



Agenda

Audit and Standards Committee

Date:	Wednesday, 23 February 2022 at 6:30 pm
Venue:	Town Hall, St Annes, FY8 1LW
Committee members:	<p>Councillor Ellie Gaunt (Chairman) Councillor Ed Nash (Vice-Chairman)</p> <p>Councillors Paula Brearley, Delma Collins, Peter Collins, Brian Gill, Will Harris, Paul Hayhurst, John Singleton JP.</p>

	PROCEDURAL ITEMS:	PAGE
1	Declarations of Interest: Declarations of interest, and the responsibility for declaring the same, are matters for elected members. Members are able to obtain advice, in writing, in advance of meetings. This should only be sought via the Council's Monitoring Officer. However, it should be noted that no advice on interests sought less than one working day prior to any meeting will be provided.	1
2	Confirmation of Minutes: To confirm the minutes, as previously circulated, of the meeting held on 13 January 2022 as a correct record.	1
3	Substitute Members: Details of any substitute members notified in accordance with council procedure rule 23(c).	1
	AUDIT DECISION ITEMS:	
4	Review of Compliance with CIPFA Financial Management Code	3 - 20
5	Internal Audit Service	21 - 26

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DECISION ITEM

REPORT OF	MEETING	DATE	ITEM NO
CHIEF FINANCIAL OFFICER	AUDIT AND STANDARDS COMMITTEE	23 FEBRUARY 2022	4
REVIEW OF COMPLIANCE WITH CIPFA FINANCIAL MANAGEMENT CODE			

PUBLIC ITEM

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

SUMMARY

The report sets out a review of the Council's compliance with CIPFA's Financial Management Code.

RECOMMENDATION

The committee is recommended to note:

1. The publication of the CIPFA Financial Management Code and the requirement for its application from 1 April 2020.
2. That 2020/21 was a shadow year during which all local authorities have been working towards full implementation for the first full year of compliance in 2021/22.
3. That an assessment has been carried out at Appendix A of the Council's assessed level of compliance compared to the Standards contained in the Financial Management Code.
4. That actions to ensure continuing compliance with the code are set out in Appendix A of the report.

SUMMARY OF PREVIOUS DECISIONS

There are no previous decisions in relation to CIPFA's Financial Management Code.

CORPORATE PRIORITIES	
Economy – To create a vibrant and healthy economy	✓
Environment – To deliver services customers expect	✓
Efficiency – By spending money in the most efficient way	✓
Tourism – To create a great place to live and visit	✓

REPORT

1. The Local Government financial framework in the UK is governed by primary legislation, regulation and professional standards, as supported by statutory provision. The financial management of a local authority, has not however, until now, been supported by a professional code. The CIPFA Financial Management Code (FM Code) has been introduced because the exceptional financial circumstances faced by local authorities have revealed concerns about fundamental weaknesses in financial management, particularly in relation to some local authorities which may be unable to maintain services in the future.

2. Whilst there is much good practice across the sector, the failures of a small number of authorities has threatened stakeholders' confidence in local government as a whole. The FM Code is therefore designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability; for the first time, the FM Code sets the standard of financial management for local authorities. Although the FM Code does not have legislative backing, it applies to all local authorities, including police, fire, combined and other authorities.
3. CIPFA have considered the timing for implementation of the FM Code and recommend that 2020/21 should be a shadow year of operation for local authorities to demonstrate that they have been working towards full implementation of the Code; the first full year of compliance with the Code will therefore be 2021/22.

The Financial Management Code

4. The purpose of the FM Code itself is to establish the principles in a format that matches the financial management cycle and supports governance in local authorities. A series of financial management standards set out the professional standards needed if a local authority is to meet the minimal standards of financial management acceptable to meet fiduciary duties to taxpayers, customers and lenders. Since these are minimum standards, CIPFA's judgement is that compliance with them is obligatory if a local authority is to meet its statutory responsibility for sound financial administration. Beyond that, CIPFA members must comply with it as one of their professional obligations.
5. While the statutory local authority budget setting process continues to be on an annual basis, a longer-term perspective is essential if local authorities are to demonstrate their financial sustainability. Short-termism runs counter to both sound financial management and sound governance.
6. Reflecting on the importance of longer-term financial planning, one of the objectives of the FM Code is to support organisations to demonstrate that they have the leadership, capacity and knowledge to be able to plan effectively. This must be balanced against retaining the integrity of the annual budget preparation process when the need to make difficult decisions may threaten its integrity.
7. Significantly, the FM Code builds on the success of the CIPFA Prudential Code, which requires local authorities to demonstrate the long-term financial sustainability of their capital expenditure and any associated borrowing. With this success came new financial freedoms to make local decisions on matters that had previously been subject to central government control.
8. The FM Code is consistent with other established CIPFA codes and statements in being based on principles rather than prescription. The FM Code incorporates existing requirements on local government so as to provide a comprehensive picture of financial management in the authority.
9. The application of the FM Code will therefore provide the strong foundation within local authorities to enable them to:
 - Financially manage their short-medium and long-term finances,
 - Manage financial resilience to meet foreseen demands on services, and
 - Financially manage unexpected shocks in their financial circumstances.
10. The underlying principles that inform the FM Code have been developed in consultation with senior practitioners from local authorities and associated stakeholders. The principles have been designed to focus on an approach which will assist in determining whether, in applying standards of financial management, a local authority is financially sustainable. The principles are as follows:
 - **Organisational leadership** - demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture
 - **Accountability** - based on medium-term financial planning, which drives the annual budget process supported by effective risk management, quality supporting data and whole life costs
 - **Financial management is undertaken with transparency** at its core using consistent, meaningful and understandable data, reported frequently with evidence of periodic officer action and elected member decision making
 - **Adherence to professional Standards** is promoted by the leadership team and is evidenced

