Area Assessment Lead (CAAL). The CAAL has shared draft findings with officers and he is due to formally report in December 2009. Alongside the CAA report, the organisational assessment will be issued which combines the judgements on your use of resources and managing performance assessments.

Any issues arising will be discussed with you and planned into future years audit and assessment activity.

## Executive summary (continued)

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### Financial standing

The last year has seen the country enter a significant economic recession. The consequence locally is an increasing demand for public services and the likelihood of reduced levels of central government funding. Together, these provide a significant challenge for local councils as they seek to continue to provide services to local residents, whilst maintaining a sound financial position.

The Council has taken a number of steps to strengthen its financial position and has recently refreshed its medium term financial strategy. The reserves level has increased following a Capitalisation directive for £705,000 in 2008/09. There are still some stretching savings targets that need to be achieved through 2009/10 and beyond. Should there be a reduction in government funding, the Council recognises that the current level of service provision is not sustainable and a critical evaluation of services will need to be undertaken.

Fylde Borough Council had no investments in Icelandic financial institutions which suffered at the start of the economic downturn. The Council has a robust investment policy which limits exposure to higher risk financial organisations.

The impacts of the recession will continue to present a challenge to the Council in the coming financial year. We will continue to monitor the Council's response and actions in this key area.

### Future issues

- From 2010/11 local government bodies are required to prepare their financial statements under International Financial Reporting Standards (IFRS) and therefore the Council will need to be preparing for this transition.
- Those Local Authorities in the Carbon Reduction Commitment scheme will need to start reporting their usage from 1 April 2010 and recording these transactions within their financial statements with effect from 1 April 2011. There will be implications for cash flow, energy bills, and investment decisions and these could be significant. There are huge opportunities in addressing sustainability with clear cost reduction opportunities from saving energy which will become more and more significant over time. There are also opportunities to use the sustainability agenda to support the achievement of business challenges. It puts carbon reduction firmly amongst your corporate priorities.
- Sustainability performance – The Treasury is developing guidance for 2010/2011 which will require all public sector bodies to report publicly on sustainability performance in annual reports. CIPFA is in discussion with the Treasury about when and in what form this requirement will be formalised for local authorities. The reported information will be subject to audit and scrutiny. Sustainability reporting will be difficult to implement and many organisations will need to act now to implement new information gathering processes.
- Public expenditure forecasts indicate that there will be significant pressure on local authorities' funding in the medium term. Future financial settlements will be extremely tight, increasing the need for local authorities to have comprehensive efficiency programmes supported by sound financial management arrangements. It is likely that bold measures will be required to generate sufficient savings to mitigate the impact on priority services. More than ever before, officers and Members will need to focus on identifying these significant savings measures and ensuring that robust arrangements are in place to monitor their delivery to ensure they are realised. The Council needs to establish robust financial plans to deliver the levels of savings required for the future.

### Fees

Our fee for the audit is £125,000. In addition, our fee for the certification of grants will be approximately £21,000.

### Acknowledgement

This has been KPMG's second year as the Council's external auditor following our appointment by the Audit Commission in 2007. We would like to thank the Council's management and staff for the help, support and co-operation they have provided throughout our audit. We recently agreed our audit plan for our 2009/10 audit and look forward to working closely with the Council in the coming year to deliver this programme of work.

## Use of resources

The main elements of our use of resources work are:

- *Use of Resources* – from 2008/09, the Audit Commission introduced a new UoR assessment framework which forms part of the Comprehensive Area Assessment (CAA). This replaced the former UoR assessment which was predominantly focused on processes – the scope of the new regime is wider as it also considers whether public bodies have achieved significant and sustainable outcomes. UoR assessment comprises three themes which consider:
  - Managing finances – focusing on sound and strategic financial management;
  - Governing the business – focusing on strategic commissioning and good governance; and
  - Managing resources – focusing on the management of natural resources, assets and people.
- *Value for money conclusion* – we issue a conclusion on whether we are satisfied that you have put in place proper arrangements for securing economy, efficiency and effectiveness in your use of resources. This is based on the UoR assessment.
- *Specific risk based work* – we carry out specific reviews of issues facing you, based on a risk assessment and from risks raised with us from various sources. This year we undertook a review of the Council’s financial planning and management arrangements.

The findings from this work are summarised below.

Element of work	Key findings								
<b>Use of Resources</b>	<p>Our assessment of Fylde Borough Council against the three themes resulted in the following scores on a scale of one (inadequate) to four (performing strongly):</p> <table border="1"> <thead> <tr> <th>Area</th> <th>Score</th> </tr> </thead> <tbody> <tr> <td>Managing money</td> <td>2</td> </tr> <tr> <td>Governing the business</td> <td>2</td> </tr> <tr> <td>Managing resources</td> <td>1</td> </tr> </tbody> </table> <p>These scores build on last year’s UoR assessment when the Council scored level 2 (performing adequately). It should be noted, however, that direct comparisons cannot be made between the previous UoR scores and those awarded this year due to the differences in each assessment framework. For example, for district councils the Managing Resources assessment focused this year only on workforce planning arrangements, an area not formerly considered by the previous UoR framework. The issues leading to the level 1 score had therefore not been covered by previous audit work.</p> <p>In achieving level 2 for the other themes, the Council has been able to prove that overall it has adequate arrangements in place. However, there are elements of both themes where we identified specific weaknesses which were scored at level 1 at a more detailed assessment level. For Managing Money, this related to understanding costs. For Governing the Business, the issues related to aspects of the Council’s commissioning and procurement processes. In all these cases the Council is taking steps to strengthen its arrangements</p>	Area	Score	Managing money	2	Governing the business	2	Managing resources	1
Area	Score								
Managing money	2								
Governing the business	2								
Managing resources	1								
<b>Value for money conclusion</b>	<p>We issued an ‘except for’ value for money conclusion for 2008/09. This means that we concluded that the Council had appropriate arrangements in place to ensure the effective use of its resources, except for specific weaknesses that were identified during our audit which impact on our assessment of the Council’s arrangements for:</p> <ul style="list-style-type: none"> <li>● understanding costs and performance;</li> <li>● commissioning and procurement; and</li> <li>● workforce planning.</li> </ul>								
<b>Specific risk based work</b>	<p>As part of this year’s audit we undertook a specific review of the Council’s arrangements for financial planning and management. This concluded that processes have improved and sound building blocks have been put in place. Nevertheless, there remains much to be done to improve financial management across the Council. The Council has put into place an action plan to address the recommendations in the report which was presented to Audit Committee in September 2009.</p>								

### Audit opinion

We issued an unqualified opinion on your accounts on 29 September 2009. This means that we believe the accounts give a true and fair view of the financial affairs of the Council and of the income and expenditure recorded during the year.

Before we give our opinion on the accounts, we are required to report to 'those charged with governance' any significant matters identified. We did this in our report to the Audit Committee meeting on the 29 September 2009 and the key issues are summarised here.

### Accounts production and adjustments to the accounts

- We received a complete set of draft accounts by the 30 June deadline supported by working papers that showed a marked improvement compared with the previous year.
- Our audit identified three audit adjustment which were material in nature to the financial statements but these had no impact on the general fund. Four other errors were identified but these were not significant in value and were therefore not amended. A number of other amendments identified were of a presentational nature.
- Our audit resulted in two recommendations regarding financial controls. The detail of these was set out in our ISA260 report presented to the Audit Committee on 29 September 2009.

There were no other issues raised for the attention of the Audit Committee.

### Future issues

From 2010/11 local government bodies are required to prepare their financial statements under International Financial Reporting Standards (IFRS). There is a transitional process that needs to be followed, starting with assessing the areas where IFRS will require re-statement of prior year financial statements in order to comply with the new standards. The Council will need to effectively manage this transition, ensuring that its financial systems and procedures have been reviewed and updated as necessary and that finance staff receive necessary training in order to continue its good track record of producing timely, complete and materially accurate financial statements.

