

Agenda

Audit Committee



Date	Thursday, 14 November 2013 at 6:15 pm
Venue	Town Hall, St Annes
Committee members	<p>Councillor John Singleton JP (Chairman)</p> <p>Councillor Brenda Ackers (Vice-Chairman)</p> <p>Councillors Ben Aitken, Christine Akeroyd, Leonard Davies, Kath Harper, Howard Henshaw, Linda Nulty, Louis Rigby</p>

Item		Page
1	Declarations of Interest: Any member needing advice on Declarations of Interest should contact the Monitoring Officer before the meeting.	1
2	Confirmation of Minutes: To confirm the minutes of the previous meeting held on 26 September 2013 as a correct record attached at the end of the agenda.	1
3	Substitute Members: Details of any substitute members notified in accordance with council procedure rule 24.3.	1
4	Annual Audit Letter – 2012/13	3 - 11
5	Mid Year Prudential Indicators and Treasury Management Monitoring Report 2013/14	12 - 23
6	Mid-Year Update on Strategic Risk Action Plans	24 - 27
7	Internal Audit Charter 2013	28 - 38

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The code of conduct for members can be found in the council's constitution at www.fylde.gov.uk/council-and-democracy/constitution

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REPORT

REPORT OF	MEETING	DATE	ITEM NO
RESOURCES DIRECTORATE	AUDIT COMMITTEE	14TH NOVEMBER 2013	4

ANNUAL AUDIT LETTER – 2012/13

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 external Auditors, KPMG for the financial year 2012/13. The audit letter details the auditor's opinion on performance and financial management. The opinion of KPMG is also provided on the council's preparation of its financial statements. The report will be presented by KPMG.

RECOMMENDATIONS

1. That the Audit Committee is asked to note the content of the audit letter and are invited to make any comments for referral to, and consideration by, Cabinet.

CABINET PORTFOLIO

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

Portfolio Title: Finance and Resources

Councillor Karen Buckley

SUMMARY OF PREVIOUS DECISIONS

The audit letter from the Council's external auditors is considered by Audit Committee annually.

REPORT

1. The Annual Audit letter is produced each year by the Council's external auditors and the judgements contained within it are based upon inspection activity which has been undertaken in relation to the 2012/13 financial year.

2. Commentary is provided within the letter about the external auditor's opinion on the Council's financial statements and arrangements for securing value for money. In arriving at their conclusions, the auditors considered financial governance, financial planning and control processes, and how the Council is prioritising resources and seeking to improve efficiency and productivity.
3. A copy of the Annual Audit Letter for 2012/13 is attached.

IMPLICATIONS	
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 and Environmental Impact	None arising directly from the report.
Health & Safety and Risk Management	None arising directly from the report.

REPORT AUTHOR	TEL	DATE	DOC ID
Paul O'Donoghue	01253 658566	October 2013	

LIST OF BACKGROUND PAPERS		
Name of document	Date	Where available for inspection
As attached		Town Hall or www.fylde.gov.uk

Attached documents

1. Annual Audit Letter 2012/13

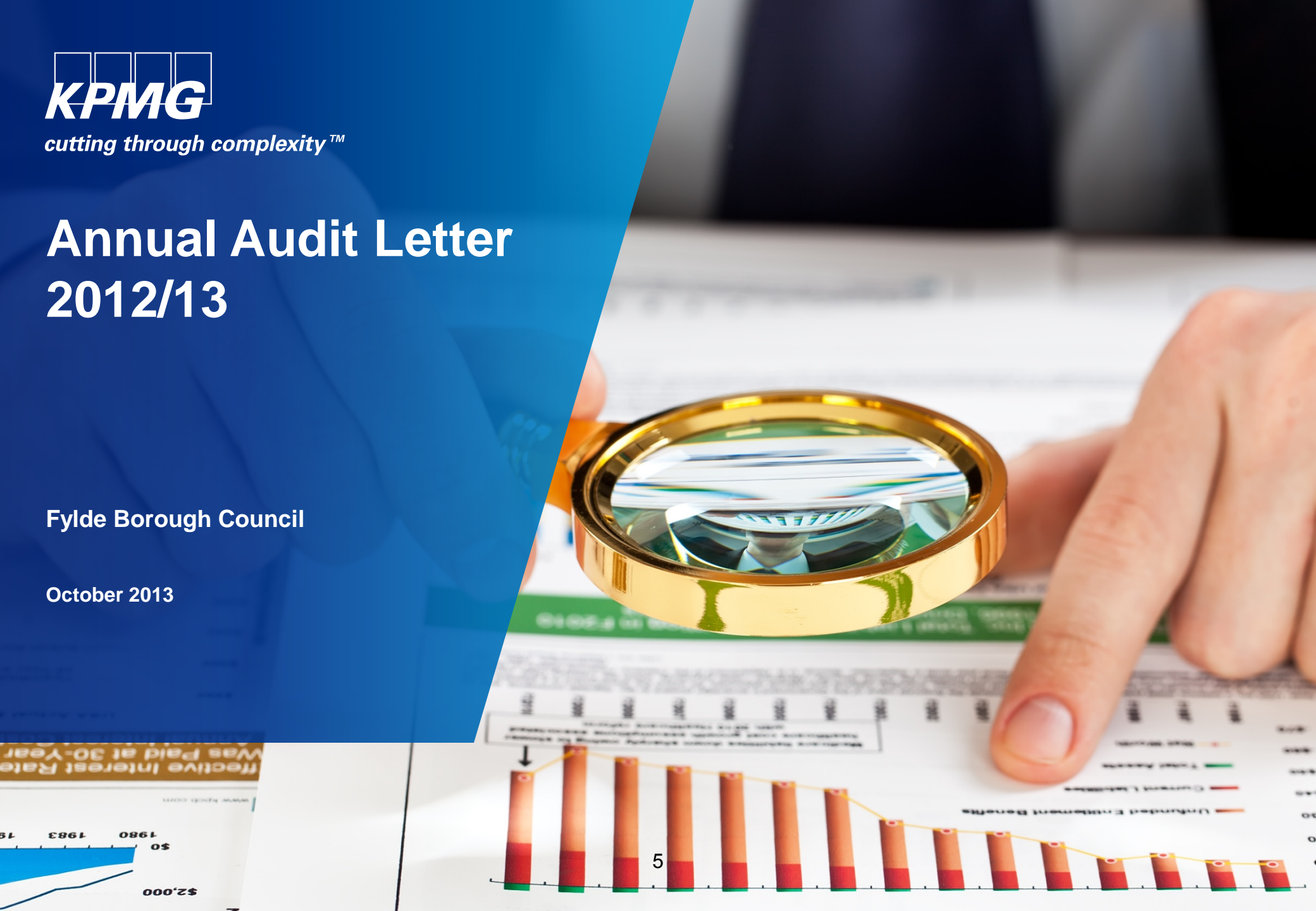


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Annual Audit Letter 2012/13

Fylde Borough Council

October 2013



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

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

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tim Cutler, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 03034448330.

