



## Meeting Agenda

**Audit Committee**  
**Town Hall, St Annes**  
**Thursday 23 September 2010, 7:00p.m.**

**The main doors to the Town Hall will be open to the public at 6:45pm**  
The maximum capacity for this meeting room is 60 persons –  
once this limit is reached no other person can be admitted.

# AUDIT COMMITTEE

## MEMBERSHIP

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

### **Councillors**

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

Contact: Lyndsey Lacey, St. Annes (01253) 658504, Email:  
[lyndseyl@fylde.gov.uk](mailto:lyndseyl@fylde.gov.uk)



## **Our Vision**

*Fylde Borough Council will work with partners to provide and maintain a welcoming, inclusive place with flourishing communities.*

## **Our Corporate Objectives**

- To Promote the Enhancement of the Natural & Built Environment
  - To Promote Cohesive Communities
  - To Promote a Thriving Economy
- To meet the Expectations of our Customers

## **The Principles we will adopt in delivering our objectives are:**

- To ensure our services provide value for money
- To work in partnership and develop joint working



## A G E N D A

### PART I - MATTERS DELEGATED TO COMMITTEE

ITEM	PAGE
<b>1. DECLARATIONS OF INTEREST:</b> <i>If a member requires advice on Declarations of Interest he/she is advised to contact the Monitoring Officer in advance of the meeting. (For the assistance of Members an extract from the Councils Code of Conduct is attached).</i>	4
<b>2. CONFIRMATION OF MINUTES:</b> <i>To confirm as a correct record the minutes of the Audit Committee held on 24 and 29 June 2010. As attached at the end of the agenda.</i>	4
<b>3. SUBSTITUTE MEMBERS:</b> <i>Details of any substitute members notified in accordance with council procedure rule 25.3</i>	4
<b>4. REPORT TO THOSE CHARGED WITH GOVERNANCE (ISA 260) 2009/10</b>	7-31
<b>5. ANNUAL STATEMENT OF ACCOUNTS 2009/10 (POST AUDIT)</b>	32-110
<b>6. MANAGEMENT LETTER OF REPRESENTATION 2009/10</b>	111-115
<b>7. INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) PROJECT PROGRESS UPDATE</b>	116-126
<b>8. EFFECTIVENESS OF INTERNAL AUDIT</b>	127-150
<b>9. INTERNAL AUDIT – TERMS OF REFERENCE</b>	151-161
<b>10. INTERNAL AUDIT STRATEGY</b>	162-172
<b>11. CORPORATE GOVERNANCE IMPROVEMENT PLAN 2010/11</b>	173-177
<b>12. OUTSTANDING STRATEGIC RISK ACTIONS FROM 2009/10</b>	178-182

**Personal interests**

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

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

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

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

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

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

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

**Disclosure of personal interests**

- 9.—**(1) Subject to sub-paragraphs (2) to (7), where you have a personal interest in any business of your authority and you attend a meeting of your authority at which the business is considered, you must disclose to that meeting the existence and nature of that interest at the commencement of that consideration, or when the interest becomes apparent.
- (2) Where you have a personal interest in any business of your authority which relates to or is likely to affect a person described in paragraph 8(1)(a)(i) or 8(1)(a)(ii)(aa), you need only disclose to the meeting the existence and nature of that interest when you address the meeting on that business.
- (3) Where you have a personal interest in any business of the authority of the type mentioned in paragraph 8(1)(a)(viii), you need not disclose the nature or existence of that interest to the meeting if the interest was registered more than three years before the date of the meeting.
- (4) Sub-paragraph (1) only applies where you are aware or ought reasonably to be aware of the existence of the personal interest.

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

#### **Prejudicial interest generally**

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

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

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

#### **Effect of prejudicial interests on participation**

- 12.—**(1) Subject to sub-paragraph (2), where you have a prejudicial interest in any business of your authority—
- (a) you must withdraw from the room or chamber where a meeting considering the business is being held—
    - (i) in a case where sub-paragraph (2) applies, immediately after making representations, answering questions or giving evidence;
    - (ii) in any other case, whenever it becomes apparent that the business is being considered at that meeting;
 unless you have obtained a dispensation from your authority's standards committee;
  - (b) you must not exercise executive functions in relation to that business; and
  - (c) you must not seek improperly to influence a decision about that business.
- (2) Where you have a prejudicial interest in any business of your authority, you may attend a meeting (including a meeting of the overview and scrutiny committee of your authority or of a sub-committee of such a committee) but only for the purpose of making representations, answering questions or giving evidence relating to the business, provided that the public are also allowed to attend the meeting for the same purpose, whether under a statutory right or otherwise.

# REPORT



REPORT OF	MEETING	DATE	ITEM NO
KPMG, THE COUNCIL'S EXTERNAL AUDITORS/DIRECTOR OF GOVERNANCE AND PARTNERSHIPS	AUDIT COMMITTEE	23 SEPT 2010	4

## REPORT TO THOSE CHARGED WITH GOVERNANCE (ISA 260) 2009/10

### Public Item

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

### Summary

The attached report, which has been prepared by the Council's external auditors KPMG, summarises:

- i) The key issues identified during the audit of the Council's financial statements for the year ended 31<sup>st</sup> March 2010, and
- ii) KPMG's assessment of the Council's arrangements to secure value for money in its use of resources.