Areas where particular focus will be required include:

- Leases – Collation of records for all current lease contracts and establishing whether these should be classified as operating or finance leases.
- Private Finance Initiative (PFI) – Obtaining models that the Council will use to model the accounting impact of their PFI schemes and generate the appropriate accounting entries.
- Property Plant and Equipment – Ensuring procedures are in place to revalue assets as and when required. The Council will need to agree whether valuations for component assets will be provided through the formal valuation process or by using internal information as and when valuations are completed.
- Employee benefits – Establishing an acceptable methodology which is agreed with the Councils auditors for calculating employee benefit accruals in relation to untaken annual leave, flexi-time and time off in lieu. This should be applied to calculate an opening accrual as at April 2009.

The Council is using the services of a Consultant to assist with the management of this process. Audit Committee members have been briefed on the impact of the implementation and the Council's preparations for this are in line with the timetable in place. We will continue to liaise with the Council, ensuring that its plans are sufficiently progressed to meet the expected reporting requirements.

## Appendix 1: Audit reports issued

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A summary of the reports issued in the year to date is set out below.

Report	Date issued
Audit and Inspection Plan 2008/09	June 2008
Annual Audit Fee letter 2009/10	April 2009
Report to those charged with governance 2008/09	September 2009
Review of Financial Planning and Management	September 2009

# REPORT



REPORT OF	MEETING	DATE	ITEM NO
FINANCE	AUDIT COMMITTEE	28 <sup>TH</sup> JANUARY 2010	6

## RESERVES AND BALANCES POLICY

### Public Item

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

### Summary

A key element contained within the 'Use of Resources' criteria is Integrated Financial Planning'. This states that: the Financial Planning process of an authority incorporates "a soundly based policy on the level and nature of reserves and balances". This policy document attached sets out the Council's approach to Reserves and Balances within the context of its Medium Term Financial Strategy.

### Recommendation

1. That Audit Committee note the report. Any comments will be reported back to the Portfolio Holder (Finance & Resources) for further consideration if required.

### Reasons for recommendation

1. A soundly based policy on the level and nature of reserves and balances is integral to the financial planning process of the Council.

### Alternative options considered and rejected

Not applicable

### Cabinet Portfolio

The item falls within the following Cabinet portfolio:

Portfolio Holder (Finance & Resources) – Councillor Roger Small

## **Report**

### **1. Information**

#### **1.1 Legislative/Regulatory Framework**

There is a requirement reinforced by section 114 of the Local Government Finance Act 1988 which requires the Chief Financial officer to report to all the Authority's Councillors if there is or is likely to be unlawful expenditure or an unbalanced budget. This would include situations where reserves have become seriously depleted and it is forecast that the authority will not have the resources to meet its expenditure in a particular financial year.

#### **1.2 Role of the Section 151 Officer**

Within the existing statutory and regulatory framework, it is the responsibility of the Section 151 Officer to advise local authorities about the level of reserves that they should hold and to ensure that there are clear protocols for their establishment and use.

There are no statutory minimum levels but in line with best practice and Audit Commission advice it is suggested that 5% of the average total net requirement, which equates to £530k for this Authority is set as the minimum for the reserve balances.

However, during 2008/09, due to the downturn in the economy, the Council had to take some urgent in year action to make further service cuts in order to maintain minimum balances at that time. In order to remain financially robust over the medium term, Budget Council in February 2009, based on Section 151 Officer advice, agreed to increase the minimum level of balances to £750k.

#### **1.3 Current Economic Climate & Minimum Balances Levels**

During this 2010/11 budget setting cycle discussions will take place with Members regarding the future sustainability of balances, in light of new and significant budget pressures facing the Council in future years. These are in relation to a potential reduction in central government grant and further capping in Council Tax from 2011/12.

#### **1.4 Purpose of Reserves and Balances**

Reserves and balances can be held for three main purposes:

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of what is commonly referred to as 'general balances';
- A contingency to cushion the impact of unexpected events or emergencies – this also forms part of 'general balances';
- A means of building up funds, commonly referred to as earmarked reserves, to meet known or predicted liabilities.

For each earmarked reserve held by a local authority there should be a clear protocol setting out:

- The reason for/purpose of the reserve;
- How and when the reserve can be used;
- Procedures for the reserve's management and control; and
- A process and timescale for review of the reserve to ensure continuing relevance and adequacy,

## 2. Risk Assessment

2.1 The implementation of this policy is in line with the Council's aim to maintain a score 2 (or improve to a score 3) in the Use of Resources Assessment.

Report Author	Tel	Date	Doc ID
Bernard Hayes, Preston City Council, Fylde Borough Council Section 151 Officer	(01772) 906197	5 January 2010	

List of Background Papers		
Name of document	Date	Where available for inspection
Document name		Council office or website address

### Attached documents

Reserves & Balances Policy 2009/10

IMPLICATIONS	
Finance	Included in body of the report
Legal	N/A
Community Safety	N/A
Human Rights and Equalities	N/A
Sustainability and Environmental Impact	N/A
Health & Safety and Risk Management	N/A

Fylde Borough Council

Reserves and Balances  
Policy  
2009/10

# Policy on the Level of Reserves and Balances

## 1 The Reserves and Balances Policy

- 1.1 Setting the level of reserves and balances is just one of several related decisions in the formulation of the Council's Medium Term Financial Strategy.
- 1.2 In establishing and approving the Medium Term Financial Strategy, "the Council will ensure that it maintains a prudent level of reserves in line with best practice and relevant guidelines".
- 1.3 Any surplus balances will be considered in the light of the budget forecast and the risks associated with that forecast. Any changes to this Policy will require approval by Members.

## 2 Integrated Financial Planning

- 2.1 The starting point in assessing the minimum level of general reserves is £750k which is considered in line with Best Practice and therefore appropriate for this authority. This base figure will be subject to Annual Review by the Section 151 Officer in the light of risks within the Medium Term Financial Strategy.

In making a recommendation as to the level of balances which should be maintained, the Section 151 Officer will pay particular attention to:-

- The overall financial standing of the authority (level of borrowing, debt outstanding, council tax collection rates, etc.)
  - The authority's track record in budget and financial management including the robustness of the Council's Medium Term Financial Strategy
  - The authority's capacity to manage in-year budget pressures
  - The strength of the financial information and reporting arrangements
  - The authority's virement and end of year procedures in relation to revised budget and cash limit under/over spends at authority and departmental level
  - The adequacy of the authority's insurance arrangements to cover major unforeseen risks.
- 2.2 The Council will not hold significant balances above those required by the Medium Term Financial Strategy.
  - 2.3 The level of earmarked reserves will be reviewed in the preparation of the Medium Term Financial Strategy and again as part of the Closure of Accounts process. The creation of any new Earmarked Reserves will be subject to Member approval.
  - 2.4 The Council's General Fund Reserves at 31<sup>st</sup> March 2009 was £1.348m. This includes £650k Central Government Capitalisation Approval.

### 3 Reporting Framework

- 3.1 Any recommended changes to the level of Reserves held will be reported within the Medium Term Financial Strategy or in the consideration of the Annual Accounts and will take account of the strategic, operational and financial risks facing the authority at that time.
- 3.2 In making any recommendation the Section 151 Officer, will provide Members, (in line with the requirements of the Local Government Act 2003) with an opinion on the robustness of the budget estimates and on the adequacy of the Council's reserves.

### 4 Earmarked Reserves Position (as at 31<sup>st</sup> March 2009)

- 4.1 Earmarked reserves are a means of voluntary and prudently building up funds to meet known future or predicted liabilities. When establishing reserves the Council must adhere to the Statement of Recommended Practice (SORP) and in particular the need to distinguish between reserves (set aside for future liabilities) and provisions (mandatory set asides for actual liabilities existing).