- **Sources of assurance are recognised** as an effective tool mainstreamed into financial management and includes political scrutiny and the results of external audit, internal audit and inspection
- **The long-term sustainability** of local services is at the heart of all financial management processes and is evidenced by prudent use of public resources

- Each local authority must demonstrate that the requirements of the FM Code are being satisfied. However, the code is not expected to be considered in isolation, rather to complement and accompany existing tools and mechanisms to form part of the collective suite of evidence to demonstrate sound decision making and a holistic view to proper financial management.
- Demonstrating this compliance with the code is a collective responsibility of Elected Members, the Chief Financial Officer and their professional colleagues in the leadership team. It is CIPFA's intention that the leadership team will work with Elected Members in ensuring compliance with the code in order to demonstrate the standard of financial management to be expected of a local authority. In doing this, the view of CIPFA is that statutory role of the Section 151 Officer will be both recognised and supported in achieving the leadership roles essential for good financial management.
- An assessment has been carried out at Appendix A of the Council's assessed level of compliance compared to the Standards contained in the FM Code.

IMPLICATIONS	
Finance	There are no financial implications arising directly from this report. The Chief Financial Officer (Section 151 Officer) has the Statutory Responsibility (supported by Management Team and elected members) for ensuring compliance with the FM Code. Actions and responsibilities are outlined in appendix A to this report.
Legal	No implications arising from this report
Community Safety	No implications arising from this report
Human Rights and Equalities	No implications arising from this report
Sustainability and Environmental Impact	No implications arising from this report
Health & Safety and Risk Management	No implications arising from this report

LEAD AUTHOR	CONTACT DETAILS	DATE
Paul O'Donoghue Chief Financial Officer	01253 658566	February 2022

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

Attached documents

Appendix 1 – Assessment of the Level of Compliance with the CIPFA FM Code

Chief Financial Officer Assessed Level of Compliance with the CIPFA FM Code February 2022

Ref.	Description of the Standard	Pages of the Code	CFO Assessment of Current Position	Actions Required
Responsibilities of the Leadership Team and Chief Financial Officer (CFO)				
A	<p>The leadership team is able to demonstrate that the services provided by the authority provide value for money (VFM).</p> <p>Detail:</p> <p>Legislative requirement for Authorities to deliver VFM.</p> <p>Delivery of VFM depends on decisions of Elected Members.</p> <p>Shared responsibility across the leadership team to communicate and understand the risks involved.</p>	17-18	<p>ASSESSMENT - GREEN</p> <p>Value for Money is assessed as part of the external audit process – and the Council has had a clean VFM assessment for every year up to and including 2019/20. There is an outstanding VFM opinion in respect of 2020/21 as Deloitte are yet to complete their assessment for that year.</p> <p>The Budget Working Group (BWG) oversees the annual budget setting process and provides a strategic steer of the level of corporate growth and/or savings required each year. The BWG also reviews the Medium Term Financial Strategy (MTFS) and budget, including forecasting on an ongoing basis throughout the year.</p> <p>Growth bid business cases for spending plans are reviewed by Management Team before passing through to the BWG for consideration prior to consideration by programme committees. Budget decisions are ultimately made at Full Council in line with the Constitution and Financial Regulations.</p> <p>The CFO (S151 Officer) is required to make a statement on the ongoing robustness of the financial position of the Council having taken account of all risks identified in the MTFS.</p>	<p>Actions:</p> <p>The Council will continue to assess Value for Money on an ongoing basis and address any issues identified in the annual review of VFM carried out by the council's external auditors.</p> <p>Responsible:</p> <p>Management Team</p>