The report concludes, that having regard to the relevant criteria for principal authorities as published by the Audit Commission, 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.

### Recommendation

#### Recommendations

1. That the report is noted and KPMG thanked for its report
2. That the Audit Committee welcomes the work undertaken by the Council over the course of the last year resulting in a number of improvements as identified by the Council's external auditors. In particular improvements relating to arrangements for

workforce planning, performance in commissioning and procurement together with an increased understanding of cost bases and performance.

**Reasons for recommendation:** It is part of the Government's current regulatory framework that each Council must make proper arrangements to secure economy, efficiency and effectiveness and comply with accounts production practices and reporting.

#### **Alternative options considered and rejected**

No applicable alternative options as part of a regulatory framework

#### **Cabinet Portfolio**

The item falls within the following Cabinet portfolio:

Finance and Resources: Councillor Karen Buckley

#### **Report**

To receive the report of KPMG (attached) which will be reported on by the Council's external auditors, KPMG.

#### **Risk Assessment**

There are some minor risks associated with the actions referred to in this report. Appropriate amendments have been made to the directorate operational risk register to accommodate these risks where necessary.

#### **Conclusion**

Since the issue of its 'Report to those charged with governance 2008/09', the Council has made notable improvements across a number of areas. Only one area of note remains regarding the Council's strategic approach to the Use of Natural Resources



as outlined within the report of KPMG. However, it is noted that the Council is taking operational measures with respect to the Use of Natural Resources.

Report Author	Tel	Date	Doc ID
Tracy Scholes	(01253) 658521	13 September 2010	

List of Background Papers		
Name of document	Date	Where available for inspection
Report to those charged with governance (ISA 260) 2009/10	10 Sept 2010	Attached

IMPLICATIONS	
Finance	The report gives an unqualified opinion on the Council's statement of accounts and also details that the Council has secured economy, efficiency and effectiveness in terms of managing its finances
Legal	The report is part of the Council's formal regulatory framework
Community Safety	No direct implications
Human Rights and Equalities	No direct implications
Sustainability and Environmental Impact	Some issues remain outstanding to be addressed around the Council's use of natural resources
Health & Safety and Risk Management	No health and safety implications. The Council's risk management framework has met Value for Money criteria as outlined with the report.

GOVERNMENT

# Report to those charged with governance (ISA 260) 2009/10

Fylde Borough Council

13 September 2010

AUDIT

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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.

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

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

### Scope of this report

This report summarises:

- the key issues identified during our audit of Fylde Borough Council's ('the Authority's') financial statements for the year ended 31 March 2010; and
- our assessment of the Authority's arrangements to secure value for money in its use of resources.

### Financial Statements

The table below summarises the key findings from our work in relation to the financial statements audit. Section two of this document provides further details.

<b>Proposed opinion</b>	We anticipate issuing an unqualified audit opinion by 30 September 2010. We will also report that the wording of your Annual Governance Statement accords with our understanding.
<b>Accounts production and audit process</b>	<p>We have noted that the quality of the accounts and the supporting working papers remains good. Officers dealt efficiently with the majority of audit queries and the audit process has been completed within the planned timescales. These timescales saw the majority of the audit completed in mid-July, one month earlier than in 2008/09.</p> <p>The Authority has implemented all of the recommendations in our ISA 260 Report 2008/09 relating to the financial statements.</p>

<b>Critical accounting matters</b>	We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed the issues appropriately.
<b>Audit differences</b>	Our audit has not identified any audit adjustments. A small number of presentational adjustments have been made.
<b>Completion</b>	<p>At the date of this report our audit of the financial statements is substantially complete.</p> <p>Before we can issue our opinion we require a signed management representation letter.</p> <p>We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.</p>

## Executive summary (continued)

### Use of Resources

The table below summarises the key findings from our assessment of the Authority's arrangements to secure value for money in its use of resources.

Our findings are detailed in section three of this report.

Proposed opinion	We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources except in one area.
Use of resources assessment	<p>Following the change in government, the use of resources assessment at local authorities ceased with immediate effect in May 2010.</p> <p>The Authority will therefore not receive scores in respect of the 2010 assessment although the interim submission process did identify improvements from 2008/09 in a number of areas.</p> <p>The Authority's arrangements for workforce planning, understanding costs and achieving efficiencies and commissioning and procurement were improved from the previous year. However there is one area where the except for opinion has been issued, this is the use of natural resources.</p> <p>In this area there is a lack of evidence that operational decisions are informed by a strategic framework.</p> <p>Given the Government's plan to reduce spending it is expected that the focus in future years will be around financial resilience. We have highlighted in section three some areas for development.</p>

### Exercise of other powers

We have a duty under section 8 of the Audit Commission Act 1998 to consider whether, in the public interest, to report on any matter that comes to our attention in order for it to be brought to the attention of the public. In addition we have a range of other powers under the 1998 Act.

We have received a letter from an elector requesting a Public Interest Report. We are currently dealing with this request, and are keeping the Authority's Chief Executive updated as a matter of course.

### Certificate

We are required to certify that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice. If there are any circumstances under which we cannot issue a certificate, then we are required to report them to you and to issue a draft opinion on the financial statements.

At present we are unable to issue this certificate because of the Public Interest request we have received.

### Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

# Introduction

**We have substantially completed our work on the 2009/10 financial statements.**

**There is one area where we are awaiting information – this is the signed letter of management representation .**

**We anticipate issuing an unqualified audit opinion by 30 September 2010.**

## The Authority's and our responsibilities

Fylde Borough Council is responsible for having effective systems of internal control to ensure the regularity and lawfulness of transactions, to maintain proper accounting records and to prepare financial statements that give a true and fair view of its financial position and its expenditure and income. It is also responsible for preparing and publishing an Annual Statement of Governance with its financial statements.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

The Audit Commission's Code of Audit Practice requires us to summarise the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified and we report to those charged with governance (in this case the Audit Committee) at the time they are considering the financial statements.

We are also required to comply with International Standard on Auditing (ISA) 260 which sets out our responsibilities for communicating with those charged with governance.

This report meets both these requirements.

## Introduction

Our audit of the financial statements can be split into four phases:



This report focuses on the final two stages: substantive procedures and completion.

## Substantive Procedures

Our final accounts visit on site took place between 12 July and 20 August 2010. During these six weeks, we carried out the following work:

### Substantive Procedures

- Planning and performing substantive audit procedures
- Concluding on critical accounting matters
- Identifying audit adjustments
- Reviewing the Annual Governance Statement

We have substantially completed our audit of the Authority's 2009/10 financial statements.

We have provided a copy of the letter of management representation , we understand that this will be signed by the Chief Executive at the Audit Committee.

## Completion

We are now in the final phase of the audit. Some aspects are discharged through this report:

### Completion

- Declaring our independence and objectivity
- Obtaining management representations
- Reporting matters of governance interest
- Forming our audit opinion

We anticipate issuing an unqualified audit opinion by 30 September 2010.

## Accounts production and audit process

**We have noted that the quality of the accounts and the supporting working papers remains good.**

**Officers dealt efficiently with the majority of audit queries and the audit process could be completed within the planned timescales.**

**The Authority has implemented all of the recommendations in our ISA 260 Report 2008/09 relating to the financial statements.**

**The wording of your Annual Governance Statement accords with our understanding.**

### Accounts production and audit process

ISA 260 requires us to communicate to you our views about the qualitative aspects of the Authority's accounting practices and financial reporting.

We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
<b>Accounting practices and financial reporting</b>	<p>The Authority has strengthened its financial reporting and completion process and this enabled the audit to be conducted earlier than in prior years.</p> <p>We consider that accounting practices are appropriate.</p>
<b>Completeness of draft accounts</b>	<p>We received a complete set of draft accounts on 22 June 2010. A small number of presentational adjustments have been made</p>
<b>Quality of supporting working papers</b>	<p>Our Accounts Audit Protocol, which we issued on 23 April 2010 and discussed with Paul O'Donoghue, set out our working paper requirements for the audit.</p> <p>The quality of working papers provided was good and met the standards specified in our Accounts Audit Protocol.</p>
<b>Response to audit queries</b>	<p>The Authority responded promptly to the majority of the audit queries raised. Although there were a number of staff on holiday during the audit, these were notified to us in advance of the audit and we were able to plan our work accordingly.</p>

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### Prior year recommendations

The Authority has implemented all of the recommendations in our *ISA 260 Report 2008/09* relating to the financial statements.

Appendix C provides further details of the recommendations made and how these have been addressed.

### Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that

- it complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE in June 2007; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

## Critical accounting matters



**We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed the issues appropriately.**

### Work completed

- In our *Financial Statements Audit Plan 2009/10*, presented to you in March, we identified the key risks affecting the Authority's 2009/10 financial statements.
- We have now completed our testing of these areas and set out our final evaluation following our substantive work.


### Key findings

- The table below sets out our detailed findings for each risk.

Key audit risk	Issue	Findings
 <p><b>Fixed asset revaluation</b></p>	<p><b>Fixed asset revaluation</b></p> <p>The Authority is required to revalue assets held at current value at intervals of not more than five years. The Authority has complied with this requirement although a number of audit differences were recorded in 2008/09 in relation to the accounting treatment of revalued assets. These audit differences related to downward revaluations, depreciation of revalued assets and the revaluation of community assets.</p>	<p>Our audit work covered accounting entries of assets revalued in year including the balance on the revaluation reserve, depreciation charges and balances on the Capital Adjustment Account.</p> <p>We also reviewed the assets that had been revalued to ensure that SORP guidance has been followed.</p> <p>No audit difference were recorded in this area in 2009/10 illustrating the improvements made by the Authority.</p>
 <p><b>Local taxes</b></p>	<p><b>Local taxes</b></p> <p>Arrears levels for local taxes did not increase overall from 2007/08 to 2008/09. However, due to the current economic climate we will be performing more detailed testing in this area.</p>	<p>During the interim phase of our audit, we reviewed the Authority's processes for collecting and recovering outstanding balances in relation to Council Tax and National Non-Domestic Rates (NNDR). The controls in place were found to be operating effectively.</p> <p>During our final audit phase, we also critically reviewed the level of bad debt write offs and bad debt provisioning at the year end. No issues were identified.</p>