In approving any new Earmarked Reserves the Council needs to identify the purpose of the Reserve, the protocol for its use and the procedures for its management and control. For clarity the Earmarked Reserves as at 31 March 2009 are set out in the table below: -

#### Earmarked Reserves

	Balance at 1st April	Transfers To/(From)	Balance at 31 March
	£'000	£'000	£'000
<b>Capital Reserves</b>			
Capital Projects Fund – Bus Monies	17	5	22
	<b>17</b>	<b>5</b>	<b>22</b>
<b>Revenue Reserves</b>			
Building Control Regs.	63	(35)	28
Revenues & benefits shared service	-	63	63
Replacement Systems	29	55	84
Vehicle Maintenance	-	27	27
Land Charges	-	28	28
Parks/Open Spaces	39	-	39
Business Improvement Grant (NNDR)	34	-	34
	<b>165</b>	<b>138</b>	<b>303</b>
<b>Total Earmarked Reserves</b>	<b>182</b>	<b>143</b>	<b>325 (F)</b>
(F) Favourable (A) Adverse			

## **Purpose of Earmarked Reserves**

Reserves are those sums set aside for purposes falling outside the definition of provisions. Reserves include earmarked reserves set aside for specific policy purposes and balances which represent resources set aside for purposes such as general contingencies and cash flow management.

The Council operates a number of different earmarked reserves, the purpose of each is summarised below:-

- **Capital Project Fund (Ansdell Bus Money) Reserve** – Set aside from the revenue receipts on the sale of the Bus Company allocated to each area of the Authority. Balance to be expended in Ansdell on schemes to be identified.
- **Building Control Regulations Reserve** – A fundamental principal of the Building Regulations Scheme introduced 1<sup>st</sup> April, 1999, is that there is a three year rolling accounting period over which costs should equate with charge income. This reserve will assist in achieving that aim in future periods.
- **Revenues & Benefits Shared Service Reserve** – The Council's revenues and benefits service is provided by Blackpool Council under a shared service arrangement. The shared service delivered an underspend during 2008/09, of which Fylde Borough Council's share was £63k. This reserve has been established to support continuing delivery of this service.
- **Replacement Systems Reserve** – for the funding of new IT initiatives and the development of IT systems.
- **Vehicle Maintenance Reserve** – created in 2008/09 to contribute towards the cost of vehicle maintenance repairs.
- **Land Charges Reserve** – Surpluses generated on land charges set aside for reinvestment into the service.
- **Parks & Open Spaces Reserve** – Developers' who seek the adoption of areas of open space by the Council are required to deposit a commuted sum that is used to support additional grounds maintenance expenditure incurred by the Council following adoption.
- **Business Improvement Grant (NNDR) Reserve** – Created in 2005/06. The Council was awarded additional monies that have been earmarked for general use to support Economic Development wherever possible.

4.2 In line with this Policy earmarked reserves have been reviewed:

### **2010/11 Budget Setting Process**

It is proposed that no earmarked balances are made available for release.

## 5. Other Reserve Funds (as at 31 March 2009)

Reserve	Purpose	How and When Used	Procedures for management and control	£000	Adverse or Favourable
Collection Fund - FBC	Records the surplus / -deficit on the Collection Fund that is due to / from FBC	The surplus or - deficit on the Collection Fund at the end of the financial year is shared out between the precepting authorities in the following year. The amount to be distributed to / from FBC held in this account.	There are statutory rules for the estimation and apportionment of surpluses and deficits. These are set out in the Local Authorities (Funds) (England) Regulations 1992.	-559	(A)
General Fund	An unallocated general working balance reserve fund to help cushion the impact of uneven costs of running council day to day services or the impact of unexpected events or emergencies	In line with the annual budget and medium term forecast as approved by Council, taking in to account strategic, operational and financial risks facing the council over the medium term	Managed by the Section 151 Officer	1,348	(F)
<b>Total Other Reserve Funds as at 31 March 2009</b>				<b>789</b>	<b>(F)</b>

## 6.Pensions Reserve

In line with Financial Reporting Standard 17 Retirement Benefits the Council's commitment to make future payments must be disclosed in the accounts at the time the employees earn their future entitlement to the benefits. The balance on the Pension Reserve as at 31 March 2009 is £17.358m deficit. The liability balance reported in the balance sheet matches off exactly to the deficit balance held in the Pensions Reserve.

## 7.Capital Reserves

Capital reserves are not available for revenue purposes and some can only be used for specific statutory purposes.

The Revaluation reserve and the Capital Adjusting Account are held in accordance with the SORP. The balances on these reserve accounts as at 31 March 2009 are £1.992m and £8.295m respectively. These reserves are matched by fixed assets within the balance sheet and hence they do not represent resources available to the Council.

The Deferred Capital Receipts Reserve represents capital income still to be received from earlier disposals of the Council's assets where deferred payments have been agreed. The balance on this reserve account as at 31 March 2008 is £11k. This reserve is matched with long term debtors in the balance sheet and hence does not represent resources available to the Council.

# REPORT



REPORT OF	MEETING	DATE	ITEM NO
GOVERNANCE & PARTNERSHIPS DIRECTORATE	AUDIT COMMITTEE	28 JANUARY 2010	7

## STRATEGIC RISK 2009-2010

### 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 2009-2010 Risk Register

### Recommendation

#### Recommendations

1. That the progress made on completing the Strategic Risk Actions for 2009-2010 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 R Small

### Report

#### 1 Background

1.1 In June 2009 the Risk Management Officer reported to the Audit Committee on the compilation of the 2009-2010 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 2009-2010. 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 2009 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 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.

Risk No.	Strategic Risk	Risk Champion
1	Planning & Development	Director of Strategic Development
2	Economic Development	Director of Governance & Partnerships
3	Contractual Arrangements	Director of Customer & Operational Services
4	Financial Standing & Capacity	Chief Executive
5	Partnerships/Shared Services	Director of Governance & Partnerships
6	Economic Downturn/Credit Crunch	Chief Executive

#### 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 with responsibility for Risk

Management. In 2009/2010 this was initially Dave Joy up to May 2009 and Tracy Scholes since that date. Both the Cabinet Portfolio Holder and Member Champion are invited to the SRMG. In 2009/2010 the Portfolio Holder was Cllr Small. The member champion for Strategic Risk Management is Cllr Mulholland. 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 SRMG has its meetings on a 6 weekly cycle throughout the year to monitor the completion of the Strategic Risk Action Plans and to make amendments to the plans as necessary.

2.3 The six action plans in the register adopted in June 2009 had 53 individual actions to be undertaken by assigned officers by certain key dates throughout the year. These individual actions have been monitored by the SRMG throughout 2009.

2.4 The last meeting of the SRMG received an update report on the current position with regard to the individual actions due to date. Out of a total number of 40 individual risk actions due to be completed by 31 December 2009, 34 (85%) had been fully completed to the satisfaction of the SRMG.

2.5 Of the remaining 6 actions due for completion 5 related to the production of various elements of the Local Development Framework. Since the adoption of the Risk Register, the recommendations of the Planning Advisory Service who conducted a peer review of our LDF process have been received and an LDF member/officer steering group chaired by the Portfolio Holder has been established. The Steering Group has reviewed the proposed actions and is seeking specialist legal advice on defining the scope and timescale of the Local Development Scheme (the plan to deliver the LDF). Once the scope/timescales have been agreed by full council a revised action plan can be adopted and the risk register updated. The final action related to the production of a Regeneration Framework. This action has been superseded by the preparation of the Lytham St Annes 2020 Regeneration Vision which will help to inform the production of the Regeneration Framework which has now commenced. Therefore, a revised timescale for the completion of this action will be reported to the SRMG in due course

Report Author	Tel	Date	Doc ID
Andrew Wilsdon	(01253) 658412	17/01/10	

List of Background Papers		
Name of document	Date	Where available for inspection
Risk Register 2009/2010	June 2009	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	28/01/2010	8

## INTERNAL AUDIT INTERIM REPORT 2009-2010

### Public Item

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

### Summary

At its meeting in April 2009 the committee endorsed the Internal Audit Annual Plan for 2009/10. This report summarises the work undertaken by internal audit from April to December 2009 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 Roger Small)

## **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 2009.

### **2. Assurance on Internal Control**

2.1 During the period from April to December 2010 fourteen (14) final reports have been completed and action plans 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 lead to material loss, exposure to fraud or failure to meet regulatory requirements. Medium suggests a less important vulnerability not fundamental to system integrity. Low priorities relate to good practice improvements or enhancements to procedures.