B	<p>The authority complies with the CIPFA Statement on the Role of the Chief Finance Officer (CFO) in Local Government</p> <p>Detail: In summary this Statement requires that:</p> <ul style="list-style-type: none"> • The CFO is a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest. • The CFO must be actively involved in, and able to bring influence to bear, on all material business decisions, to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the organisation's financial strategy. • The CFO must lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively. • The CFO must lead and direct a finance function that is resourced to be fit for purpose. • The CFO must be professionally qualified and suitably experienced. 	18-19	<p>ASSESSMENT - GREEN</p> <p>The CFO, the Deputy CFO, and the Corporate Finance Manager are all qualified accountants with significant post-qualification experience within local government.</p> <p>The CFO is a key member of Management Team (MT) and meets with the Chief Executive, Directors, Leader and other Senior Members on a regular basis to discuss all matters pertaining to the financial management of the council.</p> <p>The CFO is lead professional advisor to the Budget Working Group (BWG) which oversees the annual budget setting process and provides a strategic steer of the level of corporate growth and/or savings required each year. The BWG also reviews the Medium Term Financial Strategy (MTFS) and budget, including forecasting on an ongoing basis throughout the year.</p> <p>All Council and Committee Reports are considered by MT in advance of publication.</p> <p>The Finance Team consists of 11 FTE officers providing professional services across the council including financial advice and support to members and budget holders, statutory reporting requirements, capital and revenue budget monitoring, treasury management, VAT and insurance services, creditor payments, debtor invoicing and cashiering. The council also buys in Internal Audit services from MIAA and delivers a Corporate Fraud service in partnership with Preston and Lancaster City Councils.</p> <p>The Finance Team includes 3 fully qualified accountants and 5 part qualified, or fully AAT qualified, officers. All officers are offered continued professional development.</p> <p>The Council also subscribes to additional professional expertise and advice in relation to technical accounting, treasury management, financial management and planning, and taxation.</p>	<p>Actions:</p> <p>To continue to support professional development within the Finance Team.</p> <p>To continue to build and develop the resilience of the Finance Team in terms of developing internal expertise.</p> <p>Responsible:</p> <p>Chief Financial Officer and Deputy</p>
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Ref.	Description of the Standard	Pages of the Code	CFO Assessment of Current Position	Actions Required
Governance and Financial Management Style				
C	<p>The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.</p> <p>Detail:</p> <p>A proper scheme of delegation that ensures that frontline responsibility for internal and financial control starts with those who have management roles.</p> <p>Clarity over the role of Head of Paid Service and Monitoring Officer.</p> <p>The Governance Committee provides independent assurance over governance, risk and internal control arrangements, with a focus on financial management, financial reporting and audit and assurance.</p> <p>Leadership Team with a culture of constructive challenge based on realism.</p> <p>Goals, assumptions, and implementation plans are rigorously examined.</p>	21	<p>ASSESSMENT - GREEN</p> <p>The Financial Procedure Rules within the council's constitution inform the role of a Budget Holder. Job descriptions and the job evaluation system recognise management of resources as a key responsibility. This is assigned at a level so that service delivery and budget can be aligned.</p> <p>The roles of the Head of Paid Service and Monitoring Officer are defined in the Council's Constitution.</p> <p>The Terms of Reference for the Audit and Standards Committee cover the areas referenced.</p> <p>The Internal Audit Service has provided assurance over the effectiveness of the Governance of the Council, and the system of Internal Control, through the provision of an annual assessment to assist in the production of the Annual Governance Statement.</p> <p>Internal Audit play a key part in the Council's assurance framework and meet routinely with the Monitoring Officer, The Head of Governance and the CFO to ensure that Audit resources are appropriately directed towards the areas of greatest need (applying a risk-based approach) and that audit actions are followed up.</p> <p>The Corporate Governance Group, with membership including the Monitoring Officer, The Head of Governance and the CFO and the Head of Internal Audit Service, meets regularly with a remit that encompasses review and oversight of risk</p>	<p>Actions:</p> <p>Regular Internal Audit Progress reports are scheduled for discussion at the Corporate Governance group and MT to ensure sufficient focus on implementing agreed actions.</p> <p>Discussions will continue to be held with the Internal Audit service to ensure that the programme of work for 2022/23 takes account of the pandemic effect and ensures that work is prioritised appropriately. This will include improving the timeliness of agreeing actions from internal audit and the implementation of those actions.</p> <p>Responsible:</p> <p>Management Team</p> <p>Corporate Governance Group</p>

			<p>management and governance and internal control arrangements across the council.</p> <p>Management Team and Internal Audit have acknowledged the impact of the pandemic on the audit plan over the last two years, with work being targeted towards higher priority areas. The Internal Audit Plan for 2022/23 will take account of the outstanding priorities and any work deferred from previous years.</p>	
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Ref.	Description of the Standard	Pages of the Code	CFO Assessment of Current Position	Actions Required
D	<p>The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016)</p> <p>Detail:</p> <p>This framework recommends that the review of the effectiveness of the system of internal control is reported in an annual governance statement.</p>	22	<p>ASSESSMENT - GREEN</p> <p>The Council prepares a comprehensive Annual Governance Statement in line with the framework within CIPFA's Local Code of Corporate Governance.</p> <p>The draft AGS is provided to the Audit and Standards Committee for review and approval in advance of its inclusion in the Statement of Accounts.</p>	<p>Actions:</p> <p>None Identified</p>

Ref.	Description of the Standard	Pages of the Code	CFO Assessment of Current Position	Actions Required
E	<p>The financial management style of the authority supports financial sustainability</p> <p>Detail:</p> <p>Strong financial management is assessed against a hierarchy of:</p> <ol style="list-style-type: none"> 1. delivering accountability, 2. supporting performance and 3. enabling transformation. 	22-23	<p>ASSESSMENT - GREEN</p> <p>The Council's Corporate Plan and MTFS set the strategic framework for the work and financial plans of the Council and recognise the agreed corporate priorities and objectives.</p> <p>Budgets are prudent and sustainable to ensure that a balanced budget is maintained, and that in-year expenditure is matched by income from Council Tax, Business Rates, New Homes Bonus, sales, fees and charges income, and grants from government and other bodies,</p> <p>Funding from reserves is used to support one-off investments or initiatives, subject to approval of business cases via programme committees.</p> <p>Significant risks are identified, monitored, reported and mitigating actions identified to manage these.</p> <p>The Capital Programme is planned over a 5-year period.</p> <p>The uncertainties around future government funding (e.g. the Fair Funding Review and the future of Business Rates Retention) are recognised and reflected in the MTFS, Capital Strategy and appendices to the budget council report.</p> <p>Council Tax increases are kept within the referendum limits, and preliminary assumptions regarding future year increases are set out within the MTFS, recognising that these may be subject to change.</p> <p>Prudent levels of general balances, reserves and contingencies are maintained in the context of an assessment of the risks facing the Council</p>	<p>ACTIONS:</p> <p>The existing corporate planning and financial management regimes will continue to be improved where possible to ensure robust processes are in place to ensure a sustainable financial outlook for the authority whilst delivering the strategic objectives set out in the Corporate Plan.</p> <p>Responsible:</p> <p>Management Team</p> <p>Chief Financial Officer</p>