## Critical accounting matters (continued)

Key audit risk	Issue	Findings
 <p><b>Impleme- ntation of IFRS</b></p>	<p><b>Implementation of IFRS</b></p> <p>Authorities are required to report under IFRS for the first time in 2010/11. The 2009/10 financial statements will need to be converted to IFRS to form the comparative period. Therefore, the opening IFRS balance sheet date was 1 April 2009. It is important that the Authority continues to work towards delivery of its IFRS project plan in order to ensure future compliance with IFRS.</p>	<p>We have held regular discussions with officers throughout the year to discuss the Authority's progress on implementing IFRS, and we are satisfied that the Authority is preparing itself as best as possible whilst waiting for further guidance.</p> <p>The Authority has provided the details of one of its lease agreements and a suggested treatment, we are working together to review the treatment of the lease to ensure that it is correct.</p> <p>The Authority has restated the opening balance sheet for 1 April 2010. We hope to audit this in late 2010. We are satisfied that the Authority is fully on track to implement IFRS for the 2010/11 financial statements.</p>

## Audit commentary – pension liabilities

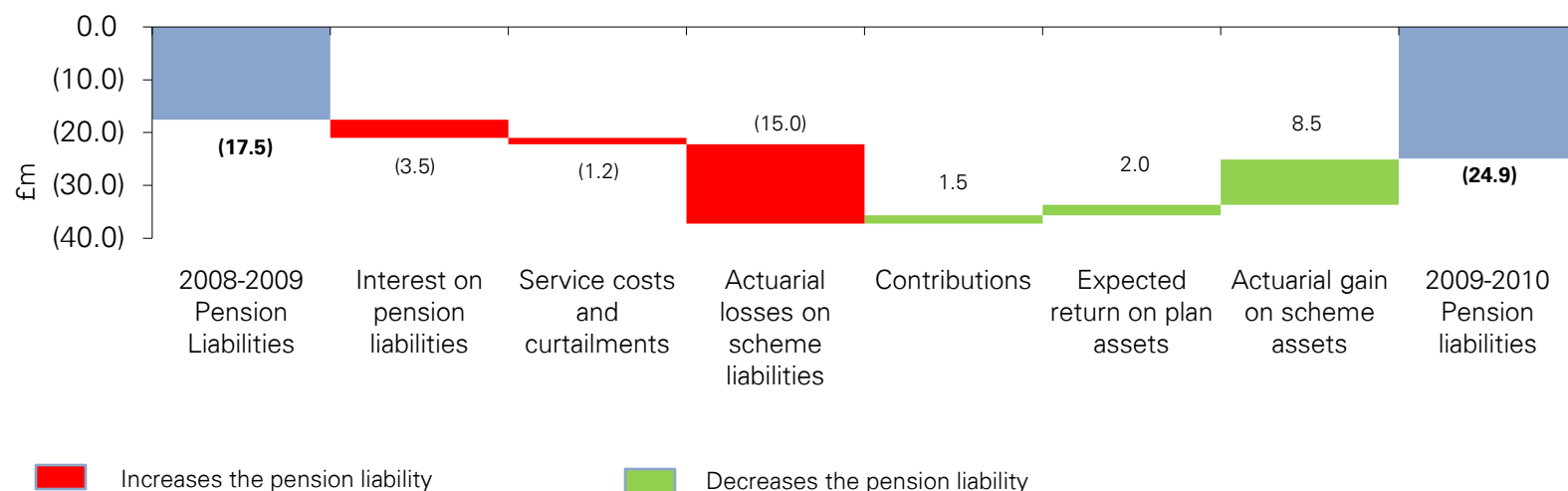
**There were movements in the Authority's pension liabilities. This was largely due to a change in assumptions used by the actuary to estimate the liabilities and also the performance of the capital markets affecting the pension assets.**

**In addition, following the balance sheet date the Government announced a change to pensions, required authorities to disclose a post balance sheet event disclosure.**

Members will have noticed that there has been an increase in the pension liabilities disclosed in the Authority's balance sheet from 2008/09 to 2009/10. This is consistent with other pension funds around the country.

Below we have provided an analysis of the pension liability movement to aid Members' understanding of the reasons for this:

From this analysis it can be seen that the largest change in the pension liability is due to the actuarial losses on the pension scheme. There was an actuarial loss on the liabilities of £15.0 million, which was partially offset by a gain of £8.5 million on the pension assets. The main reason for the change in the pension liability is because the actuary changed the assumptions it uses to estimate the pension fund liabilities. For example, people living longer, a lower discount rate and increased inflation rates.



### Government announcement on pension increases

The Government has, however, recently announced that the basis upon which pensions increase will, in the future, be based on the Consumer Price Index (CPI) as opposed to the Retail Price Index (RPI). As CPI is typically lower than RPI, this is expected to have a positive impact upon pension scheme liabilities

As a result of this announcement, the Authority has disclosed a post balance sheet event in its notes to the financial statements. This is considered to be a 'non-adjusting event' under the relevant financial reporting standard (FRS 21). This means that the balance sheet for 2009/10 has not been changed to reflect this announcement as the announcement was made after the balance sheet date. This approach is consistent with that adopted across the rest of the sector.

## Audit differences

**We have identified no issues in the course of the audit that are considered to be material.**

### Work completed

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

### Key findings

We did not identify any material misstatements.

We identified a small number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2009: A Statement of Recommended Practice* ('SORP'). We understand that the Authority has made all of the required changes.

## Completion

**We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.**

**Before we can issue our opinion we require a signed management representation letter, and have provided a draft version at Appendix E.**

**Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.**

### Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Fylde Borough Council for the year ending 31 March 2010, we confirm that there were no relationships between KPMG LLP and Fylde Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix F in accordance with ISA 260.

### Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have included a copy of a representation letter as Appendix E. We have provided a draft to the Section 151 Officer. We understand that this will be signed by the Chief Executive at the Audit Committee on 23 September 2010.

### Other matters

ISA 260 requires us to communicate "audit matters of governance interest that arise from the audit of the financial statements" to you which includes:

- material weaknesses in internal control identified during the audit;
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. issues

relating to fraud, compliance with laws and regulations, subsequent events etc); and

- other audit matters of governance interest.

There are no others matters which we wish to draw to your attention.

### Opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion by 30 September 2010.

Our proposed opinion on the financial statements is presented in Appendix A.

## Summary

**We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources except for its arrangements in relation to the effective use of natural resources.**

### The Authority's and our responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and regularly reviewing their adequacy and effectiveness.

We are required to conclude whether the Authority has adequate arrangements in place to ensure effective use of its resources. We refer to this as the 'value for money (VFM) conclusion'.

### Introduction

Our assessment previously drew mainly on the findings from the use of resources assessment (UoR) framework, as the specified criteria for the VFM conclusion were the same as the UoR Key Lines of Enquiry (KLoE).

In May 2010 the new government announced that the Comprehensive Area Assessment (CAA) would be abolished. The Audit Commission subsequently confirmed that work related to CAA should cease with immediate effect. This includes work for UoR assessments at local authorities.

However, there is no change to the requirement in the statutory Code of Audit Practice for auditors to issue a VFM conclusion.

### Findings from VFM work

At the time of the announcement, the vast majority of UoR work for 2010 had already been completed and this therefore informed our 2009/10 VFM conclusion.

We have provided detailed feedback on the work undertaken to the Chief Executive, Director of Governance & Partnerships and the Section 151 officer. The key message is that the Authority has met each of the VFM criteria, as can be seen from the table on the next page, except for the use of natural resources. Whilst the Authority is taking operational measures to address some of the

requirements of the KLoE, there is currently a lack of evidence to demonstrate that these decisions are being made within a clear strategic framework.

In particular the Authority has made improvements to its approach towards workforce planning as a result of the shared service human resources function established with Blackpool Council. There has also been an improvement in the performance of the commissioning and procurement KLoE with the linkages that have been established between the Authority's strategic objectives and the operational activities of service managers.

Targeted Value for Money reviews have also allowed the Authority to better understand its cost base and current performance levels, and use these as the basis of its efficiency savings.

Going forward we expect that the focus of our work will be on financial resilience, given the anticipated cuts in Government spending.

We reported on the MTFS and financial planning as part of our 2008/09 use of resources work. An action plan was developed, and management have been working to address the recommendations made.

### Conclusion

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Our proposed conclusion is set out in Appendix B.

**Summary (continued)**

VFM criterion	Met
<b>Managing finances</b>	
Financial planning	✓
Understanding costs and achieving efficiencies	✓
Financial reporting	✓
<b>Governing the business</b>	
Commissioning and procurement	✓
Data quality and use of information	✓
Governance	✓
Risk management and internal control	✓
<b>Managing resources</b>	
Use of natural resources	X
Strategic asset management	N/A
Workforce planning	✓

## Appendix A: Proposed Opinion on the Financial Statements

**Our opinion states whether the accounting statements and related notes give a true and fair view of the financial position of the Authority and its income and expenditure for the year.**

**We define what we mean by 'accounting statements'.**

### Independent auditors' report to the Members of Fylde Borough Council

#### Opinion on the accounting statements

We have audited the accounting statements and related notes of Fylde Borough Council for the year ended 31 March 2010 under the Audit Commission Act 1998. The accounting statements comprise the Fylde Borough Council Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement and the Collection Fund. The accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to Fylde Borough Council, as a body, in accordance with Part II of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to Fylde Borough Council, as a body, those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Fylde Borough Council, as a body, for our audit work, for this report, or for the opinions we have formed.

#### Respective responsibilities of the Section 151 Officer and auditors

The Section 151 Officer responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009 are set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the accounting statements and related notes give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009, of:

- the financial position of the Authority and its income and expenditure for the year.

We review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. We report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the governance statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

## Appendix A: Proposed Opinion on the Financial Statements (continued)

**Our proposed opinion is unqualified.**

**There are no expected modifications to the auditors' report.**

We read other information published with the accounting statements and related notes and consider whether it is consistent with the audited accounting statements and related notes. This other information comprises only the Explanatory Foreword. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounting statements and related notes. Our responsibilities do not extend to any other information.

### Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

### Opinion

In our opinion the accounting statements and related notes give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended.

**Trevor Rees (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**

Chartered Accountants  
 St James' Square  
 Manchester  
 M2 6DS



## Appendix B: Proposed value for money conclusion

**Our proposed value for money conclusion is unqualified except the use of natural resources.**

### Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

#### Authority's Responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

#### Auditors' Responsibilities

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. We report if significant matters have come to our attention which prevent us from concluding that the Authority has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

#### Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice. Having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, we are satisfied that, in all significant respects, Fylde Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2010 except for arrangements to make effective use of natural resources.

**Trevor Rees (Senior Statutory Auditor)  
for and on behalf of KPMG LLP, Statutory Auditor**

Chartered Accountants  
St James' Square  
Manchester  
M2 6DS

# Appendix C: Follow-up of prior year recommendations

**The Authority has implemented all of the recommendations in our ISA 260 Report 2008/09.**

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2008/09* and re-iterates any recommendations that are still outstanding.