2.3 We also measure the overall level of assurance 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**

<b>Level</b>	<b>Definition</b>
5 Full Assurance	There is a sound system of control designed to achieve the system objectives and manage the risks to achieving those objectives
4 Substantial Assurance	While there is basically a sound system of control, there are some minor weaknesses, which put some of the system objectives at risk
3 Moderate Assurance	While there is on the whole a sound system of control, there are some more significant weaknesses that may put some of the system objectives at risk
2 Limited Assurance	There are significant/serious weaknesses in key areas in the systems of control 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

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

**Table Two: Reports, Risk & Assurance**

<b>Audit Area</b>	<b>High Risks</b>	<b>Medium Risks</b>	<b>Low Risks</b>	<b>Assurance Level</b>
Treasury Management	-	1	1	Limited <sup>1</sup>

Risk Management	-	8	1	Substantial
Main Accounting	-	6	8	Substantial
Council Tax/NNDR	2	6	2	Substantial
Housing Benefits	-	2	-	Substantial
Payroll (Central)	1	2	-	Moderate
Payroll (Finance)	-	1	-	Moderate
Cash Collection	-	4	1	Substantial
Sundry Debtors	-	3	1	Substantial
Creditors	1	4	2	Substantial
National Indicators	-	6	4	Moderate
IT Application (Paybase) <sup>2</sup>	-	6	2	-
IT Application (Lalpac) <sup>2</sup>	-	5	2	-
IT Application (Corporate) <sup>2</sup>	-	5	-	-
<b>Total</b>	<b>4</b>	<b>59</b>	<b>24</b>	

<sup>1</sup> Assurance assessment took account of issues o/s from 2008/09

<sup>2</sup> Review performed by LCC

2.5 For 2009/10 systems reviewed by Internal Audit to 31<sup>st</sup> December the average assurance score was 3.6 on the scale of 1 to 5. This equates to substantial assurance overall and indicates that on the whole there is a sound system of control with only some system objectives at risk.

2.6 There were four important internal control weaknesses brought to the attention of management during the first half of the year. In each case the concerns have been addressed. One high priority action was brought forward from the previous year with a revised target completion date.

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

**Table Three: High Priority Risks Identified**

<b>Risk</b>	<b>Director</b>	<b>Current Position</b>
A 'Joint Board' of members for the Shared Revenues and Benefits Service was not established	Governance & Partnerships	Completed
Council Tax debts written off were not authorised	Governance & Partnerships	Completed
Records of starters and leavers were not accurately maintained in support of payroll operations	Customer & Operational Services	Completed <sup>1</sup>
Weakness in direct debit payment controls	Governance & Partnerships	Completed
Project management process not fully embedded	Customer & Operational Services	Jul 10 Jan 10

<sup>1</sup> Subject to evidential verification

2.8 With regard to the project management process the work of reviewing the framework is currently under way. A revised implementation date of July has been established as part of the comprehensive review of project management.

### 3. Follow-Up Work

3.1 Follow-up reviews are performed to appraise management of post audit actions and provide assurance that audit recommendations have been implemented. Eight (8) original 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
<b>2008/09 Reports</b>			
Council Tax/NNDR	10	10	100%
Housing/CTax Benefit	2	2	100%
Payroll	13	13	100%
Sundry Debtors	13	13	100%
Treasury Management	2	1	50%
<b>2009/10 Reports</b>			
Cash Collection (Central)	5	5	100%
Payroll (Central)	3	3	100%
Sundry Debtors	4	4	100%
Total	52	51	98%

3.3 The overall implementation rate to 31 December stands at 98% compared to the best overall implementation rate of 83% for 2007/08. At the time of the Interim Report in 2008/09 the rate stood at 82%.

### 4 Special Investigations and Counter Fraud Work

4.1 During the year to the 30<sup>th</sup> December the audit team commenced one special investigation into allegations of fraud and corruption. This arose as a result of an allegation from a third party. However, the investigation concluded that it had not been established on the balance of probabilities that misconduct by an individual employee occurred.

4.2. One investigation that was ongoing at the last time of reporting has also been concluded. This resulted in disciplinary action against two members of staff.

4.3 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	2006- 07	2007- 08	2008- 09	2009 (Apr-Dec)
Disciplinary action	1	4	3	-

Employee Resigned prior to conclusion	-	1	-	-
No evidence to support allegation	2	1	-	1
Inconclusive evidence	2	1	-	-
Investigation aborted	-	1	-	-
Police investigation, inconclusive	2	-	-	-
Standards Board referral, no action	1	-	-	-
Investigation ongoing	-	-	-	-
<b>Total</b>	<b>8</b>	<b>8</b>	<b>3</b>	<b>1</b>

4.4 Altogether a total of 17 days was taken up dealing with reactive fraud work during the period 1<sup>st</sup> April to the 31<sup>st</sup> December 2009. This compares with a total of 18 days spent on fraud in 2008-09 and 95 days in 2007-08. Clearly the amount of fraud work required is not predictable and its impact on the achievement of the audit plan can be considerable.

4.5 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 information for a data matching exercise. Savings generated from the exercise are estimated to be around £25,000 most of which will be ongoing in future years. The main savings were achieved in the area of Council Tax with around 70 Single Person Discounts discontinued.

4.6 In addition to the above, internal audit has undertaken the following counter fraud work, which is not an exhaustive list:

- completed Audit Commission Fraud & Corruption modules to highlight areas of potential fraud risk
- carried out an effectiveness review of the Council's anti-fraud culture based on Better Governance Forum's Red Book – *Managing the Risk of Fraud*
- surveyed fraud awareness among staff using the questionnaire developed by the Audit Commission's Good Conduct and Counter Fraud Network

4.7 The Head of Internal Audit is responsible for overseeing the delivery of the benefit fraud service provided by Preston City Council. The final Service Level Agreement was recently signed and is operating well with all performance measures on target for achievement. In the first three quarters of the year overpayments of £73,000 had been identified against the annual target of £100,000 with 25 prosecutions and sanctions against a target of 35.

## 5 Projects, Consultancy & Advice

5.1 This section summarises the range of services, beyond internal audit's assurance role. Such work is often requested by clients, rather than forming part of the risk-based audit function. Commonly, they will involve problem-solving issues as an aid to management for the enhancement of their service. The nature and scope of the work may include participation in projects, facilitation, process design, training, and advisory services, but this list is not exhaustive

5.2 In the period to 31<sup>st</sup> December internal audit has undertaken project work, provided advice or acted in a consultancy capacity in the following areas, which is not an exhaustive list:

- ♦ Corporate Governance – as part of the governance framework the Head of Internal Audit is a member of the Corporate Governance Group, which leads on the production of the Annual Governance Statement and the monitoring of the Corporate Governance Improvement Plan.
- ♦ Performance Management - performed a detailed verification of the information, data and calculations supporting the published National Indicator figures. The input from Internal Audit resulted in a fully accurate publication for those indicators reviewed and an action plan to address general issues arising from the work.
- ♦ Use of Resources Key Lines of Enquiry – performed research and formulated evidence in support of the Audit Commission’s best practice assessment of the Council’s performance in relation to internal control, fraud and risk management.
- ♦ Code of Connection – advised s.151 Officer concerning the national scheme to improve data access security and continued to monitor progress.

## 6 Performance of Internal Audit

6.1 A set of performance indicators for internal audit was adopted following an exercise to canvass the views of interested stakeholders. A separate report to the Audit Committee explains the circumstances and outcomes from the survey. In addition new targets are suggested where necessary and one revised target is proposed.