			In achieving stages 1 and 2 of the CIPFA FM Code hierarchy, Budget Holders, with support from finance, take responsibility and ownership for spend against their approved budgets.	
Long to Medium Term Financial Management				
Ref.	Description of the Standard	Pages of the Code	CFO Assessment of Current Position	Actions Required
F	<p>The authority has carried out a credible and transparent financial resilience assessment</p> <p>Detail:</p> <p>Requirement to test sustainability against plausible scenarios of cost drivers, service demands, resources and key risks.</p> <p>Review of alternative options to match demand and resources.</p>	25-26	<p>ASSESSMENT - GREEN</p> <p>Financial resilience underpins the objectives of the Council's MTFS and an annual budget risk assessment is undertaken to support this.</p> <p>As part of the budget setting process the level of reserves are reviewed to ensure they are robust in light of the assessment of financial risks that the Council is exposed to.</p> <p>The service and financial planning process provides information on cost and demand drivers to enable robust and informed financial planning in each service area.</p> <p>The MTFS is updated regularly throughout each year and includes appendices that outline the key assumptions regarding the 5 year revenue and capital budget forecasts. In line with the requirement of the Code of Practice these assumptions are prudent. Where budget risk is identified, reserves and other resources have been set aside to enable the Council to set a robust MTFS.</p>	<p>ACTIONS:</p> <p>The council will continue to review its level of reserves as part of the budget setting process to enable it to manage budget risk.</p> <p>Regular finance reports will be presented to the Finance and Democracy Committee alongside performance reports presented to all programme committees to enable members to evaluate the risks to the budget and risks to corporate performance.</p> <p>Responsible:</p> <p>Management Team</p> <p>Chief Financial Officer</p>

Ref.	Description of the Standard	Pages of the Code	CFO Assessment of Current Position	Actions Required
G	<p>The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.</p> <p>Detail:</p> <p>Based on the above, have a long term financial strategy that links to vision, strategy and outcomes.</p> <p>This should include a vision of what services will look like in the future to achieve financial sustainability. The length of “the long term” is undefined and should be linked to the risks faced. Potentially should be 10 years+.</p>	26	<p>ASSESSMENT – AMBER</p> <p>The MTFS is developed in consultation with Management Team and Elected Members. It is approved by the Finance and Democracy Committee before being recommended to Full Council. The Corporate Plan is approved prior to the MTFS with the budget approved to deliver the outcomes outlined in the plan.</p> <p>The Council produces a rolling 5 year MTFS based on assumptions that are outlined in full within the report considered annually at the Budget Council meeting.</p> <p>Briefings and reports to Members, including the Budget Working Group, are clear about medium-term budget risks and sustainability. This includes the budget impact from potential Government reforms. However, due to ongoing uncertainty around the future of the local government funding regime, it is not deemed feasible to develop a revenue and capital budget beyond 5 years.</p> <p>The Council retains prudent levels of resources to manage risks over the medium term as outlined in the MTFS.</p> <p>The capital programme covers a 5 year period and reflects the Council’s key strategic objectives as set out in the Corporate Plan.</p>	<p>Actions:</p> <p>None identified at this point in time as the relevance and accuracy of financial modelling and forecasting beyond the 5 year period is very much dependant on clarity from central government on the future of local government funding; specifically the outcomes of the Fair Funding Review, the outcome of consultation into the future of the New Homes Bonus scheme, and the review of Business Rates Retention which are overdue.</p> <p>We will continue to monitor this position on an ongoing basis and pending the availability of further information on the future of local government funding, we will consider development of the MTFS and financial planning beyond the 5 years that are currently modelled.</p> <p>Responsible:</p> <p>Chief Financial Officer</p>

APPENDIX A

Ref.	Description of the Standard	Pages of the Code	CFO Assessment of Current Position	Actions Required
H	<p>The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities.</p> <p>Detail:</p> <p>The Council has a long-term Capital Strategy that ensures that assets are managed, and future plans are linked to capital resources available.</p> <p>Commercial investment activity should be considered over a suitable time horizon with risks fully considered.</p> <p>Ensure compliance with the Prudential Code if borrowing.</p>	26-27	<p>ASSESSMENT - GREEN</p> <p>Management of the Council's Capital and Treasury Management activities are governed by the Capital Strategy, Treasury Management Strategy and Prudential Indicators which are part of the MTFS approved annually by the council and aim to ensure the Council's capital expenditure plans are prudent, affordable and sustainable, with any decisions on borrowing taken in line with spending plans considering available funding, cash flow needs and interest rates (both current and future forecasts). Regular Treasury Management Reports are presented to the Audit and Standards Committee.</p> <p>The council has an approved Commercial Strategy which sets out the council's approach to commercial investments.</p> <p>The Council's Capital Strategy, Treasury Management Strategy and Prudential Indicators comply with the requirements of the Prudential Code.</p>	<p>Actions:</p> <p>The council will continue to monitor compliance with the CIPFA Code and regular monitoring reports will continue to be prepared for the Audit and Standards Committee.</p> <p>Responsible:</p> <p>Chief Financial Officer</p>
I	<p>The authority has a rolling, multi-year medium-term financial plan consistent with sustainable service plans.</p> <p>Detail:</p> <p>Translation of the long-term view into a more detailed medium-term financial plan. The time frame of which should support financially sustainable decision making.</p> <p>Clear link to service plans.</p>	27	<p>ASSESSMENT - GREEN</p> <p>The Council has a 5 year indicative budget at a detailed level which ensures the delivery of priorities as set out in the Corporate Plan and Service Plans and underpins the MTFS which is considered by Members. This is updated throughout each financial year with the process of revision beginning in summer and feeding through Member meetings during the budget setting cycle each year.</p> <p>Regular updates are provided throughout the budget setting process, including to the Budget Working Group, to The Finance and Democracy Committee and to Full Council on the latest information and assumptions in respect of funding, costs and risks.</p>	<p>Actions:</p> <p>None Identified.</p>