This report summarises the key findings from our 2012/13 audit of Fylde Borough Council (the Authority).

Although this letter is addressed to the Members of the Authority, it is also intended to communicate these issues to key external stakeholders, including members of the public.

Our audit covers the audit of the Authority's 2012/13 financial statements and the 2012/13 VFM conclusion.

VFM conclusion	<p>We issued an unqualified value for money (VFM) conclusion for 2012/13 on 26 September 2013.</p> <p>This means we are satisfied that you have proper arrangements for securing financial resilience and challenging how you secure economy, efficiency and effectiveness.</p> <p>To arrive at our conclusion we looked at your financial governance, financial planning and financial control processes, as well as how you are prioritising resources and improving efficiency and productivity.</p>
Audit opinion	<p>We issued an unqualified opinion on your financial statements on 26 September 2013. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year.</p>
Financial statements audit	<p>As a result of our audit work, we did not identify any material misstatements, and all of the non-material audit differences we identified were adjusted by management. The most significant of these was the change in treatment of the Municipal Mutual Insurance liability of £15,000. This did not meet the requirements for disclosure as an exceptional item, and has instead been included within the Cost of Services. A provision has been included on the Balance Sheet to recognise the uncertainty of the timing of the liability.</p> <p>Two audit issues were identified which have been communicated to management. They were both low priority, and are as follows:</p> <ul style="list-style-type: none"> ■ The Authority's IT Security Policy has not been updated since 2009. Management have agreed that this will be updated during 2013; and ■ The September 2012 bank reconciliation was completed in a timely manner, but amendments were made and a full audit trail was not maintained. Management have agreed to maintain complete audit trails in future.
Annual Governance Statement	<p>We reviewed your <i>Annual Governance Statement</i> and concluded that it was consistent with our understanding.</p>

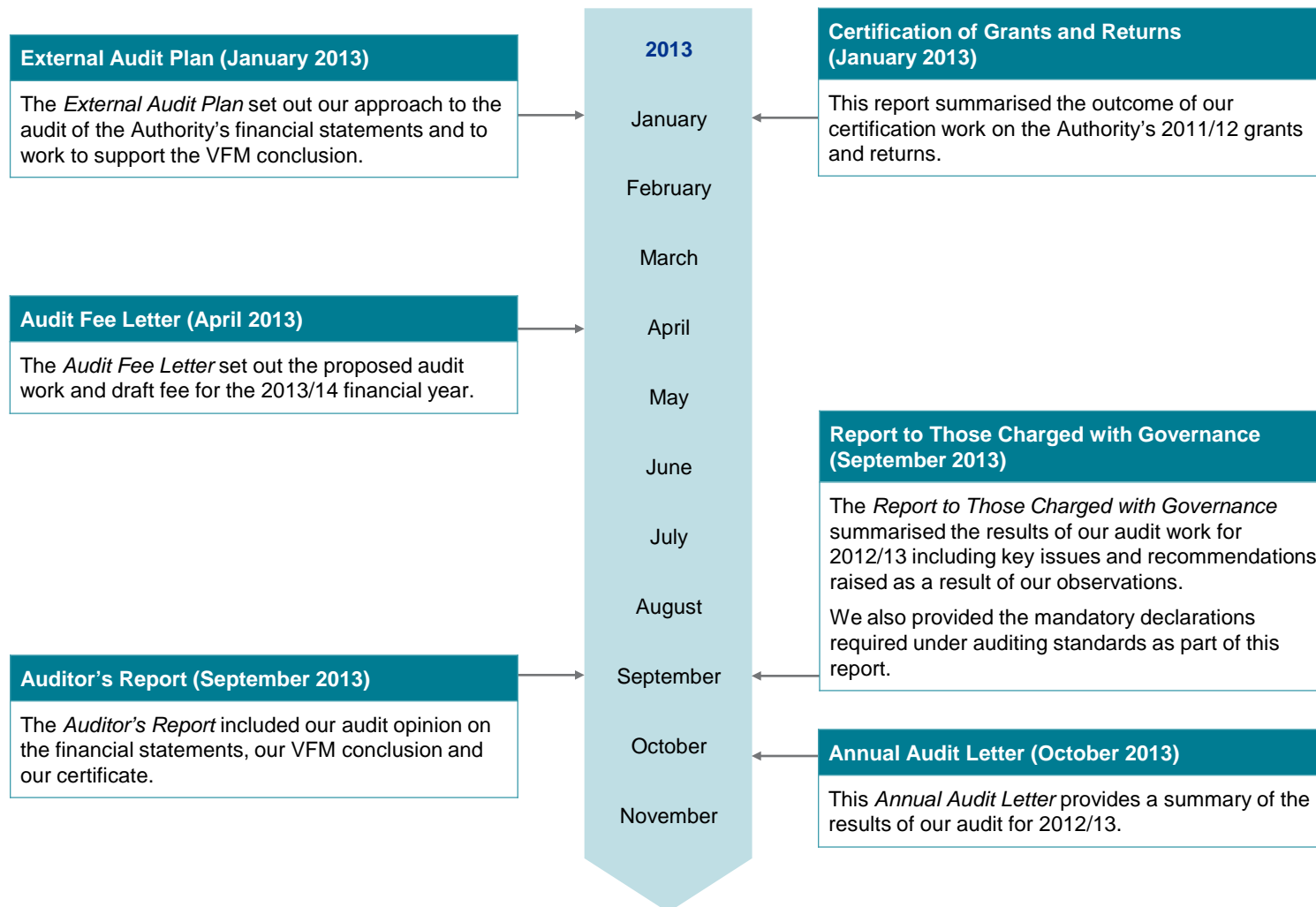
We provide a summary of our key recommendations in Appendix 1.

All the issues in this letter have been previously reported. The detailed findings are contained in the reports we have listed in Appendix 2.

Whole of Government Accounts	As the Authority is below the audit threshold, we are not required to undertake a full review of the consolidation pack that the Authority prepared to support the production of Whole of Government Accounts by HM Treasury. We submitted a short form assurance statement on 27 September 2013 to confirm that the pension liabilities and property, plant and equipment disclosures within the Authority's pack are consistent with the audited financial statements.
High priority recommendations	We raised no high priority recommendations as a result of our 2012/13 audit work. The two low priority recommendations we made have been outlined on page 2.
Certificate	We issued our certificate on 26 September 2013. The certificate confirms that we have concluded the audit for 2012/13 in accordance with the requirements of the <i>Audit Commission Act 1998</i> and the Audit Commission's <i>Code of Audit Practice</i> .
Audit fee	Our fee for 2012/13 was £62,700, excluding VAT. Further detail is contained in Appendix 2.

Appendix 1: Summary of reports issued

This appendix summarises the reports we issued since our last *Annual Audit Letter*.