6.2 Table Six sets out the current performance information that will be monitored and progress reported during future years:

**Table Six: Performance Indicator Results**

Performance Indicator	Target	Actual 2008/09	Current to 31/12/09
IA1 % of audit plan completed	90%	97%	76%
IA2 % satisfaction rating indicated by post-audit surveys	90%	89%	90%
IA3 % of audit recommendations agreed with management <sup>1</sup>	n/a	n/a	n/a
IA4 % of agreed actions implemented by management	95%	83%	98%
IA5 % of ‘High Priority’ actions implemented by management	n/a	100%	100%
IA6 % of ‘High/Medium Priority’ actions implemented by management	95%	79%	92%
IA7 % of recommendations implemented by the first agreed date <sup>1</sup>	n/a	n/a	n/a%

<sup>1</sup> New indicators - no data is currently available

## 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	15/01/10

List of Background Papers		
Name of document	Date	Where available for inspection
Audit Plan 2009/10	Latest update	All background papers or copies can be obtained from Savile Sykes – Head of Internal Audit on 01253 658413 or e-mail <a href="mailto:saviles@fylde.gov.uk">saviles@fylde.gov.uk</a>

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 Annual 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	28/01/10	9

## EFFECTIVENESS OF INTERNAL AUDIT

### Public Item

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

### Summary

The internal audit function is considered to be a key indicator in providing assurance on internal control. A review of internal audit effectiveness is required as part of satisfying the overall governance arrangements in local authorities and supports the Council's Annual Governance Statement. The report presents an update following the implementation of the action plan approved by the Audit Committee at its last meeting and the external peer review of effectiveness.

### Recommendations

1. The Committee notes the findings of the peer review on the effectiveness of internal audit and confirms the conclusion that there is substantial compliance with the CIPFA Code of Practice for Internal Audit in Local Government 2006.
2. The Committee notes the progress in implementing the associated action plan.

### Reasons for recommendation

Adherence to Code of Practice for Internal Audit in Local Government 2006 is mandatory and the review of effectiveness permits any divergence from the standard to be highlighted and addressed.

### Alternative options considered and rejected

No other course of action is advocated.

## **Cabinet Portfolio**

Finance & Resources

Councillor Roger Small

### **1 Introduction**

1.1 The Accounts and Audit Regulations 2006 state that each local authority “shall, at least once in each year, conduct a review of the effectiveness of its system of internal audit”. The regulations go on to state that the findings of this review should be considered by a committee of the relevant body as part of the wider consideration of the Council’s system of internal control.

1.2 The findings of the initial effectiveness review undertaken by the Head of Internal Audit were reported to the Audit Committee at its September meeting. The Committee confirmed the conclusion that there was substantial compliance with the CIPFA Code of Practice for Internal Audit in Local Government 2006.

1.3 In addition, the Committee endorsed an action plan of enhancements to internal audit arrangements arising from the review. The progress made in implementing the action plan is set out in the report.

1.4 In order to provide evidence of suitable assurance and challenge a reciprocal agreement was reached with Wyre BC whereby each internal audit manager agreed to review the self assessment exercise carried out by the other. The results of this peer review are presented in this report and will be reflected in the Annual Governance Statement.

### **2 Findings of the Review of Internal Audit Effectiveness**

2.1 The CIPFA Code of Practice for Internal Audit checklist was completed to indicate full, partial or non-compliance with the Code. A total of eleven enhancements arose from this initial exercise and the action plan indicating the current implementation position is attached as Appendix 1.

2.2 In accordance with the target completion dates, ten of the improvements have been implemented and the final action is due for implementation by March 2010.

### **3 Evaluating the Review**

3.1 The expected understanding is that reviews of internal audit by external audit will take place triennially. In other years the spirit of the regulations points to an independent review conducted externally where possible. However, this needs to be balanced against the practicalities either in terms of cost or the resources required to undertake a reciprocal external review each year.

3.2 Therefore, the following approach has been adopted for each three year period:

Year 1 – Assessment by external audit

Year 2 – Self assessment via the checklist with independent evaluation

Year 3 - “Light touch” approach – review checklist and the completion of any actions arising from the previous reviews

3.3 It is considered that Year 2 of this cycle has now been reached and as indicated a review of the self assessment exercise was carried out by the Wyre BC internal audit manager as part of a

reciprocal agreement. Two additional points only arose as a result of the peer review, which have been added to the original action plan.

**Suggested Actions:**

R12. Use the most up-to-date checklist in all future self-assessments

R13. Give consideration to carrying out quarterly planning meetings to determine which audits are to be conducted that quarter. Timings can then be discussed with managers to avoid any unnecessary delays at the start of each audit

3.4 The formal statement issued in respect of this work together with the supplementary action plan is attached as Appendix 2. Overall the opinion received was as follows:

*“Based on the documentation and explanations provided to me, I can provide reasonable assurance that the self-assessment is fairly stated and there is an Action Plan in place to address the areas of partial or non-compliance. I further conclude that the internal audit service has achieved substantial compliance with the code.”*

**4 Risk Assessment**

4.1 The report is for information only and therefore there are no risks to address.

Report Author	Tel	Date	Doc ID
Savile Sykes	(01253) 658413	Date of report	

List of Background Papers		
Name of document	Date	Where available for inspection
<ul style="list-style-type: none"> <li>♦ The Accounts and Audit Regulations 2006</li> <li>♦ CIPFA Code of Practice for Internal Audit in Local Government (including effectiveness checklist)</li> <li>♦ Head of Internal Audit’s 2008/09 Annual Report presented to 25 June 2009 Audit Committee</li> <li>♦ The report on the Annual Governance Statement presented to the 25 June 2009 Audit Committee</li> <li>♦ Periodic progress reports during 2008/09 on the audit plan, to various meetings of the Audit Committee</li> <li>♦ The Head of Internal Audit’s report on the effectiveness of internal audit to the 29 September 2009 Audit Committee</li> <li>♦ KPMG’s Interim Audit Report (including Review of Internal Audit)</li> </ul>	<p>2006</p> <p>25 June 2009</p> <p>25 June 2009</p> <p>5 June 2008</p>	<p>All background papers or copies can be obtained from Savile Sykes – Head of Internal Audit on 01253 658413 or e-mail <a href="mailto:saviles@fylde.gov.uk">saviles@fylde.gov.uk</a></p> <p>Agendas and minutes of the Audit Committee are available online at <a href="http://www.fylde.gov.uk">www.fylde.gov.uk</a></p>

## Attached documents

1. Action Plan – to bring into effect the recommendations of the report.
2. Peer Review Statement – Report on Effectiveness of Internal Audit

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. This report reviews the effectiveness of internal audit's contribution.

## COMPLIANCE WITH INTERNAL AUDIT CODE OF PRACTICE – ACTION PLAN

Ref	Action	Checklist Reference	Responsible Officer	Target Completion Date	Status September 2009
R1	Explore the possibility of a joint approach to aspects of audit work in relation to services currently shared with other local authorities	5.3.1	Head of Internal Audit	November 09	Complete: Joint council tax audit in progress
R2	Share draft plan proposals with external audit to assist with co-ordination	5.4.3	Head of Internal Audit	March 10	Pending
R3	Update the Audit Procedure Manual to reflect the practice whereby management is informed of interim findings where serious issues have arisen	8.2.2	Head of Internal Audit	November 09	Complete: Included in Procedure Manual 2009
R4	Include an access policy for audit files and records in the Audit Procedure Manual	8.3.6	Head of Internal Audit	November 09	Complete: Included in Procedure Manual 2009
R5	Include in the brief to managers details of circulation for any potential report arising from audit work	10.2.7	Head of Internal Audit	October 09	Complete: Included in Procedure Manual 2009; Template Updated
R6	Develop a process to ensure that relevant risk registers are updated to reflect significant risks identified by audit work	10.2.8	Head of Internal Audit	November 09	Complete: Included in Procedure Manual 2009 & Audit Reports Protocol
R7	Establish a procedure whereby the failure to implement internal audit recommendations is escalated to higher levels of management and ultimately to Audit Committee	10.3.2	Head of Internal Audit	November 09	Complete: Included in Procedure Manual 2009 & Audit Reports Protocol
R8	Develop a procedure to provide a revised opinion following a follow-up audit, where appropriate	10.3.3	Head of Internal Audit	November 09	Complete: Included in Procedure Manual 2009 & Audit Reports Protocol
R9	Include guidance within the Audit Procedure Manual to assist auditors to comply with the Code in the performance of their duties	11.1.2	Head of Internal Audit	November 09	Complete: Included in Procedure Manual 2009
R10	Review the Audit Procedure Manual on an annual basis to ensure it reflects current working practices and standards	11.1.3	Head of Internal Audit	November 09	Complete: Revision of Procedure Manual complete