Ref.	Description of the Standard	Pages of the Code	CFO Assessment of Current Position	Actions Required
Annual Budget				
J	<p>The authority complies with its statutory obligations in respect of the budget setting process.</p> <p>Detail:</p> <p>These are generally covered by part 2 of Local Government Act 2003. This includes robustness of estimates and reserves (covered below) and the requirement for financial monitoring.</p> <p>It also includes section 114 of the Local Government Finance Act 1988, which requires the CFO to issue a report if the Council is about to incur unlawful expenditure. This would include setting an unbalanced budget.</p>	29	<p>ASSESSMENT - GREEN</p> <p>The Council sets a balanced budget and complies with the requirement in relation to the S151 Officer statement (s25) on the robustness of the budget and the adequacy of reserves.</p> <p>There are well-established budget monitoring procedures in place including regular budget monitoring reports presented to Programme Committees.</p>	<p>Actions:</p> <p>None Identified.</p>

APPENDIX A

Ref.	Description of the Standard	Pages of the Code	CFO Assessment of Current Position	Actions Required
K	<p>The budget report includes a statement by the Chief Finance Officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.</p> <p>Detail:</p> <p>Reserves to be considered as part of the budget process and should be 'adequate' and 'necessary'. They should enable the Council to manage unexpected events from within its own resources.</p> <p>The budget report details earmarked reserves held, the purpose of each reserve and estimated opening and closing balances.</p>	29-30	<p>ASSESSMENT - GREEN</p> <p>The MTFS Report to Budget Council in March each year includes a statement from the Chief Financial Officer on the robustness of the estimates included within the budget and a statement on the adequacy of the proposed level of reserves.</p> <p>The MTFS budget report also details earmarked reserves held, the purpose of each reserve and estimated opening and closing balances.</p>	<p>Actions:</p> <p>None Identified.</p>

Ref.	Description of the Standard	Pages of the Code	CFO Assessment of Current Position	Actions Required
Stakeholder Engagement and Business Plans				
L	<p>The authority has engaged, where appropriate, with key stakeholders in developing its long-term financial strategy, medium term financial plan and annual budget.</p> <p>Detail:</p> <p>Enabling residents to understand that resources are limited, and spending has to be prioritised.</p> <p>Leadership Team redirects resources to areas of higher priority.</p> <p>Understanding of statutory service delivery requirements.</p> <p>Use stakeholder consultation to set priorities.</p> <p>Helps to encourage community involvement, which could help reduce costs.</p>	31	<p>ASSESSMENT - GREEN</p> <p>The budget and MTFS are developed in consultation with members and MT, building on discussions held with budget holders to identify pressures and savings.</p> <p>The Budget Working Group meets throughout the budget setting cycle annually to highlight the key budget issues and to encourage further discussion.</p> <p>A budget consultation takes place as part of the budget setting process, the results of which are reported to members.</p> <p>A residents survey is conducted on a regular basis along with consultation on specific developments and proposals, each of which encourages community involvement and informs service delivery improvements.</p>	<p>Actions:</p> <p>To continue the existing approach to stakeholder engagement to assist in the development of medium-term financial planning and the development of budget proposals.</p> <p>Responsible:</p> <p>Management Team</p>

Ref.	Description of the Standard	Pages of the Code	CFO Assessment of Current Position	Actions Required
M	<p>The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.</p> <p>Detail:</p> <p>Decisions are made from clear business cases that detail the upfront and ongoing costs and benefits.</p> <p>Where appropriate the time value of money should be considered.</p> <p>Alternative options should be considered.</p> <p>The complexity of the business case should be proportionate to the decision.</p>	31-32	<p>ASSESSMENT - GREEN</p> <p>All formal decisions of the council are made either by a meeting of the Full Council itself, by Programme Committees, Regulatory Committees, or via delegations to officers. Full details of the relevant delegations and responsibilities are set out in the Constitution.</p> <p>Decision items take the form of committee reports which set out the business case and recommendations for the relevant meeting to consider.</p> <p>Committee reports include alignment of the recommendations with Corporate Priorities, financial implications which include the upfront and ongoing costs and benefits, legal implications, risk assessments, and compliance with financial regulations and other constitutional requirements, as appropriate.</p> <p>The above approach has been reviewed by the council's external auditors and found to be proportionate for the investment decisions being made by the council.</p>	<p>Actions:</p> <p>None identified</p>
Monitoring Financial Performance				
N	<p>The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.</p> <p>Detail:</p> <p>The Council should have timely information on its financial and operational performance.</p> <p>Performance indicators should be reviewed, alongside any overspends/ undelivered savings.</p>	33	<p>ASSESSMENT - GREEN</p> <p>Regular in-year budget monitoring reports are produced for both revenue and capital budgets as part of the council's reporting cycle, with any material budget implications captured and mitigating actions identified, reported and approved in MTFS update reports presented to both the Finance and Democracy Committee and Full Council meetings.</p> <p>Programme committees receive performance monitoring reports which link to the achievement of corporate priorities as identified in the council's Corporate Plan.</p>	<p>Actions:</p> <p>None identified</p>