Appendix 2: Audit fees

This appendix provides information on our final fees for 2012/13.

To ensure openness between KPMG and your Audit Committee about the extent of our fee relationship with you, we have summarised the outturn against the 2012/13 planned audit fee.

External audit

Our final fee for the 2012/13 audit of the Authority was £62,700. This is an overall reduction of 40 percent on the comparative total fee for 2011/12 of £104,500. This reflects the significant reductions made nationally by the Audit Commission to its scale fees.

Certification of grants and returns

Our grants work is still ongoing and the fee will be confirmed through our report on the *Certification of Grants and Returns 2012/13* which we are due to issue in January 2014.



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REPORT

REPORT OF	MEETING	DATE	ITEM NO
FINANCE	AUDIT COMMITTEE	14 th NOVEMBER 2013	5

MID YEAR PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT MONITORING REPORT 2013/14

PUBLIC ITEM

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

SUMMARY

This report is a mid-year Prudential Indicators and Treasury Management monitoring report for Audit Committee to scrutinise in line with the recommendations of CIPFA (Chartered Institute of Public Finance Accountants) Code of Practice on Treasury Management 2011.

RECOMMENDATIONS

1. The Audit Committee is recommended to scrutinise the Mid-Year Prudential Indicators and Treasury Management monitoring report and;
2. To recommend the following changes to Council:-
 - That the revised Prudential Indicators and Limits in Appendix B of this report be approved.

CABINET PORTFOLIO

This item falls within the following cabinet portfolio:

Portfolio Title: Finance and Resources Councillor Name: Councillor Karen Buckley.

SUMMARY OF PREVIOUS DECISIONS

1. Council approved the 2013-14 to 2015-16 Treasury Management Strategy & Prudential Indicators at its meeting of 4th March 2013

REPORT

1. Introduction

The Code of Practice on Treasury Management requires the Council to receive a Mid-Year Treasury Review report in addition to the forward-looking Annual Treasury Strategy and the backward-looking Annual Treasury Report.

The Mid-Year Treasury Review report has been prepared in compliance with the Code of Practice. The Code of Practice requires Members to receive reports and scrutinise the Treasury Management function.

In order to assist with the terminology and explanations included within the report Appendix A to this report sets out a Glossary of Treasury Terms and a number of Treasury Management and Prudential Indicators Frequently Asked Questions.

2. Economic Update

2.1 Economic Background

The UK economy showed some improvement in growth mainly due to a boost in consumer spending. Gross Domestic Product (GDP) grew by 0.8% in the quarter July – September. Annual inflation for September 2013 was 2.7%. Inflation is expected to remain close to this level during the coming months. Longer term, inflation is forecast to reduce towards the 2% target as external price pressures fade.

There was no change to UK monetary policy with official interest rates maintained at 0.5%. In August the Bank of England published its forward guidance of which the main element is to delay consideration of a change to interest rates until the rate of unemployment falls below 7%. The Bank of England projected that the probability of this happening would remain below 50% until 2016.

The outlook for the global economy appears to have improved over the first half of 2013/14, but significant economic risks remain, particularly in China and the Eurozone. The Eurozone debt crisis has not gone away. Political uncertainties, particularly in Italy, could derail the progress towards a more balanced and stable regional economy. In the US, a lack of agreement on the federal budget caused a partial government shutdown at the start of October and risks remain regarding the US debt ceiling.

2.2 Economic Outlook for 2013/14

The UK economic outlook appears to have improved. The projections for growth have risen but remain relatively subdued with a reliance upon household consumption, which itself remains under pressure given the deterioration in real earnings growth and with current unemployment levels.

2.3 Interest Rate Forecast

The latest forecast for interest rates from the Council's Treasury Advisors, Arlingclose, is shown in table 1 below.

Table 1: Interest Rate Forecast from Arlingclose

Quarter Ending	Bank Rate %	Investment Rates		Borrowing Rates		
		3 month %	1 year	5 year	20 year	50 year
Dec 2013	0.50	0.45	0.90	2.25	4.05	4.25
Mar 2014	0.50	0.45	0.95	2.30	4.10	4.30
Jun 2014	0.50	0.50	0.95	2.35	4.15	4.35
Sep 2014	0.50	0.55	0.95	2.40	4.20	4.40
Dec 2014	0.50	0.55	1.00	2.45	4.25	4.45
Mar 2015	0.50	0.55	1.05	2.50	4.30	4.50
Jun 2015	0.50	0.55	1.10	2.55	4.35	4.55
Sep 2015	0.50	0.60	1.15	2.65	4.45	4.60
Dec 2015	0.50	0.65	1.20	2.75	4.55	4.65
Mar 2016	0.50	0.70	1.25	2.90	4.65	4.75
Jun 2016	0.50	0.80	1.30	3.10	4.85	4.85
Sep 2016	0.50	0.90	1.40	3.30	4.95	4.95

3. Debt Management

The Council currently has long-term debt of £3.8M at an average rate of 2.856%. No additional external borrowing has taken place during the current financial year.

The Council has a requirement to fund a further £3.6M in 2013/14 (the £7.4M Capital Financing Requirement or CFR less £3.8M already borrowed) based on Prudential Borrowing that has been approved as part of the Capital Programme. The CFR of £7.4M (See Appendix B Table 2) includes this Prudential Borrowing. Currently this is being funded by the Council's cash flow, i.e. internal borrowing, and it is expected that internal borrowing will continue to be used for the rest of the financial year in line with advice from the Council's Treasury Advisors.

The use of internal resources in lieu of borrowing, i.e. internal borrowing, has continued to be the most cost effective means of funding capital expenditure. This has lowered overall treasury risk by reducing both external debt and temporary investments. However, this position will not be sustainable over the medium term. Consequently, external borrowing options and the timing of such borrowing will continue to be assessed in conjunction with the Council's Treasury Advisors.

The Council has recently been advised that it has qualified for borrowing at the 'Certainty Rate' (0.20% below the PWLB standard rate) for a further 12 month period (from 1st November 2013) having earlier qualified for the period from November 2012 to October 2013.

4. Investment Activity

The guidance on Local Government Investments in England give priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles.

The security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in the Investment Strategy for 2013/14 approved by Council on 4th March 2013.

The Council held £11M of investments as at 30th September 2013. These investments represent the Council's surplus cash flow at the mid-year point. The balance of cash is likely to reduce during the remainder of the financial year.

In line with advice from Treasury Advisors Arlingclose, the Council is looking into opening additional AAA rated Money Market Funds in order to increase diversification of the portfolio.

The UK Bank Rate has been maintained at 0.5% since March 2009 and is not expected to rise until 2016/17. Short-term money market rates have remained at very low levels. New deposits have been made at an average rate of 0.54% against a benchmark return of 0.54%. The Council's budgeted investment return for 2013/14 is £0.045m, and performance for the first half of the year is in line with the revised budget.