R11	Revisit and update audit performance measures taking account of input from stakeholders	11.3.2	Head of Internal Audit	November 09	Complete: Survey undertaken [Note: Report to Audit Cttee pending]
R12	Use the most up-to-date self-assessment checklist in all future self-assessments		Head of Internal Audit	Immediate	Adopted
R13	Give consideration to carrying out quarterly planning meetings to determine which audits are to be conducted that quarter. Timings can then be discussed with managers to avoid any unnecessary delays at the start of each audit	5.2.2	Head of Internal Audit	March 2010	Pending

## **REPORT ON EFFECTIVENESS OF INTERNAL AUDIT – PEER REVIEW**

### **Introduction and Methodology**

The Accounts and Audit (Amendment) (England) Regulations 2006 require each Council to undertake an annual review of the effectiveness of its system of internal audit. This is a recent requirement and all councils have been challenged as to how this should be met.

The methodology chosen by both Fylde and Wyre Councils was to complete a self-assessment based on the CIPFA “Compliance with the Code” checklist and subject this to a reciprocal peer review by the respective internal audit managers.

The purpose of the peer review was to provide each authority’s management and outside stakeholders, with reasonable assurance that internal audit’s organisational status, responsibilities, relationships, audit practices, performance, quality and effectiveness were in compliance with the Code of Practice for Internal Audit in Local Government 2006.

### **Review Process**

Both audit managers completed a self-assessment and indicated whether each section of the code was complied with and whether any aspect was only partially complied with or not complied with completely.

A joint meeting was held where the operations of both audit teams were discussed at length in the context of the self-assessment and generally. Both managers provided a number of sources of evidence to support the judgements made and an appraisal of explanations offered where evidence was held on the system.

Subsequently a detailed, independent assessment was then made against the checklist using extensive support documentation. Where necessary, further questions were raised and addressed, and additional documents provided.

### **Opinion on the Self-Assessment and Action Plan**

Based on the documentation and explanations provided to me, I can provide reasonable assurance that the self-assessment is fairly stated and there is an Action Plan in place to address the areas of partial or non-compliance. I further conclude that the internal audit service has achieved substantial compliance with the code.

Signed: Joanne Billington

Dated: 19 December 2009

The results of the review should be taken into account when forming an opinion as to whether or not the internal audit system is effective for the purpose of the Annual Governance Statement.

# REPORT



REPORT OF	MEETING	DATE	ITEM NO
INTERNAL AUDIT	AUDIT COMMITTEE	28/01/10	10

## LOCAL PERFORMANCE INDICATORS FOR INTERNAL AUDIT

### Public Item

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

### Summary

The Code of Practice for Internal Audit in Local Government 2006 states that as part of the quality assurance framework a comprehensive set of performance indicators should be developed in consultation with appropriate stakeholders. Although internal audit has always monitored and reported on certain indicators there had been no input from clients and other interested parties in deciding the most appropriate and useful measures.

Consequently an exercise has been carried out to canvass the views of stakeholders in developing a new suite of performance indicators. This was one of the enhancements to arrangements arising from the recent review of internal audit effectiveness.

### Recommendations

1. The Committee notes the results of the stakeholder survey of performance indicators for internal audit and confirms the suite of indicators established.
2. The Committee notes and confirms the performance targets set for the coming financial year.

## **Reasons for recommendation**

Adherence to Code of Practice for Internal Audit in Local Government 2006 is mandatory and the review of effectiveness permits any divergence from the standard to be highlighted and addressed.

## **Alternative options considered and rejected**

No other course of action is advocated.

## **Cabinet Portfolio**

Finance & Resources

Councillor Roger Small

### **1 Stakeholder Survey**

1.1 To comply with the Code of Practice for Internal Audit in Local Government and as agreed by the Audit Committee at its last meeting, the need to develop audit performance measures taking account of input from clients and stakeholders was recognised.

1.2 Consequently all senior managers across the Council, together with the Chair/Vice of the Audit Committee and members of the audit team were surveyed to seek views about adopting a suite of performance measures with stakeholder support that will be monitored and reported to the Audit Committee and Management Team.

1.3 Those completing the survey were given a choice of fifteen possible indicators and asked to score each of them according to whether they considered it would be:

- 5 very useful,
- 4 useful,
- 3 neither useful nor not useful,
- 2 not very useful or
- 1 not at all useful

in measuring the performance, quality and effectiveness of internal audit.

1.4 From the survey one indicator, the 'percentage of agreed actions implemented by management', was scored as very useful or useful by 87.6% of respondents and was clearly viewed as the most significant measure of audit effectiveness. In addition, three quarters of respondents awarded very useful or useful to the indicator 'percentage of audit plan completed'. These most valued measures are already in place and will continue to be included in the suite of performance indicators for internal audit.

1.5 Five other indicators received a high usefulness rating as follows and will be included:

- 68.8% Customer satisfaction rating indicated by post-audit surveys
- 68.8% Percentage of 'High Priority' actions implemented by management
- 56.3% Percentage of audit recommendations agreed with management
- 56.3% Percentage of 'High/Medium Priority' actions implemented by management
- 56.3% Percentage of recommendations implemented by the first agreed date

1.6 The other remaining indicators received either a more ambivalent response or were not regarded as potentially worthwhile. The full survey results table is attached as an Appendix.

## 2 Stakeholder Suggestions

2.1 The questionnaire also asked those surveyed to suggest additional potential measures and four were put forward as follows:

- Percentage of established internal audit posts occupied
- Percentage of time of internal investigations
- Percentage of time on unplanned activities
- Time taken by managers to implement non-conformance reports

2.2 The first of these suggestions concerns staffing and resources available to audit, and is always under constant review and reported via the Head of Internal Audit's annual and interim reports.

2.3 The second and third suggestions in relation to the use of auditors' time on internal investigations and unplanned activities are already monitored and reported in detail. Also to a large extent the amount of time for this aspect of audit work is dependant on circumstances and not predictable. The indicator 'percentage of audit plan completed' reflects this area and highlights disproportionate time spent on investigative and unplanned work.

2.4 The final proposal concerning the time taken by managers to implement agreed actions would be difficult to establish. Each agreed action, of which there may be more than 200 in a year, has a separate implementation date and sometimes time extensions are agreed for legitimate reasons. Also the indicator 'percentage of recommendations implemented by the first agreed date' should help in measuring the overall promptness of management's response to non-conformance reports.

## 3 Performance Indicator Targets

3.1 To make performance indicators effective it is essential to establish realistic and achievable targets. The following table sets out the current target for 2009/10 where it already exists, the current actual for 2008/09 and the suggested target for the 2010/11:

Performance Indicator	Current Target	Actual 2008/09	Proposed Target
IA1 % of audit plan completed	90%	97%	90%
IA2 % satisfaction rating indicated by post-audit surveys	90%	89%	90%
IA3 % of audit recommendations agreed with management	n/a	n/a	95%
IA4 % of agreed actions implemented by management	90%	83%	90%
IA5 % of 'High Priority' actions implemented by management	n/a	100%	100%
IA6 % of 'High/Medium Priority' actions implemented by management	95%	79%	95%
IA7 % of recommendations implemented by the first agreed date	n/a	n/a	75%

3.2 The performance indicators IA1 and IA2 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.

## 4 Risk Assessment

4.1 The report is for information only and therefore there are no risks to address.

Report Author	Tel	Date	Doc ID
Savile Sykes	(01253) 658413	Date of report	

List of Background Papers		
Name of document	Date	Where available for inspection
<ul style="list-style-type: none"> <li>♦ The Accounts and Audit Regulations 2006</li> <li>♦ CIPFA Code of Practice for Internal Audit in Local Government (including effectiveness checklist)</li> <li>♦ The Head of Internal Audit's report on the effectiveness of internal audit to the 29 September 2009 Audit Committee</li> </ul>	<p style="text-align: center;">2006</p> <p>September 2009</p>	<p>All background papers or copies can be obtained from Savile Sykes – Head of Internal Audit on 01253 658413 or e-mail <a href="mailto:saviles@fylde.gov.uk">saviles@fylde.gov.uk</a></p> <p>Agendas and minutes of the Audit Committee are available online at <a href="http://www.fylde.gov.uk">www.fylde.gov.uk</a></p>

#### Attached documents

1. Local Performance Indicators for Internal Audit – Survey Results Table.

IMPLICATIONS	
Finance	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.
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. This report concerns the measurement of the effectiveness of internal audit's contribution.