Ref.	Description of the Standard	Pages of the Code	CFO Assessment of Current Position	Actions Required
O	<p>The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.</p> <p>Detail:</p> <p>There is reference to monitoring material elements of the balance sheet that might give indications of departures from financial plans.</p> <p>Specific reference is made to commercial asset portfolios, contingencies and provisions.</p> <p>Cash flow is managed in accordance with guidance.</p>	33	<p>ASSESSMENT - GREEN</p> <p>The Budget Working Group meets throughout the budget cycle and routinely monitors the level of reserves held by the council and the purposes for which they are held. The MTFS report considered by Council annually sets out details of reserves within a Reserves and Balances Framework.</p> <p>Bi-annual treasury management reports to Members update on investments held and any external debt. Cash balances are monitored regularly and if risks are identified they will be reported to MT.</p> <p>The annual budget setting report incorporates the Investment Strategy of the council and includes specific reference to and details about the council's commercial asset portfolio.</p> <p>Regular reviews of reserves are undertaken by the Finance team and reported to MT via the CFO as appropriate.</p>	<p>Actions:</p> <p>None Identified.</p>

Ref.	Description of the Standard	Pages of the Code	CFO Assessment of Current Position	Actions Required
External Financial Reporting				
P	<p>The Chief Finance Officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the Code of Practice on Local Authority Accounting in the United Kingdom.</p> <p>Detail:</p> <p>The CFO has statutory responsibility for:</p> <ol style="list-style-type: none"> 1. producing the accounts and ensuring they are published on a timely basis; 2. maintaining financial records; and 3. certification of the accounts and confirmation of a 'true and fair view'. 	35	<p>ASSESSMENT - GREEN</p> <p>The Statement of Accounts is prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.</p> <p>The Finance Team subscribe to CIPFA's advisory service and receive ongoing updates and training to ensure continuing compliance.</p> <p>The CFO is required to certify compliance within the annual Statement of Accounts prepared and the council's external auditors audit the accounts to ensure compliance.</p>	<p>Actions:</p> <p>None Identified.</p>

APPENDIX A

Ref.	Description of the Standard	Pages of the Code	CFO Assessment of Current Position	Actions Required
Q	<p>The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions</p> <p>Detail:</p> <p>The narrative report that accompanies the accounts provides a link to achievement of outcomes and performance.</p> <p>The leadership team understand variances from budget and how they have been managed.</p> <p>The future implications of variances should also be considered i.e. will it affect the financial strategy/ financial resilience.</p>	25	<p>ASSESSMENT - GREEN</p> <p>The financial outturn report identifies key variances from budgets with appropriate explanations, and recommends action, where appropriate, in line with the in-year budget monitoring process.</p> <p>Any key issues arising from the outturn figures are reflected in subsequent budget monitoring reports as well as in the process for approving the Corporate Plan and MTFS.</p> <p>The narrative report that accompanies the accounts provides a link to achievement of outcomes and performance.</p> <p>A reconciliation to the Comprehensive Income and Expenditure Statement is provided in the statement of accounts to link the statutory accounts to the information provided as part of budget monitoring during the year and the outturn report.</p>	<p>Actions:</p> <p>None Identified</p>

DECISION ITEM

REPORT OF	MEETING	DATE	ITEM NO
RESOURCES DIRECTORATE	AUDIT AND STANDARDS COMMITTEE	23 FEBRUARY 2022	5
INTERNAL AUDIT SERVICE			

PUBLIC ITEM

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

SUMMARY

The council's internal audit service is presently provided under contract by Mersey Internal Audit Agency (MIAA). This is a temporary arrangement which is intended to last until the end of the financial year on 31 March. This report considers the options available to the council for the continuation of the service into the new financial year and beyond.

The preferred option in the report is directly awarding a contract for the continuation of the service to MIAA under the NHS Business Services Framework. This would retain the present valued service and relationships, backed up with the resilience of a large organisation, while complying with procurement requirements.

Other options discussed in the report, but not preferred, are recruitment of an in-house team, operation of a shared service and appointing a provider by competition.

RECOMMENDATIONS

1. To appoint Mersey Internal Audit Agency, by a direct award under lot 2 of the NHS Business Services Framework, to provide internal audit services to the council from the end of their present contract until 31 March 2024.

SUMMARY OF PREVIOUS DECISIONS

Audit and Standards Committee, 18 March 2021:

1. To note the awarding of a contract, under the exempt contract procedure rules, by the Director of Resources to the Mersey Internal Audit Agency until the 31 March 2022 for a partial internal audit service including the role of Head of Internal Audit.
2. To seek an options appraisal report from the Head of Governance as soon as practicable to consider how the internal audit service can be delivered from 1 April 2022 onwards with resilience built into future arrangements.

CORPORATE PRIORITIES

Economy – To create a vibrant and healthy economy	
Environment – To deliver services customers expect	✓
Efficiency – By spending money in the most efficient way	✓
Tourism – To create a great place to live and visit	

REPORT

Need for and role of internal audit

1. The Public Sector Internal Audit Standards (PSIAS) define auditing as *“an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operation. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance procedures”*.
2. There are also statutory obligations which require a local authority to maintain an internal audit service as follows:
 - Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for *“the proper administration of their financial affairs...”*. It is the view of the Chartered Institute of Public Finance and Accountancy (CIPFA) that proper administration requires a wider consideration of all aspects of local authority financial management and should include compliance with statutory requirements for auditing and internal audit.
 - Under the Accounts and Audit Regulations 2015 a relevant local authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance¹.
3. In their statement of the role of the Chief Financial Officer, CIPFA sets out a number of key principles and responsibilities linked to the role including:

Ensuring that the authority has in place effective arrangements for internal audit of the control environment and systems of internal control as required by professional standards and in line with CIPFA’s Code of Practice on Local Authority Accounting in the United Kingdom.
4. It can be seen from the aforementioned paragraphs that the council must ensure the provision of an effective internal audit function. However, the precise form this takes is open to the Council.