Number of recommendations that were:				
Included in original report	Implemented in year or superseded	Remain outstanding (re-iterated below)		
2	2	0		
No.	Priority	Recommendation	Officer Responsible and Due Date	Status as at August 2010
1	2	<p><b>Fixed asset accounting</b></p> <p>Reviewing the fixed asset register identified a number of areas that require further investigation by the Authority.</p> <p>Assets have been revalued that have not been depreciated in the year of revaluation. The SORP requires assets to be depreciated annually unless immaterial.</p> <p>Some community assets have been revalued although the SORP recommends holding at historic cost. It is not clear from the fixed asset register whether these assets should be classified as community assets, and therefore should not be revalued, or whether they have been mis-classified which would make revaluation appropriate.</p> <p>Management should review the fixed asset register during 2009/10 to ensure that the assets held by the Authority are correctly categorised and the necessary depreciation accounting undertaken.</p>	<p>Principal Estates Surveyor / Head of Finance</p> <p>March 2010</p>	<p>The fixed asset register was reviewed during 2009/10 as part of the project plan for the implementation of IFRS. As part of this process, the internal policies and procedures regarding the valuation, re-valuation, classification, and depreciation of fixed assets were also reviewed so as to fully reflect the requirements of the SORP.</p> <p>As a result, the Authority has now appropriately reclassified some of its fixed assets, and these assets are revalued and depreciated appropriately.</p>

## Appendix C: Follow-up of prior year recommendations (continued)

No.	Priority	Recommendation	Officer Responsible and Due Date	Status as at August 2010
2	3	<p><b>Management reporting</b></p> <p>A review of fixed asset additions identified that £2,186k was spent in the year. This compares to a forecast reported at 3 March 2009 of £2,263k and a later forecast reported at 29 June 2009 of £2,350k. This difference was due to slippage of schemes into 2009/10, rather than reclassification of expenditure from capital to revenue.</p> <p>Management should review the reporting arrangements for capital programmes to ensure to ensure that the figures reported to Members is accurate.</p>	Head of Finance March 2010	Capital expenditure in 2009/10 was compared with the budgeted figures and none of the variances observed were materially significant.

## Appendix D: Declaration of independence and objectivity

**The Code of Audit Practice requires us to exercise our professional judgement and act independently of both the Commission and the Authority.**

### Requirements

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* ('the Code') which states that:

*"Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors' functions, if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired."*

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Audit Commission's *Standing guidance for local government auditors* ('Audit Commission Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Audit Commission Guidance requires appointed auditors to follow the provisions of ISA (UK & I) 260 *Communication of Audit Matters with Those Charged with Governance* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Audit Partner and the audit team.

## Appendix D: Declaration of independence and objectivity (continued)

**We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.**

### General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the Ethics and Independence Manual ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual Ethics and Independence Confirmation. Failure to follow these policies can result in disciplinary action.

### Auditor Declaration

In relation to the audit of the financial statements of Fylde Borough Council for the financial year ending 31 March 2010, we confirm that there were no relationships between KPMG LLP and the Fylde Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

## Appendix E: Draft management representation letter

**We ask you to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud.**

**The wording for these representations is standard and prescribed by auditing standards.**

**We require a signed copy of your management representations before we issue our audit opinion.**

Dear KPMG LLP,

We understand that auditing standards require you to obtain representations from management on certain matters material to your opinion. Accordingly we confirm to the best of our knowledge and belief, having made appropriate enquiries of other members of the Authority, the following representations given to you in connection with your audit of the financial statements for Fylde Borough Council for the year ended 31 March 2010.

All the accounting records have been made available to you for the purpose of your audit and the full effect of all the transactions undertaken by Fylde Borough Council has been properly reflected and recorded in the accounting records in accordance with agreements, including side agreements, amendments and oral agreements. All other records and related information, including minutes of all management and Member meetings, have been made available to you.

We confirm that we have disclosed all material related party transactions relevant to the Authority and that we are not aware of any other such matters required to be disclosed in the financial statements, whether under FRS 8 or other requirements.

We confirm that we are not aware of any actual or potential non-compliance with laws and regulations that would have had a material effect on the ability of the Authority to conduct its business and therefore on the results and financial position to be disclosed in the financial statements for the year ended 31 March 2010.

We acknowledge that we are responsible for the fair presentation of the financial statements in accordance with the Local Government Statement of Recommended Practice ("SORP") and wider UK accounting standards. We have considered and approved the financial statements.

We confirm that we:

- understand that the term "fraud" includes misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Misstatements resulting from fraudulent financial reporting involve intentional misstatements or omissions of amount or disclosures in financial statements to deceive financial statement users. Misstatements resulting from misappropriation of assets involve the theft of an entity's assets, often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation;
- are responsible for the design and implementation of internal control to prevent and detect fraud and error;
- have disclosed to you our knowledge of fraud or suspected fraud affecting the Authority involving:
  - management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the financial statements.
- have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the Authority's financial statements communicated by employees, former employees, analysts, regulators or others; and
- have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

## Appendix E: Draft management representation letter (continued)

We confirm that the presentation and disclosure of the fair value measurements of material assets, liabilities and components of equity are in accordance with applicable reporting standards. The amounts disclosed represent our best estimate of fair value of assets and liabilities required to be disclosed by these standards. The measurement methods and significant assumptions used in determining fair value have been applied on a consistent basis, are reasonable and they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Authority where relevant to the fair value measurements or disclosures.