5. Compliance with Prudential Indicators

The Council has complied with its Prudential Indicators for 2013/14, which were approved on 4th March 2013 as part of the Council's Medium Term Financial Strategy Update, Including General Fund, Capital Programme and Treasury Management for 2012/13 to 2016/17.

Details of the Prudential Indicators can be found in Appendix B. As changes arise during the year some of the Prudential Indicators and Limits need to be revised. The revised Prudential Indicators in Appendix B will be reported to Council for approval on 2nd December 2013.

6. Risk Assessment

Scrutiny of the revised Prudential Indicators and Limits and the subsequent recommendation of approval to the revisions by Audit Committee to Council helps to protect the Council from the risk of not having adequate liquidity or funding for the Council's capital plans.

Additionally, if this scrutiny process were absent the Council would not be compliant with the Council's approved Treasury Management Practices (as detailed in the Council Constitution) or CIPFA's Code of Practice on Treasury Management.

8. Conclusion

In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during the first half of 2013/14. As indicated in this report, none of the Prudential Indicators have been breached and a prudent approach has been taking in relation to investment activity with priority being given to security and liquidity over yield.

IMPLICATIONS	
Finance	Financial implications are contained within the body of the report.
Legal	This report secures the continued compliance with the Council's approved Treasury Management Practices (as detailed in the Council Constitution) and CIPFA's Code of Practice on Treasury Management.
Community Safety	None
Human Rights and Equalities	None
Sustainability and Environmental Impact	None
Health & Safety and Risk Management	None

REPORT AUTHOR	TEL	DATE	DOC ID
Paul O'Donoghue (Section 151 Officer)	(01253) 658566	October 2013	

LIST OF BACKGROUND PAPERS		
Name of document	Date	Where available for inspection
Medium Term Financial Strategy Update Including General Fund, Capital Programme & Treasury Management for 2012/13 – 2016/17	04.03.13	Minutes of Council Meeting 04/03/13
Capital Programme 2nd Quarter Update 2013/14	30.09.13	Accountancy Services Town Hall
Arlingclose Interest Rate Forecasts	September 2013	Accountancy Services Town Hall

Attached documents

1. Appendix A – Glossary of Treasury Terms and Treasury Management and Prudential Indicators Frequently Asked Questions
2. Appendix B – Prudential Indicators

Glossary of Treasury Terms

Term	Description
Counterparty	Another party to an agreement.
Credit rating	A measure of the credit worthiness of an institution, corporation, or a country. Credit ratings are calculated from financial history and current assets and liabilities. Typically, a credit rating tells a lender or investor the probability of the counterparty being able to pay back a loan.
Liquidity	As assessment of how readily available an investment is. It is safer to invest in liquid assets because it is easier for an investor to get their money out of the investment.
Minimum Revenue Provision (MRP)	The minimum amount that the Council must charge to the accounts each year in order to meet the costs of repaying amounts borrowed.
Public Works Loan Board (PWLb)	PWLb is part of HM Treasury and lends money to local authorities.
Security	As assessment of the creditworthiness of a counterparty.
Treasury adviser	External consultancy firms that provide information to local authorities, including information regarding counterparty creditworthiness.

Treasury Management and Prudential Indicators Frequently Asked Questions

1. What is the difference between capital expenditure and capital financing requirement?

The Capital Expenditure is the forecast expenditure on new capital projects in line with the Capital Programme. It excludes all of the Council's existing capital assets, e.g. Land, buildings, vehicles etc.

The Capital Financing Requirement (CFR) is the Council's capital assets (existing and planned) less all of the Councils' capital and revenue resources which have been applied to pay for it. This is the amount of capital expenditure that the Council has to charge to revenue or to finance through other resources. The CFR is normally funded by external borrowing.

2. What does the term 'financing' mean?

The term 'financing' does not refer to the payment of cash but the resources that will be applied to ensure that the capital payment amount is dealt with over the longer term. A number of financing options are available to Councils:-

- capital receipts (eg. sale of land or buildings)
- contribution from revenue expenditure
- capital grant
- contribution from a third party
- borrowing

3. Does the Council link long term loans to particular capital assets/projects?

The Council does not associate loans with particular capital assets/projects, as it is not best practice. The Council will, at any point in time, have a number of cashflows both positive and negative and will be managing its position in terms of its borrowings and investments in accordance with its treasury management strategy and practices. This is best practice in line with the CIPFA Prudential Code.

4. What does the term 'net borrowing should not exceed the total of the CFR' mean?

The CFR determines the amount that the Council needs to borrow for a capital purpose. Net borrowing will remain below the CFR to ensure that the Council is only borrowing for a capital purpose. The Council is permitted to borrow in advance for a capital purpose over the medium term. The term 'total of the CFR' is the CFR of the current year plus increases in the CFR of the previous financial year and next two financial years. In other words, the total of the Council's existing assets, plus additions to assets resulting from forecast Capital Programme expenditure, e.g. vehicles. This gives the Council some headroom to borrow early for a capital purpose in order to secure low interest rates.

5. Is the cash that is being managed in-house revenue or capital?

The short term surplus cash that is managed during the year in house may be revenue or capital, e.g. the Council may receive a capital receipt in April but capital expenditure is incurred throughout the year which gives rise to increased cash balances in the early part of the financial year which is invested short term by the in house treasury team. The Council receives Council Tax which is classed as revenue income. Council Tax income is typically received in the months of April to January as Council Tax payers make 10 instalments. Therefore, the Council has less cash in the months of February and March and may need to borrow cash short-term in line with the cash flow forecast.

6. What does the Council invest in?

The Council is restricted in where it can invest its surplus funds. The restrictions are prescribed by statute (Local Government Act 2003 section 15(1) (a)). Councils are also required to have regard to supplementary investment guidance provided by the Communities and Local Government.

The Council's investments are typically short term, i.e. less than a year, and are made in sterling with institutions with high credit ratings.

7. What is the role of internal and external auditors in respect of treasury management?

The focus of external auditors work is a Council's annual accounts and the financial management systems and processes that underpin them. The external audit will enquire as to whether the Treasury Management Code has been adopted and whether its principles and recommendations have been implemented and adhered to. External auditors cannot comment or advise on Council's treasury management strategy or policies

Through a process of review, the role of Internal Audit is to provide an opinion of the adequacy, application and reliability of the key internal controls put in place by management to ensure that the identified risks are sufficiently mitigated. This will assist Treasury Management in meeting its desired objectives and help to ensure that the risk of fraud and/or error is minimised. Internal Audit will also look to identify other areas of potential risk which could usefully be included as well as any inefficiencies in existing processes and procedures where improvements can be made.