Present provision

5. Until 2017, the council’s internal audit function was provided by an employed head of internal audit, supported by two other audit staff, one of whom was also a qualified and accredited auditor. Subsequently, the post of head of internal audit was shared on a fifty fifty basis with Preston City Council, while the other audit staff continued to be directly employed by Fylde. That arrangement came to an end in January 2021 when the shared head of internal audit left the authority to take up a position elsewhere. At around the same time both of the other auditors within the team also left the service.
6. As a temporary arrangement to ensure the continued provision of an internal audit service, a short term contract was awarded to Mersey Internal Audit Agency (‘MIAA’) to provide internal audit services to the end of March 2022. This arrangement was reported to the committee in February 2021. MIAA has subsequently managed and provided all internal audit services to the council. Members will be familiar with Sandra Cudlip and Fiona Hill, who have been the lead auditors assigned to Fylde. They have been supported by other qualified auditors employed by MIAA. The Corporate Governance Group² is very satisfied with thoroughness and professionalism of the service that has been provided.
7. The cost of the current temporary arrangement with MIAA in the current financial year is expected to be £104,650, exclusive of other specialist audit services provided by MIAA under separate arrangements. This is based on delivery of 299 audit days at the currently agreed rate of £350 per day³. The net cost of the previous in-house internal audit provision was £107,597 during the last full year of its operation.

¹ See regulation 5

² For the purposes of this report, the Corporate Governance Group comprises the Monitoring Officer, Chief Financial Officer and Head of Governance. The internal audit service was not involved in the report, to avoid conflicts of interest.

³ The current arrangement with MIAA covers part of financial year 2020-21 as well as the present year, and delivers 386.5 audit days in total.

Going forward

8. The present arrangement with MIAA was put in place as a temporary expedient to meet an immediate need. It was awarded by the chief executive under urgency provisions contained in the council's contract procedure rules. It was always intended that internal audit arrangements from April 2022 onward would be decided following consideration by the committee of an appraisal of the available options. This report sets out and appraises the options.
9. The available options for the service appear to be: Continue with MIAA, recruit an in-house internal audit team; enter into a shared service arrangement with another public authority or buy-in the service from an external provider. The options are explored in detail below. The preferred option is to continue with MIAA.
10. Any contract with an external provider would cover the services to be provided, cost and other matters. A contract for the provision of internal audit services would stipulate that the services will be provided in a way that meets relevant statutory and professional standards
11. With the exception of continuing with MIAA, any of the options would be likely to result in a gap between the end of the present arrangement with MIAA and the commencement of the new arrangement. It would therefore be necessary to seek to extend the temporary arrangement with MIAA to cover the gap.

Procurement context

12. Any arrangement that is deemed to be a procurement, if in-scope, would need to comply with the legislation governing public procurement and the council's own contract procedure rules.
13. The legislation is the Public Contracts Regulations 2015 ("PCR"). The detailed requirements in the regulations apply to procurements above the applicable threshold. The threshold for contracts for services is £213,477. An arrangement covering more than two years would be likely to exceed the threshold and be in-scope. An in-scope contract would need to be exposed to competition by way of the restricted procedure or open procedure as prescribed in the regulations.
14. Under the council's own contract procedure rules, a contract worth up to £100,000 would be a "mid-range contract", which would require to be exposed to competition by a request for quotations, open or restricted tendering and a contract whose value is more than £100,000 would be a "large contract", which would require to be exposed to competition by open or restricted tendering.
15. An award to an external body would always be deemed to be a procurement. A shared arrangement with another public body may be a procurement, depending on its precise structure. Recruiting an in-house team would not be a procurement.
16. A public body can comply with its PCR obligations by awarding a contract under a framework. Suppliers on the framework will have met quality and other criteria for inclusion. The terms, including contract rates, are fixed under the framework. This means that the awarding body saves valuable time and resource. A contract let under a framework agreement would not need to be exposed to competition unless required by the framework itself. This is because the framework will itself already have been tendered in accordance with PCR, and because the council's own rules allow for any kind of contract to be let under a framework without further competition.

Preferred option: Continue with MIAA

17. Officers are satisfied that the services offered by MIAA during the temporary arrangement have been robust, responsive, professional and proficient. The assigned auditors have become familiar with and familiar to officers and to members of the committee. Relationships of trust and respect have been established. An audit plan has been put in place and has, subject to adjustments agreed with the auditors, formed the basis of a methodical and thoroughgoing risk-based programme of assurance. MIAA has a broad range of auditors available and are able to utilise particular personnel to undertake more specialist work, drawing upon its staffing base.
18. Changing provider would necessarily involve some measure of dislocation of the service while new relationships are established, and understandings built. The Corporate Governance Group considers that such dislocation could only be justified if it would be likely to result in significant improvements to the quality of

the service if necessary to comply with procurement requirements, or if a change would lead to material savings.

19. As noted above, the present service is regarded as being very satisfactory. It is therefore unlikely that there would be scope for a change in provider to lead to a significantly better service.
20. Procurement requirements would not require the service to be exposed to further competition because a direct award can be made under the [NHS Business Services framework](#), which is open to the wider public sector as well as NHS bodies. MIAA is one of fifteen providers who can be appointed under lot 2 (internal audit) of the framework. Using the framework would provide assurance that procurement requirements had been met and that all providers were appropriately qualified and resourced to provide the services.
21. A direct award would be based on the rates provided by the supplier for the purposes of the framework. Rates are provided for different grades of auditor, based on a standard length of day, together with a blended day rate for audit work.
22. The present temporary arrangement with MIAA is on the basis of a blended day rate of £350 per audit day. The blended day rate of MIAA in the framework is £376⁴. This is the third lowest among the fifteen suppliers in lot 2. Officers consider that the blended day rate represents good value, and that any marginal saving that would be made by moving to another provider would not justify the dislocation that would be caused⁵. On the working assumption that the internal audit plan for 2022/23 will require the same number of internal audit days to deliver as the current year, the framework rate of £376 per audit day would equate to £112,424, which is within the existing budget provision for delivery of an internal audit service.
23. A direct award would be for 2 years commencing on 1 April 2022, on the rates, terms and conditions set out by the framework agreement. Making such an award to MIAA would allow the present well-regarded audit service to continue with no dislocation, at a satisfactory price and in compliance with the council's procurement rules and PCR. **This is therefore the preferred option.**