## LOCAL PERFORMANCE INDICATORS FOR INTERNAL AUDIT – SURVEY RESULTS TABLE

Position	Performance Indicator	Useful % Columns 5 + 4	5 Very useful	4 Useful	3 Neither useful nor not useful	2 Not very useful	1 Not at all useful
1	Percentage of agreed actions implemented by management	87.6%	56.3%	31.3%	6.3%	6.3%	-
2	Percentage of audit plan completed	75.1%	56.3%	18.8%	25.0%	-	-
3	Customer satisfaction rating indicated by post-audit surveys	68.8%	43.8%	25.0%	25.0%	-	6.3%
4	Percentage of 'High Priority' actions implemented by management	68.8%	37.5%	31.3%	12.5%	12.5%	6.3%
5	Percentage of audit recommendations agreed with management	56.3%	31.3%	25.0%	37.5%	-	6.3%
6	Percentage of 'High/Medium Priority' actions implemented by management	56.3%	25.0%	31.3%	25.0%	12.5%	6.3%
7	Percentage of recommendations implemented by the first agreed date	56.3%	6.3%	50.0%	18.8%	12.5%	6.3%
8	Percentage of audits undertaken achieving 'Full/Substantial Assurance'	50.1%	18.8%	31.3%	31.3%	6.3%	12.5%
9	Percentage of draft audit reports issued within 15 days of fieldwork completion	50.1%	18.8%	31.3%	25.0%	12.5%	12.5%
10	Senior managers assessment rating of internal audit by annual survey	50.0%	25.0%	25.0%	31.3%	6.3%	12.5%
11	Percentage of customer satisfaction questionnaires returned	50.0%	12.5%	37.5%	31.3%	12.5%	6.3%
12	Percentage of final audit reports issued within 10 days of final management response	43.8%	25.0%	18.8%	31.3%	12.5%	12.5%
13	Percentage of recommendations classified 'High Priority'	43.8%	25.0%	18.8%	12.5%	31.3%	12.5%
14	Percentage of time spent on non-audit duties	37.5%	18.8%	18.8%	43.8%	6.3%	12.5%
15	Percentage of audits completed within time budget allocated	37.5%	12.5%	25.0%	31.3%	18.8%	12.5%

Note: As a result of rounding not all rows total 100%

# REPORT



REPORT OF	MEETING	DATE	ITEM NO
HEAD OF INTERNAL AUDIT	AUDIT COMMITTEE	28/01/10	11

## FOLLOW UP REPORTS 2008-09 (UPDATE)

### Public Item

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

### Summary

At its meeting in June 2009 the committee considered the Internal Audit Annual Report for 2008/09. The Head of Internal Audit was requested to provide a further report outlining the number of recommendations still outstanding. Such a report was made to the September meeting of the committee. This report sets out the current position.

### Recommendations

The Committee notes the latest position with regard to each of the agreed internal audit recommendations not implemented by management arising from follow up work in 2008-09.

### Reasons for recommendation

The report indicates the current situation.

### Alternative options considered and rejected

This report is for information and comment only.

## Cabinet Portfolio

The item falls within the following Cabinet portfolio:

Finance & Resources (Councillor Roger Small)

## Report

### Background

1. Internal Audit carries out follow-up reviews to appraise management of post audit actions and to provide assurance that agreed audit recommendations have been implemented. Twenty three (23) follow-up reviews were completed during the financial year 2008/09.
2. The Internal Audit Annual Report for 2008/09 noted that the overall implementation rate had declined from 83% in 2007/08 to 79%. This was in spite of the introduction during the year of the Escendency system, which alerts responsible officers when the implementation date is approaching for each agreed recommendation and subsequently sends a weekly reminder.
3. At its meeting in June 2009 the Audit Committee requested the Head of Internal Audit to provide a further report outlining the number of high and medium category recommendations still not in place. Such a report was submitted to the September meeting of the committee. This report sets out the position at 31<sup>st</sup> December 2009.

### Current Position

4. A total of 29 agreed high and medium recommendations were reported as outstanding in the report to the September Audit Committee. Two are no longer applicable following changes in service delivery and one has been reclassified as a low priority. Of the remaining 26 a total of 5 have now been implemented but management assurance concerning 3 that were originally judged to be in place has subsequently been withdrawn. Consequently there are now 24 actions outstanding, all of which are medium priority.
5. These changes increase the overall annual rate of implementation from 79% to 83%. The rate of implementation for high and medium recommendations has also increased from the originally reported figure of 75% to 83%.
6. The Table below shows the total number of agreed high & medium recommendations that have now been implemented by managers from follow up reviews in 2008/09:

**Table: High & Medium Recommendations Implemented as at 31 December 2009**

Audit Area	High Priority		Medium Priority		% Implemented	Comment
	Y	N	Y	N		
Vehicle & Plant	-	-	4	4	50% <sup>1</sup>	Management action anticipated
Cash Collection (Central Cashiers)	-	-	3	-	100%	
Cash Collection (Fylde Direct)	-	-	5	-	100%	
Cash Collection (Remote)	-	-	4	1	80%	Ready to issue for sign-off

Car Parking	-	-	9	-	100%	Requires evidential verification
Car Allowances	-	-	6	-	100%	
Payroll	1	-	7	-	100%	
Confidential Waste	-	-	10	-	100%	
Creditors	1	-	4	-	100%	
Sundry Debtors	-	-	5	-	100%	
Interests, Gifts & Hospitality	-	-	7	1	88%	Revised date Jul 10
Stores (Bins & Sacks)	-	-	4	3	57%	Signed off by manager
Stores (CVMU)	1	-	2	7	30%	Signed off by manager
Stores (Lowther Pavilion)	-	-	3	1	75%	Ready to issue for sign-off
IT Audit (Civica)	-	-	5	2	71%	Signed off by manager
(former) Streetscene Assurance (CS)	-	-	4	1	80%	Signed off by manager
(former) Streetscene Assurance (OS)	1	-	2	1	75%	Signed off by manager
Housing/CTax Benefits	-	-	1	-	100%	
Building Security	1	-	7	1	89%	Best Practice Review
Mobile Phones	-	-	1	1	50%	Revised date Jan 10
Council Tax/Business Rates	-	-	4	-	100%	
Internet Usage	-	-	10	-	100%	
Treasury Management	2	-	-	1	67%	Management action anticipated
<b>Total</b>	<b>7</b>	<b>0</b>	<b>107</b>	<b>24</b>	<b>83%</b>	

<sup>1</sup> Subject to evidential verification

7. The most recent advice concerning the Vehicle & Plant review is that the new Transport Manager, appointed in September, was charged initially with restructuring the service. One of his new priorities is to implement the actions arising from the audit review.

8. Several reports have been signed off by managers indicating that the implementation findings are accurate and agreed. Internal audit will not continue to monitor these issues actively but managers can update Escendency should any further actions be put into effect. Two audits have revised target implementation dates, two follow-up reports are ready to issue for management sign off and an update concerning one other audit is anticipated.