8. What are the qualifications of Council staff involved in treasury management practices?

Staff are either working towards or have achieved professional accountancy qualifications from CIPFA (Chartered Institute of Public Finance Accountants), ACCA (Association of Chartered Certified Accountants) or CIMA (Chartered Institute of Management Accountants). Staff work closely with Treasury Management Advisors and attend treasury training and updates provided by the Treasury Management Advisors.

Prudential Indicators

1.1 Capital Expenditure

Table 1 shows the revised forecast capital expenditure as reported in the Quarter 2 Capital Programme Update as compared to the capital expenditure originally approved by Council.

Table 1 Forecast Capital Expenditure

Forecast Capital Expenditure	2013/14 Original Indicator £M	2013/14 Latest Estimate £M
Total	3.9	6.0

The above table shows the forecast capital expenditure on new projects. The increase in the latest estimate is a consequence of slippage totalling £1.487m and the addition of new schemes in 2013/14, most notably the lottery funded refurbishment of St. Annes Pool in the sum of £635k.

1.2 Capital Financing Requirement (CFR)

Table 2 shows the CFR which is the total of all of the Council's capital assets (existing and planned) less all of the Council's capital reserves. This is the amount of capital expenditure that the Council has still to finance. The CFR is normally funded by external borrowing. The Council has borrowed £3.8M (see section 3 of report), and there is a requirement to finance a further £3.6M.

Table 2 Capital Financing Requirement (CFR)

	2013/14 Original Indicator £M	2013/14 Revised Indicator £M
Total CFR	7.8	7.4

The latest estimate has decreased due to changes in the scheduling and funding of schemes within the capital programme. This includes the impact of additional capital receipts received during 2012/13 which were not budgeted for and savings achieved on the cost of the 'boxes to bins' scheme in 2012/13.

1.3 Gross Borrowing

The Council needs to ensure that its total capital borrowing does not, except in the short term, exceed the total of the CFR. Table 3 below shows that the Council will be able to comply with this requirement.

There are no difficulties anticipated in keeping the long term capital borrowing below the CFR. Revenue borrowing may be incurred for short periods in line with cash flow requirements.

Table 3 Gross Borrowing

	2013/14 Original Indicator £M	2013/14 Revised Indicator £M
Gross Borrowing Indicator	7.8	3.8
Short Term Borrowing (Revenue)	0	0
Gross Borrowing (Capital)	7.8	3.8
CFR	7.8	7.4
Under Borrowing (Capital)	0	3.6

The Gross Borrowing Indicator has decreased as the Council is forecast to be able to fund the capital borrowing requirement with internal borrowing and does not expect to require new external borrowing during 2013/14, in line with advice from Treasury Advisors.

1.4 Operational Boundary and Authorised Limit for External Debt

The Operational Boundary is based on the maximum external debt during the course of the year. It is not a limit and therefore may be exceeded on occasion.

The Authorised Limit for external debt represents the limit beyond which borrowing is prohibited, and is set and revised by Council. It reflects the level of borrowing which, in extreme circumstances, could be afforded in the short term. This is a statutory limit which should not be breached.

There were no breaches to the Authorised Limit and the Operational Boundary to 30th September 2013.

Table 4 Operational Boundary and Authorised Limit for External Debt

	2013/14 Original Indicator £M	2013/14 Revised Indicator £M	Note
Existing Capital Borrowing	7.8	3.8	1
Gross Borrowing Indicator	7.8	3.8	
Operational Boundary	7.8	3.8	1
Contingency	6.1	6.1	2
Authorised Limit	13.9	9.9	

Note

1. The Gross Borrowing Indicator and Operational Boundary have decreased as the Council is able to fund the capital borrowing requirement with internal borrowing and does not expect to request new external borrowing during 2013/14, in line with advice from Treasury Advisors.

2. The Authorised Limit includes £6.1M for 'contingency' which is an amount that has been estimated to provide scope to undertake short-term borrowing in the event of a service delivery failure or emergency, e.g. a failure to collect council tax income.

1.5 Forecast Treasury Position

Table 5 shows the expected balances for investments and debt at 31st March 2014.

Table 5 Forecast Treasury Position

At 31 st March	2013/14 Estimate £M	2013/14 Revised £M
Debt (Long-Term External Borrowing)	7.8	3.8
Investments	0	0

The Council has not undertaken any new external long-term borrowing as it is funding capital expenditure with internal borrowing (see Section 3 of the report).

1.6 Forecast Interest

Table 6 shows the impact on the revenue budget of interest payable and investment income.

Table 6 Forecast Interest

Revenue Budget	2013/14 Estimate £M	2013/14 Revised £M
Interest payable on Borrowing	0.271	0.109
Investment Income	0.026	0.045

The interest payable budget has been revised to incorporate the savings generated by using internal borrowing to fund capital expenditure. The increase in investment income is a consequence of higher than expected investment balances.

1.7 Adoption of the CIPFA Treasury Management Code

The Council approved the adoption of the CIPFA Treasury Management Code at its meeting on 1st December 2003, and adopted the revised Code on 1st March 2010.

1.8 Limits on Interest Rate Exposure

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates.

Table 7 Interest Rate Exposures

	2013/14 Original Indicator £M	2013/14 Revised Indicator £M
Limits on fixed rate debt	7.8	3.8
Limit on variable rate debt (50% of total debt)	3.9	1.9

1.9 Ratio of Financing Costs to Net Revenue Stream

This indicator identifies the trend in the financing cost (interest payable less interest receivable) as a percentage of the net revenue stream as shown in Table 8.

Table 8 Ratio of Financing Costs to Net Revenue Stream

	2013/14 Original Indicator	2013/14 Revised Indicator
Ratio	9.4%	7.2%

Financing costs are based on the amount of interest payable and receivable as a percentage of the total net revenue stream of the Council. The latest estimate is lower than the original estimate due to the current treasury strategy of internal borrowing rather than long-term external borrowing, which has reduced estimated debt interest charges.

REPORT

REPORT OF	MEETING	DATE	ITEM NO
RESOURCES DIRECTORATE	AUDIT COMMITTEE	14 NOVEMBER 2013	6

MID-YEAR UPDATE ON STRATEGIC RISK ACTION PLANS

Public Item

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

Summary

To consider the report of the Risk & Emergency Planning Officer on the mid-year progress to date made in relation to the action plans contained in the Strategic Risk Register 2013-14, as requested by the Audit Committee at its meeting dated 27 June 2013.

Recommendation

1. It is recommended that the mid-year report of the progress on the 2013-14 Strategic Risk Register actions plans be considered and appropriate comments made.