We confirm that there are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than that already disclosed in the financial statements; and
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements.

Finally, no additional significant post balance sheet events have occurred that would require additional adjustment or disclosure in the financial statements, over and above those events already disclosed.

This letter was tabled at the meeting of the Audit Committee on 23 September 2010.

Yours faithfully

Mr Philip Woodward

On behalf of Fylde Borough Council

# REPORT



REPORT OF	MEETING	DATE	ITEM NO
FINANCE	AUDIT COMMITTEE	23 <sup>RD</sup> SEPTEMBER 2010	5

## ANNUAL STATEMENT OF ACCOUNTS 2009/10 (POST AUDIT)

### Public Item

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

### 1. Summary

1. The Audit Committee has the authority to approve the Council's Annual Statement of Accounts and to report back to Full Council.
2. Accordingly, and in line with the Accounts and Audit (Amendment) Regulations 2006, the Audit Committee approved the unaudited accounts for the 2009/10 financial year at their meeting on the 29<sup>th</sup> June 2010.
3. The Council's external auditors KPMG have now completed the audit of the accounts and a small number of presentational adjustments to the accounts have been agreed with the Council. These changes are identified in this report.

### Recommendations

Audit Committee is recommended to approve the updated Statement of Accounts for 2009/10 and report back to Full Council accordingly.

### Alternative options considered and rejected

None



## **Cabinet Portfolio**

The item falls within the following Cabinet portfolio:

Portfolio: Finance and Resources.

Councillor Karen Buckley.

## **REPORT**

### **2. Information**

- 2.1 The Council has a statutory duty in preparing the financial statements of the Authority following the requirements as set out by the CIPFA (Chartered Institute of Public Finance & Accountancy)/LASAAC (Local Authority (Scotland) Accounts Advisory Committee) Code of Practice on Local Authority Accounting in Great Britain ("the Code of Practice") and the Local Government Act 2003. The Code of Practice is recognised by the Accounting Standards Board as a Statement of Recommended Practice (SORP).

The SORP must be adhered to in order to ensure that the Council's Statement of Accounts present a true and fair view of the financial position of the Authority.

- 2.2 During the annual external audit a small number of presentational adjustments have been identified by KPMG and the Statement of Accounts have been adjusted accordingly to ensure that the Authority has fully complied with Accounting Standards and the SORP.
- 2.3 Appendix A sets out the relevant page changes within the Statement of Accounts for 2009/10, and a revised Statement of Accounts has been included at Appendix B.
- 2.4 If requested Members can be taken through these individual changes.

### **3. Implications**

- 3.1 The adjustments made to the Statement of Accounts have no effect on the overall financial position of the authority.

### **4. Conclusion**

- 4.1 As in the past, the Finance Team will continue to work pro-actively with KPMG and CIPFA Technical Services to ensure that the Council fully comply with the SORP and other accounting standard requirements.
- 4.2 The adjustments detailed in this report do not have any effect on the overall financial position of the Council.

Report Author	Tel	Date	Doc ID
Joanna Scott – Section 151 Officer for Fylde Borough Council	(01772) 906059	September 2010	

List of Background Papers		
Name of document	Date	Where available for inspection
Statement of accounts 2009/10	29 <sup>th</sup> June 2010	<a href="http://www.fylde.gov.uk">www.fylde.gov.uk</a>

#### Attached documents

**Appendix A: Schedule of presentational adjustments agreed with KPMG.**

**Appendix B: Updated Statement of Accounts 2009/10 (post audit).**

IMPLICATIONS	
Finance	None arising directly from this report
Legal	None arising directly from this report
Community Safety	None arising directly from this report
Human Rights and Equalities	None arising directly from this report
Sustainability and Environmental Impact	None arising directly from this report
Health & Safety and Risk Management	None arising directly from this report

**Schedule of presentational adjustments to 2009/10 Statement of Accounts agreed with KPMG**

**Page numbers refer to the page numbers on the statement of accounts.**

- Page 33 - Note of the reconciling items for the Statement on the Movement on General Fund Balances – the brackets for disposal of fixed assets have been amended as follows: gain/(loss).
- Page 40 - Note A6 – Disclosure of remuneration for Senior Employees for 2008/09. The draft accounts referred to Executive Managers in the table, but Executive Directors in Notes 1 and 2 below. This wording has been corrected so both now read “Manager”.
- Page 47 - Note B8 Information Held on Assets. 5 allotment sites held in both 2008/09 and 2009/10 need to be disclosed and have now been included.
- Page 61 - Note B27, part iv) Liquidity Risk, maturity analysis of financial liabilities. The figure of £2,289 for less than one year included the bank overdraft figure of £313k from 2008/09 instead of the £327k from 2009/10. The figure has been corrected to £2,303.
- Page 62 - Non-adjusting event in respect of FRS17, pensions accounting, has been reflected in the accounts.
- Pages 64/65 - Adjustments required to the NNDR note of the Collection Fund and subsequently the Collection Fund itself so as to agree to the NNDR3 claim form.