9. An Audit Reports Protocol has recently been approved by Management Team in an attempt to streamline the process and address the problems of non-implementation of agreed audit recommendations. It establishes precisely how the reports process is expected to work, clearly sets out a timetable for management action and includes further initiatives to encourage implementation, such as limiting the number of target date changes to one and establishing a clear escalation procedure to the highest levels of management and ultimately to Audit Committee.

## Risk Assessment

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

Report Author	Tel	Date	Doc ID
Savile Sykes	(01253) 658413	18/01/10	

List of Background Papers		
Name of document	Date	Where available for inspection
Head of Internal Audit's Annual Report	25/06/09	All committee reports are available online at <a href="http://www.fylde.gov.uk">www.fylde.gov.uk</a> and other background papers or copies can be obtained from Savile Sykes – Head of Internal Audit on 01253 658413 or e-mail <a href="mailto:saviles@fylde.gov.uk">saviles@fylde.gov.uk</a>
Follow Up Report 2008/09	30/09/09	

IMPLICATIONS	
Finance	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.
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.

## Audit Committee



Date	Tuesday, 29 Sept 2009
Venue	Town Hall, St. Annes
Committee members	Councillor John Singleton (Chairman) Councillor Linda Nulty (Vice-Chairman) Councillors Ben Aitken, Christine Akeroyd, Angela Jacques, Keith Hyde, Janine Owen, Louis Rigby and Heather Speak
Other Councillors	None
Officers	Tracy Scholes, Joanna Scott, Savile Sykes, Peter Welsh
Other Attendees	Jillian Burrows KPMG, Ian Leviston 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 Local Government Act 2000.

### 2. Confirmation of Minutes

RESOLVED: To approve the minutes of the Audit Committee meeting held on 25 & 30 June 2009 as correct record for signature by the chairman.

### 3. Substitute members

The following substitution was reported under council procedure rule 22.3:

Councillor Christine Akeroyd for Councillor Fabian Craig Wilson.

Councillor Angela Jacques for Councillor Paul Rigby.

Councillor Heather Speak for Councillor Elizabeth Oades.

### 4. Report to Those Charged With Governance (ISA 260 Incorporating The Use of Resources Score

Gillian Burrows and Ian Leviston of KPMG were in attendance at the meeting and presented the report.

The report summarised the key issues identified during the audit of the Council's Financial Statements for the year ended 31 March 2009. In addition the report summarised the assessment of the Council's arrangements to secure Value for Money and Use of Resources. The Use of Resources framework assessed local authorities against three themes; Managing Finances, Governing the Business and Managing Resources and Fylde had been assessed as performing adequately against these themes. Work on the 2008/09 financial statements had almost been completed and it was noted that there had been an improvement in the quality of the accounts and supporting working papers and the finance team were thanked for their valued contribution.

Following discussion and following a recorded vote, it was RESOLVED to note the report and the Use of Resources and Scores contained therein and that a progress report be submitted to the Audit meeting in April 2010.

At the conclusion of the debate the Chairman signed the 'Declaration of Independence and Objectivity Declaration' and the 'Management Representation Letter'.

*Votes for the resolution (9): Councillors Ben Aitken, Christine Akeroyd, Angela Jacques, Keith Hyde, Linda Nulty, Janine Owen, Louis Rigby, John Singleton and Heather Speak*

*Votes against the resolution (0)*

*Abstentions (0)*

*(Councillors Nulty and Speak requested that their names be recorded as having voted against the request to have a recorded vote).*

## 5. Review of Financial Planning and Management

Tracy Scholes (Governance & Partnerships Director) presented the report on the review of financial planning and management.

At the meeting of the Audit Committee held on 25 June 2009, Richard Foster of KPMG, presented the findings of a report in which financial planning and management arrangements had been examined. It was agreed, at the June meeting that Officers would agree appropriate actions with KPMG in light of the findings of the report with a view to translating these into an Action Plan. (A copy of the action plan was attached to the report).

Some of the actions contained within the plan were being implemented by the finance team but other issues were of a corporate nature the responsibility of which fell to the Chief Executive or members of the Management Team.

Following discussion it was RESOLVED to note the report and action plan (as amended) and that a progress report be submitted to the Audit meeting in April 2010.

## 6. Project Progress Update - New International Financial Reporting Standards (IFRS)

Joanna Scott (Deputy Section 151 Officer) presented the report which informed the Committee on the project progress made to the end of August 2009 in relation to the introduction of a new financial reporting framework, whereby the accounts for local authorities would be prepared under International Financial Reporting Standards (IFRS), with effect from 2010/11 (1/4/2010).

The report provided an update on the background to the introduction of IFRS and summarised the key issues and main areas of the review that would be required in order to ensure that the Council was fully compliant with IFRS for the year ending 31<sup>st</sup> March 2011.

Following discussion it was RESOLVED to note the project progress on the implementation of the IFRS project and that a progress report be submitted to the Audit meeting in April 2010.

## 7. Corporate Governance Improvement Plan 2009/10

Tracy Scholes (Governance & Partnerships Director) presented the report which provided an update on the corporate governance improvement plan.

The Annual Governance Statement for the year ended 31 March 2009, together with its associated improvement actions, was adopted by the Committee at its meeting on 25 June 2009. The responsibility for keeping the Corporate Governance Improvement Plan under review falls to the Audit Committee.

This interim report provided the progress made so far in implementing the various actions to achieve improved corporate governance during 2009/10 and indicated areas where agreed actions had yet to be completed.

Following consideration it was RESOLVED that the latest position with regard to each of the issues included on the Corporate Governance Improvement Plan 2009/10 be noted (as amended) and that a progress report be submitted to the Audit meeting in April 2010.

#### 7. Effectiveness of Internal Audit

Savile Sykes (Head of Internal Audit) presented the report. The internal audit function was considered to be a key indicator in providing assurance on internal control. A review of internal audit effectiveness was required as part of satisfying the overall governance arrangements in local authorities and supported the Council's Annual Governance Statement. The report presented the findings of a self assessment exercise in relation to the effectiveness of internal audit and made certain recommendations for improvement.

Following consideration of the report it was RESOLVED:

1. To note the findings of the review on the effectiveness of internal audit and confirm the conclusion that there is substantial compliance with the CIPFA Code of Practice for Internal Audit in Local Government 2006.
2. To approve the enhancements to internal audit arrangements outlined in the action plan arising from the review.
3. To approve a reciprocal arrangement with the Audit Manager of Wyre BC whereby each Council's self assessment exercise is subject to external review during 2009/2010.
4. That following the implementation of the action plan and the external review of effectiveness a further report will be prepared for the consideration of the Audit Committee.

#### 9. Follow Up Reports 2008-09 (Update)

Savile Sykes (Head of Internal Audit) presented the report and informed members that at its meeting in June 2009 the committee had considered the Internal Audit Annual Report for 2008/09. The Head of Internal Audit was requested provide a further report outlining the number of recommendations still outstanding.

A total of 35 agreed recommendations were reported as outstanding in the Internal Audit Annual Report. One was no longer applicable following changes in service delivery. Of the remaining 34 a total of 5 had now been implemented of which all of the high priority recommendations had been signed-off.

An Audit Reports Protocol was currently being developed in an attempt to address the problems of non-implementation of agreed audit recommendations. It would establish precisely how the reports process was expected to work, clearly set a timetable for management action and include further initiatives to encourage implementation, such as limiting the number of target date changes to one and establishing a clear escalation procedure to the highest levels of management and ultimately to Audit Committee.

Following consideration it was RESOLVED that the latest position with regard to each of the agreed internal audit recommendations not implemented by management arising from follow up work in 2008-09 be noted and that the Chairman and Vice Chairman be provided with details of outstanding recommendations from 2007/08 together with details of those recommendations that were still outstanding after 12 months.

10. Audit Committee Work Plan 2009-10

Details of the updated work plan for the Audit Committee during 2009-10 were circulated to members of the Audit committee.

Following discussion it was RESOLVED to approve the proposed work plan (as amended) for 2009/10.

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