Cabinet Portfolio

The item falls within the following Cabinet portfolio:

Finance & Resources Councillor Karen Buckley

Summary of previous decisions

1. The Strategic Risk Register for 2013-14 was approved by the Audit Committee at its meeting on 27 June 2013.
2. The Audit Committee requested a mid-year report be brought to the November 2013 meeting of the committee

Report

Mid-year update on the action plans contained in the 2013-14 Strategic Risk Register

1. The 2013-14 Strategic Risk Register contains 38 individual actions split over 5 Action Plans. These action plans are shown in table 1 below

Table 1. 2013-14 Strategic Risk Register	
Action Plan 1. Accommodation	Champion: Dir. of Development Services
Action Plan 2. Cost of Planning Appeals	Champion: Section 151 Officer
Action Plan 3. Local Plan	Champion: Dir. Development Services
Action Plan 4. Staff Performance	Champion: Chief Executive
Action Plan 5. Travellers	Champion: Dir. Development Services (previously assigned to Dir. Community Services)

2. This mid-year report is concentrating on those individual actions contained in the various plans that should have been completed by 31/10/2013. Progress on actions due to be completed from November 2013 onwards will be reported in the annual update which is made to January meeting of the committee each year.
3. Table 2 below details the number of actions in each Action Plan that are due to be completed by 31/10/13, and outlines if these actions have been completed, are ongoing or have been delayed and not stated as at 31/10/13.

Table 2. Number of actions due to be completed by 31/10/13				
Action Plan Name	Actions Due	Completed	Ongoing	Delayed
Accommodation	6	4 (66%)	1 (17%)	1 (17%)
Cost of Planning Appeals	3	2 (66%)	1 (34%)	-
Local Plans	5	5 (100%)	-	-
Staff Performance	6	6 (100%)	-	-
Travellers	14	8 (57%)	-	6 (43%)
Total	34	25 (74%)	2 (6%)	7 (20%)

4. The ongoing action listed above in the Accommodation action plan is the completion of the Derby Rd sale. This action will be triggered if planning permission is granted for the proposed development by the DM committee at its meeting on 13th November. The ongoing action in the Cost of Appeals action plan is in respect of the reporting of the recent Mowbreck Appeal decision and the learning points thereof. This was reported to DM Cttee on 9/10/13 and will be reported to the Management Board and Cabinet on 5th & 27 November 2013, respectively. These reports will complete this action.

5. The delayed action in the Accommodation action plan relates to the sale of the Public Offices. After the failure of the negotiations with the highest bidder the offices were put back on the market, this has of course delayed the sale of the property which was scheduled to have been signed by July 2013. This delay will also impact on several other actions related to the accommodation project which are dependent on the income received from the sale of the Public Offices. Dates for the completion of these actions were not set in the original action plan due to the inter-dependence of the sale being completed before the various actions could commence. A review of the current strategy regarding the accommodation will be undertaken initially by the Accommodation Working Group in December and reported to Cabinet.
6. The delayed action in the Travellers action plan relate to one of two issues. Four actions depended on the revised Gypsy Travellers Accommodation Assessment which was due to be completed by August 2014. The original intention was to obtain an update to the original assessment carried out on behalf of Fylde & Wyre by the University of Salford. This proved not to be possible. A wider more comprehensive brief has therefore been drawn up between Blackpool, Fylde and Wyre Councils. This work should be commencing shortly and run up to March 2014, after which the findings will be reported back to the 3 councils. The two other delayed actions related to evictions from the site after the end of the legal process. The delay in the handing down of the ruling from the Court of Appeal from July to October has meant that the consideration of options for resolving the issue had to be delayed.
7. From table 2 above it can be seen that the total completion rate is 74% as at 31/10/13. This raises to 80% if the 2 ongoing actions are included. From the information included above it can be seen that the underlying issues that are causing the delays with the final 20% of the risk actions are outside the direct control of the Council.

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

Report Author	Tel	Date	Doc ID
Andrew Wilsdon	(01253) 658412	25/10/13	

List of Background Papers		
Name of document InPhase Report	Date 25/10/13	Risk & Emergency Planning Officers Office by appointment
Document name		Council office

Attached documents

REPORT

REPORT OF	MEETING	DATE	ITEM NO
INTERNAL AUDIT	AUDIT COMMITTEE	14 NOVEMBER 2013	7

INTERNAL AUDIT CHARTER 2013

PUBLIC ITEM

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

SUMMARY

The introduction of the Public Sector Internal Audit Standards in April 2013 requires the adoption of an Internal Audit Charter to establish the framework in which Fylde Council's Internal Audit Service can operate to best serve the Council and to meet its professional obligations. This report sets out the changes needed and seeks the approval of the Committee for the Internal Audit Charter.

RECOMMENDATIONS

1. The Audit Committee is asked to approve the contents of the Internal Audit Charter and support Internal Audit in its undertakings

CABINET PORTFOLIO

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

Portfolio Title: Finance & Resources Councillor Karen Buckley

SUMMARY OF PREVIOUS DECISIONS

There are no previous decisions on this item.

REPORT

1. Terms of Reference for Internal Audit, prepared in accordance with the requirements of CIPFA's *Code of Practice for Internal Audit in Local Government in the United Kingdom 2006*, were initially adopted by the Audit Committee in September 2006 and refreshed periodically thereafter.

2. The *Public Sector Internal Audit Standards* (“PSIAS”) came into force on 1 April 2013, to supersede the CIPFA Code of Practice. One of the requirements of the new Internal Audit Standards is the need to set out an Internal Audit Charter instead of “Terms of Reference”. The Standards, and a supporting Local Government Application Note published by CIPFA, detail the necessary contents of an Internal Audit Charter for a Local Government body.
3. The Local Government Application Note remarks that a comparison between the Terms of Reference required under the 2006 Code and an Internal Audit Charter shows only the following differences:
 - The Terms of Reference had to identify internal audit’s contribution to the review of the effectiveness of the control environment and required and enabled the Head of Internal Audit to deliver the annual audit opinion, and
 - the PSIAS asks for mostly the same content as in the Terms of Reference apart from those specific points set out in the public sector requirement to “PSIAS 1000”. These requirements are the last four bullet points in the list in paragraph 4 below.
4. According to the Standards, and the Local Government Application, the necessary contents of an Internal Audit Charter for a Local Government Body are as follows:

PSIAS Requirements	IA Charter Paragraph(s)
• A formal definition of the purpose, authority and the responsibility of the internal audit activity, that is consistent with the Public Sector Internal Audit Standards (PSIAS)	2.1, 3.4, Section 5, 6.3
• A definition of the terms ‘board’ and ‘senior management’, for the purposes of the internal audit activity (Note at Fylde the Audit Committee will fulfil the role of the ‘board’ and the term ‘senior management’ will be taken to be the Management Team)	2.2
• Sets out the internal audit activity’s position within the organisation	7.1
• Establish the Head of Internal Audit’s (HIA’s) functional reporting relationship with the board (Audit Committee)	5.4, 5.7, 7.8
• Establish the accountability, reporting line and relationship between the HIA and those to whom the HIA may report administratively	Section 7
• Establish the responsibility of the board (Audit Committee) and also the role of the statutory officers (such as the Chief Finance Officer, the monitoring officer and the head of paid service) with regards to internal audit	4.6, Section 7, 8.4, 12.1
• Establish internal audit’s right of access to all records, assets, personnel and premises and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities	3.4, 6.3
• A definition of the scope of internal audit activities	Section 4
• A recognition that internal audit’s remit extends to the entire control environment of the organisation	4.2
• Establish the organisational independence of internal audit	6.1