First alternative option: Recruit an internal team

24. An internal team is the traditional and still the most common way of delivering an internal audit service in local government. The council would employ a head of internal audit, who would need to be a qualified auditor or accountant, together with supporting staff. It would be desirable for at least one of the supporting staff to also be qualified. The council's former internal team consisted of three officers, although two of the officers were part-time.
25. An internal team would be, or become, completely familiar with the organisation, functions and culture of the council, and would become known and familiar to officers and to members of the Audit and Standards Committee. They would be a dedicated resource, and would be immediately accessible.
26. However, an internal team would provide little or no resilience. The council's audit function would be exposed to staff absences and turnover. The audit function has been a specialist area which has proven difficult to recruit to across a number of Lancashire authorities in recent years. As the team would be small, any absence or churn would be particularly keenly felt. It may be necessary to adapt the audit plan if staff resources are not available. The team would not have immediate call on any specialised areas such as IT audit, and would need to make arrangements for such specialist input which would come at an additional cost.
27. The council would be assembling a new internal team from nothing. Market conditions in a number of disciplines indicate that the recruitment market is difficult. The council does not have the flexibility to adapt its salary and benefits packages, which are decided through job evaluation, to the market. There would be no guarantee that a recruitment exercise would result in there being enough suitable applicants, or that job offers would be accepted. In the absence of being able to recruit, the council would have to revert to other options.

⁴ The blended day rates in the framework range from £310 (CW Audit Services) to £950 (Deloitte).

⁵ It would not be possible to award a contract to MIAA (or any other provider) for more than a year without needing to go out to competition, either by a mini-competition under a framework, or by a separate PCR-compliant tender run by the council. There would be no certainty that the outcome of such an exercise would be an award to MIAA or that the rates would be less than those available by a direct award under the framework.

28. The timetabling of the recruitment and notice periods for the successful candidates would mean that the new team would be likely to be not in place until the summer.
29. Because of the lack of resilience and the difficult recruitment market, **this option is not preferred.**

Second alternative option: Shared service

30. Discussions were held a few years ago about the possibility of Blackpool Council hosting a shared internal audit service which would have covered Blackpool and Fylde. It is understood that Blackpool would still be open to discussing such an arrangement.
31. A shared service with Blackpool would provide Fylde with access to a cohort of locally-based auditors who are familiar with the local government context. It would also provide some measure of resilience against staff absence and turnover. However, Blackpool Council will no doubt also face similar recruitment challenges to other councils in successfully recruiting audit specialists although as the service would be hosted by Blackpool, recruitment and management would not need to be directly managed by Fylde. Fylde already has a number of shared back office services with Blackpool, for example revenues and benefits, HR and health and safety.
32. As Blackpool is a unitary authority with responsibilities for education, children's services etc, there would be an imbalance between the needs of the two authorities, with Blackpool naturally being the main customer for a shared service. This could result in difficulties in meeting Fylde's needs and aspirations, particularly if audit resources in a shared service were not sufficient to meet all of the demands placed on them.
33. A shared service is not automatically exempt from the need to meet procurement requirements. Detailed legal advice would be needed on how and if a shared service could be structured to avoid the need to go to competition.
34. A shared service would offer advantages over a wholly internal team. However, there is no certainty that it would offer better value or equivalent resilience when compared to the present arrangement. On balance, **this option is not preferred.**

Third option: External provider by competition

35. As discussed above in relation to MIAA, external providers have the critical mass to cover staff absences and turnover without affecting the delivery of the audit plan or the quality of the service. Using an external provider can therefore provide assurance about the resilience of the service, as well the depth to be able to provide dedicated expertise in areas needing specialised skills. There is a mature market for externally-provided internal audit services to public bodies. This is particularly so in the health sector, but is increasingly the case in local government. An externally-provided service can be provided by traditional audit firms, or by agencies like MIAA, which form part of a public body.
36. The council could expose its internal audit requirements to competition, by organising its own open or restricted tendering exercise, compliant with PCR. It is difficult to envisage that a tendering exercise run by the council could result in better rates than those available under the framework. For this reason, along with the disproportionate resource implications of running a competition and the dislocation of moving to a different provider, **this option is not preferred.**
37. The council could also expose its requirements to competition by running a mini-competition under the NHS Business Services Framework. It is possible (but not certain) that a mini-competition under the framework could result in a marginal annual saving. However, any such savings would be likely to be offset by the risk of dislocation if the exercise resulted in a move to a different provider. On balance, **this option is not preferred.**

IMPLICATIONS	
Finance	The proposals in this report can be met from existing budget provision for the delivery of an internal audit service.
Legal	Commissioning the service from an external provider would engage the legislation and internal rules about procurement. However, these could be satisfied by awarding a contract under an applicable framework. It may also be possible to structure a shared service to avoid procurement controls being engaged.
Community Safety	None arising
Human Rights and Equalities	None arising
Sustainability and Environmental Impact	None arising
Health & Safety and Risk Management	None arising

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BACKGROUND PAPERS		
Name of document	Date	Where available for inspection