- The arrangements for appropriate resourcing 4.6, 10.1
- A definition of the role of internal audit in any fraud-related work 5.6, 6.1, 9.1, 9.2
- Set out the existing arrangements within the organisation's anti-fraud and anticorruption policies, to be notified of all suspected or detected fraud, corruption or impropriety 9.3
- The arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities 6.5, 6.6
- A definition of the nature of assurance services provided to the organisation, as well as assurances provided to parties external to the organisation if provided 4.4, 5.1
- A definition of the nature of consulting services 5.5
- A recognition of the mandatory nature of the PSIAS 1.3, 3.1, 3.2

5. Consideration was given to the above when reviewing the Internal Audit Terms of Reference, and adapting them in order to create an Internal Audit Charter for Fylde Council.
6. Final approval of the Internal Audit Charter, which is attached as an Appendix to this report, rests with the Audit Committee.

IMPLICATIONS	
Finance	There are no significant financial implications arising from this report however, the requirement to undertake an external assessment of the effectiveness of internal audit every 5 years may be a small additional cost to the service that could be met from within existing resources.
Legal	There are no significant legal implications arising directly from the recommendation in this report. Compliance with the regulations and guidance referred to will provide assurance that the Council's internal audit affairs are conducted in accordance with mandatory guidance and best practice.
Community Safety	There are none
Human Rights and Equalities	There are none
Sustainability and Environmental Impact	There are none
Health & Safety and Risk Management	There are none

REPORT AUTHOR	TEL	DATE	DOC ID
Savile Sykes	01253 658413	14 November 2013	

LIST OF BACKGROUND PAPERS		
Name of document	Date	Where available for inspection
Public Sector Internal Audit Standards (PSIAS)	April, 2013	All background papers are held for inspection by the internal audit service
CIPFA Local Government Application Note	April, 2013	

Attached documents

1. Internal Audit Charter 2013 (draft)

Fylde Council

Internal Audit Service Charter

October 2013

Introduction

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

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

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

Definitions

2.1 The PSIAS define internal auditing as:

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

2.2 The PSIAS require that the internal audit charter defines the terms 'board' and senior management' in relation to the work of internal audit. For the purpose of internal audit work at Fylde Council, the 'board' is taken to refer to the Audit Committee and 'senior management' is taken to refer to the Management Team. The PSIAS also refer to the 'Chief Audit Executive' which at Fylde refers to the Head of Internal Audit.

The statutory and regulatory framework

3.1 Internal audit is a statutory service in the context of the Accounts and Audit Regulations 2011, which state that:

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

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

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

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

Scope of Internal Audit activities

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

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

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

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

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

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

Responsibilities and objectives

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

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

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

- ♦ the soundness, adequacy and effectiveness of the system of internal controls
- ♦ the application of good practice in corporate governance and risk management
- ♦ the operations in place to establish and monitor the achievement of the Council's objectives
- ♦ the adequacy of arrangements in place to secure efficient, effective and economic use of resources
- ♦ the integrity and reliability of financial and other management data, including aspects of performance management
- ♦ compliance with corporate policies, procedures, controls and regulations
- ♦ compliance with government legislation and statutory obligations
- ♦ the extent to which the assets and interests are properly controlled, accounted for and safeguarded from loss

5.4 The Head of Internal Audit provides an annual internal audit opinion to the Audit Committee, based on the outcomes of internal work conducted throughout the year, that key risks are being managed effectively and that appropriate controls are in place. This opinion will be an important element of the council's review of the effectiveness of its control environment and will be used by the council to inform its annual governance statement.

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

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

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

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

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

Organisational Independence

6.1 The internal audit service remains independent of the council's other services, with the exception of its support to management in relation counter fraud and investigatory work, no internal auditor has any other executive or operational responsibilities. Auditors are expected to deploy impartial and effective professional judgement.

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

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

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

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

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

Accountability, reporting lines and relationships

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

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

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

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

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

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

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

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

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

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

8 Head of Internal Audit

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

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

- ♦ be a professionally qualified and suitably experienced auditor
- ♦ be of sufficient status to permit effective discussion and negotiation on the results of audit work, audit strategies, audit reports and action plans with Directors, senior management and the Audit Committee
- ♦ hold a senior position in the organisation that reflects the influence of the post on the internal control environment

- ♦ report to and be managed at corporate management team level
- ♦ lead and direct an internal audit service that is resourced to be fit for purpose

8.3 Management Team recognises the unique status of the Head of Internal Audit and welcomes constructive challenge and positive criticism from the internal audit service in pursuit of organisational improvement, the enhancement of governance processes and the strengthening of the control environment.

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

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

Fraud and Corruption

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

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

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

Proficiency and Due Professional Care

10.1 Internal audit will be resourced appropriately to meet its objectives. It will have sufficient numbers of staff in terms of grades, qualifications, personal attributes and experience or have access to appropriate resources in order to meet its objectives and comply with the PSIAS. The Head of Internal Audit should obtain competent advice and assistance if the service is unable to perform all or part of an assignment.

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

10.3 Internal auditors will perform work with due professional care, competence and diligence. Internal auditors cannot be expected to identify every control weakness or irregularity but their work should be designed to enable them to provide reasonable assurance regarding the controls examined within the scope of their review.

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

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

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

Quality assurance

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

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

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

11.4 Periodically, but not less than once every five years, the Internal Audit Service will be subject to an external assessment by a qualified, independent assessor from outside the organisation. This will take the form of a self-assessment in accordance with CIPFA's Application Note, together with an independent external validation by peer review organised through the Lancashire District Council Audit Group, providing there is no conflict of interest. The results will be reported to the Audit Committee.

Review

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

Audit Committee



Date:	Thursday, 26 September 2013
Venue:	Town Hall, St. Annes
Committee members:	Councillor John Singleton (Chairman) Councillor Brenda Ackers (Vice Chairman) Councillors Ben Aitken, Christine Akeroyd, Howard Henshaw.
Other Councillors:	Councillor Karen Buckley (Portfolio Holder for Finance and Resources)
Officers:	Tracy Morrison, Paul O'Donoghue, Ian Curtis and Paul Rogers.
Other Attendees:	Tim Cutler (KPMG)

1. Declarations of interest

Members were reminded that any disclosable pecuniary interests should be declared as required by the Localism Act 2011 and that any other interests should be declared as required by the Council's Code of Conduct.

There were no declarations of interest.

2. Confirmation of minutes

RESOLVED: To approve the minutes of the Audit Committee meeting held on 27 June 2013 as a correct record for signature by the Chairman.

3. Substitute members

There were no substitutions.

4. Annual Statement of Accounts 2012/13

Paul O'Donoghue, Chief Financial Officer, presented a report on the Annual Statement of Accounts for year ending 31 March 2013. He advised members that as Chief Financial Officer he was required to prepare the Statement of Accounts and ensure that they present a true and fair view of the financial position of the Authority. He reminded members that the majority of the committee had attended a workshop in July regarding the Statement of Accounts and since then, KPMG had audited the Accounts. KPMG had recommended some presentational changes which were now reflected in the Accounts but there were no material or adjustable changes found necessary. Mr. O'Donoghue informed the committee that the accounts now contained the Independent Auditors Report, which included KPMG's opinion that, in their

view, the financial statements both “give a true and fair view of the financial position of the Authority as at 31 March 2013”, and “have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting”. In taking members through the various sections of the Statement of Accounts, he drew the Committee’s attention to the outlook for the future referred to in paragraph 7 on page 18 and, in particular, the table ‘Forecast non-earmarked General Fund Reserves’ which he considered significant. The table shows the revenue balances of £4.8 million at the end of 31 March 2013 which he considered to a healthy position. However, the table showed the underlying challenge faced by the Council in that with the current forecast that was approved by Council in March, the balances would be drawn upon significantly over the life of the forecast, and that this challenge would need to be addressed.

In regard to a question from Councillor Howard Henshaw about reducing the Pensions deficit, Mr. O’Donoghue informed members that Lancashire County Council (LCC) who administer the pension scheme, were in the final year of a triennial review which would look at reducing the deficit. In addition, there were a number of changes in the pipeline with the intention of reducing the deficit. Employee contributions would be increased from 1st April 2014 and final salary pensions scheme would be replaced with career average pensions with a view to reducing liabilities on the scheme.

Councillor Ben Aitken referred to Trade Debtors on page 81 and expressed surprise at the large amount of debts still outstanding. Mr O’Donoghue informed the committee that there would always be some debts outstanding as the Council was continuously raising invoices, and that the value of trade debts at the balance sheet date shown in the table on page 81 had reduced from £1.1m last year to £761k this year. He also stated that debts were followed up thoroughly and rigorously resulting in successful recovery of debts. He stated that within those debts were monies owed to the Council by other government bodies. He confirmed that he would let members have a more detailed breakdown of this year’s trade debtors and recovery processes.

Following discussion it was RESOLVED

- (1) to approve the Statement of Accounts for 2012/13 and submit them to Full Council accordingly.
- (2) that the Audit Committee on behalf of the Council thank the Chief Financial Officer and the Finance Team for arranging the Statement of Accounts workshop and for the production of timely and accurate accounts.

5. Report to those Charged with Governance (ISA 260) 2012/13

Tim Cutler, representing KPMG, presented a report which had been prepared by KPMG, which summarised

- i) The key issues identified during the audit of the Council’s financial statements for the year ended 31st March 2013, and
- ii) KPMG’s assessment of the Council’s arrangements to secure value for money in its use of resources.

The report concluded, that having regard to the relevant criteria for principal authorities as published by the Audit Commission, that the Council has secured economy, efficiency and effectiveness. It also provides an opinion to verify that the Council has complied with all legal and regulatory frameworks with respect to its accounting arrangements resulting in an unqualified opinion.

Mr. Cutler commented that the smooth and efficient audit process had been assisted by the co-operation and high quality working papers produced by the Finance Team and the quick turnaround of audit queries.

Councillor Ben Aitken referred to the Local Authority Mortgage Scheme (LAMS) and the £1m s106 monies that had been earmarked to fund the scheme. He drew attention to the interest that was being lost by using the money in that way and whether the Council should continue participating in the scheme. Paul O’Donoghue, Chief Financial Officer, informed members that as a result of the nationwide Help to Buy scheme recently announced by central government, which was intended to deliver essentially the same

outcomes as the LAMS scheme, that the Council had paused and had not yet progressed with a local LAMS scheme. The money that had been earmarked was, therefore, still within s106 reserves and was gaining interest for the Council.

After discussion it was RESOLVED that

- (1) the External Auditors Report to those charged with Governance for 2012/13, referred to as the ISA 260, be noted, and that KPMG be thanked for their work.
- (2) the Management Representation letter as contained in Appendix 4 of the report be agreed, and that the Letter be subsequently signed by the Chairman of the Audit Committee and the Chief Financial Officer and be sent to KPMG and included within the Statement of Accounts published on the Council's website.
- (3) the Audit Committee notes the work undertaken by the Council over the course of the last year resulting in a positive audit opinion of the Council's effectiveness and that a consistent approach has been maintained despite organisational changes and the current economic environment.

6. Constitution Review

Tracy Morrison, Monitoring officer, presented a report which informed the committee of a number of changes to the council's constitution that she had made under her delegated powers and for transparency; these matters were drawn to the attention of the Audit Committee for its information. In addition, there were three matters for referral to Council by the Audit Committee, one of which (procedure rules for Budget Council meetings) had already been before the Audit Committee and had been previously approved.

Ms Morrison referred the committee to the proposed change relating to 'Constitution - Amendments' on page 127 and reminded members of the current wording of paragraph 15.05 of the Constitution and how the proposed change would modify that paragraph. She advised that this would mean that members putting forward a Notice of Motion in respect of a constitutional change would not need to consult the Chief Executive. The Motion would be automatically debated at full Council. The Chief Executive did not object to the proposal.

At Ms Morrison's invitation, Ian Curtis, Head of Governance, explained the proposed changes to the contract procedure rules. The first tranche was presentational and set out types of contract against available procedures in table form. The other proposed change would allow the Monitoring Officer to approve the use of additional portals such as the Government eMarketplace. Approved portals would be listed on the Council's intranet. Paper tenders could be used, but only in exceptional circumstances.

Councillor Howard Henshaw raised the concept of the need for having tighter controls for contracts. Mr Curtis reminded the committee that the banding of contract values and the procedures applicable to them in the proposed revision were unchanged in substance from the existing rules and were aimed at balancing the risks and complexities involved in the tendering process. Other authorities used similar bandings, he continued.

Mr Curtis advised the Committee that the word 'or' in paragraph 4.5 on page 134 should be deleted and the words 'been submitted' be included after the word 'has' in 8.2 on page 136.

Following discussion, it was RESOLVED

- (1) to note those amendments to be made by the Monitoring Officer utilising her delegated authority.
- (2) to approve the referral of three matters, as recommended in the report, to Council for consideration.

7. Regulation of Investigatory Powers Act 2000: Authorisations

Ian Curtis, Head of Governance, presented a report on the above. The Committee was reminded that Councillors are obliged to review the use of covert surveillance and covert human intelligence sources by the council at least quarterly. In the quarters to July and September 2012, there were no authorised operations.

It was RESOLVED that the Committee note the information in the report.

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