FYLDE BOROUGH COUNCIL



## Statement of Accounts

**2009/2010**

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## INDEPENDENT AUDITORS REPORT

**THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK**  
**THE AUDIT OPINION WILL BE INSERTED HERE WHEN AGREED**  
**BETWEEN THE COUNCIL AND EXTERNAL AUDITORS.**  
**THIS IS DUE BY THE END OF SEPTEMBER 2010.**

## INDEPENDENT AUDITORS REPORT

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THIS IS DUE BY THE END OF SEPTEMBER 2010.**



## EXPLANATORY FOREWORD BY SECTION 151 OFFICER

### 1. **INTRODUCTION**

This document sets out the Council's annual accounts for the financial year ending 31 March 2010.

The format follows the requirements as set out by the CIPFA (Chartered Institute of Public Finance & Accountancy)/LASAAC (Local Authority (Scotland) Accounts Advisory Committee) Code of Practice on Local Authority Accounting in Great Britain ("the Code of Practice") and the Local Government Act 2003. The Code of Practice is recognised by the Accounting Standards Board as a Statement of Recommended Practice (SORP).

The purpose of this foreword is to provide an overall summary of the Council's financial performance for 2009/10, explain the Council's financial position as at 31 March 2010 and give a summary insight in to what to consider in future years.

### 2. **CHANGES INTRODUCED BY STATEMENT OF RECOMMENDED PRACTICE 2009 (SORP 2009)**

The 2009 SORP contains the following changes in relation to accounting for local taxation:

- Council Tax – the Council ("Billing Authority") acting as the agent of the major preceptors must now account for their own share of council tax transactions and the effects of timing differences between collecting the council tax attributable to major precepting authorities and paying it across to those authorities. Previous practice of including all council tax debtors in the Balance Sheet did not comply with UK GAAP (Generally Accepted Accounting Practice).
- National Non-domestic Rates (NNDR) – the Council ("Billing Authority") acting as the agent of the Government is required to recognise a creditor or debtor for cash collected from NNDR debtors but not paid to the Government, or overpaid to the Government, at the Balance Sheet date instead of recognising NNDR debtors in their Balance Sheets.

The 2009 SORP also includes:

- Removal of the following note disclosures:-
  - section 137 expenditure
  - expenditure on publicity
  - the building control account
  - Income under the Local Authorities Goods and Services Act respectively.None of these disclosures are required by accounting standards or legislation. Authorities can choose to voluntarily disclose any of these notes, if they considered it appropriate to their local circumstances.
- Clarification that the revised effective interest rate should be used where the financial instrument whose expected cash flows or life has been revised is being accounted for under hedge accounting.
- Further clarification on when dividends payable should be recognised in relation to FRS 21 *Events After the Balance Sheet Date*.
- Requirement that the portion of long term financial liabilities due to be settled within 12 months after the Balance Sheet date to be presented in current liabilities.
- Disclosure of officers remuneration above a minimum level in bands in line with requirements of latest regulations.

Further detail on those changes that have impacted the Council's accounts are given in the Statement of Accounting Policies.

To assist in the interpretation and understanding of the Statement of Accounts the purpose of the

Statements are set out below.

### 3. **THE STATEMENTS**

The Statement of Accounts include the following: -

- *Statement of Responsibilities for the Statement of Accounts* - identifies the officer who is responsible for the proper administration of the Council's financial affairs.
- *Annual Governance Statement* - which gives assurances on the system of controls which the Council maintains and on the way it conducts its affairs.
- *Risk Management Policy Statement* - which outlines the Council's approach to the management of risk.
- *Statement of Accounting Policies* - which explains the basis for the recognition, measurement and disclosure of transactions and other events in the Council's accounts.
- *Core Financial Statements* include: -
  - *Income and Expenditure Account* – entries on this account are income and expenditure arising from day to day operational services only.
  - *Statement of Movement on the General Fund Balance* - this provides the key link with the 'Income and Expenditure Account'. This statement adjusts for items of income and expenditure that are required to be credited or charged to the General Fund in determining the Council's budget requirement and in turn its Council Tax Demand.
  - *Statement of Total Recognised Gains and Losses* - this identifies all gains and losses for the year, the transfers between reserves and the resulting carry forward of reserves into future years.
  - *Balance Sheet* – this sets out the Council's assets and liabilities as at 31 March 2010 and how these are funded (by reserves, borrowing, provisions and other balances).
  - *Cash Flow Statement* - summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.
- *Notes to the Core Financial Statements* - assist in the interpretation of the accounts.
- *Supplementary Statements*: -
  - *Collection Fund* - this fund is maintained separately to record the collection of Council Tax and National Non-domestic Rates (NNDR) due. The Council operates the Collection Fund under the Local Government Finance Act 1988. It contains the income and expenditure relating to Council Tax and National Non Domestic Rates.

### 4. **REVENUE**

#### **General Fund**

This represents the day to day running costs of the Council's services. These running costs are funded by General Government Grants, National Non Domestic Rates and Council Tax.

The original budgeted net requirement for the year was £11.114m. This was updated during 2009/10 to reflect known changes impacting on the Council's finances and was revised to £11.193m. This was approved by Council in March 2010. In line with recommended accounting practices the treatment of General Government Grants revised the net requirement to £11.139m. The actual net requirement for the

year was £10.223m, giving an underspend for the year of £0.916m.

Full details of spending, income and budget variances are set out in the Outturn Report that went to Cabinet on 28th June 2010. This is available on our website.

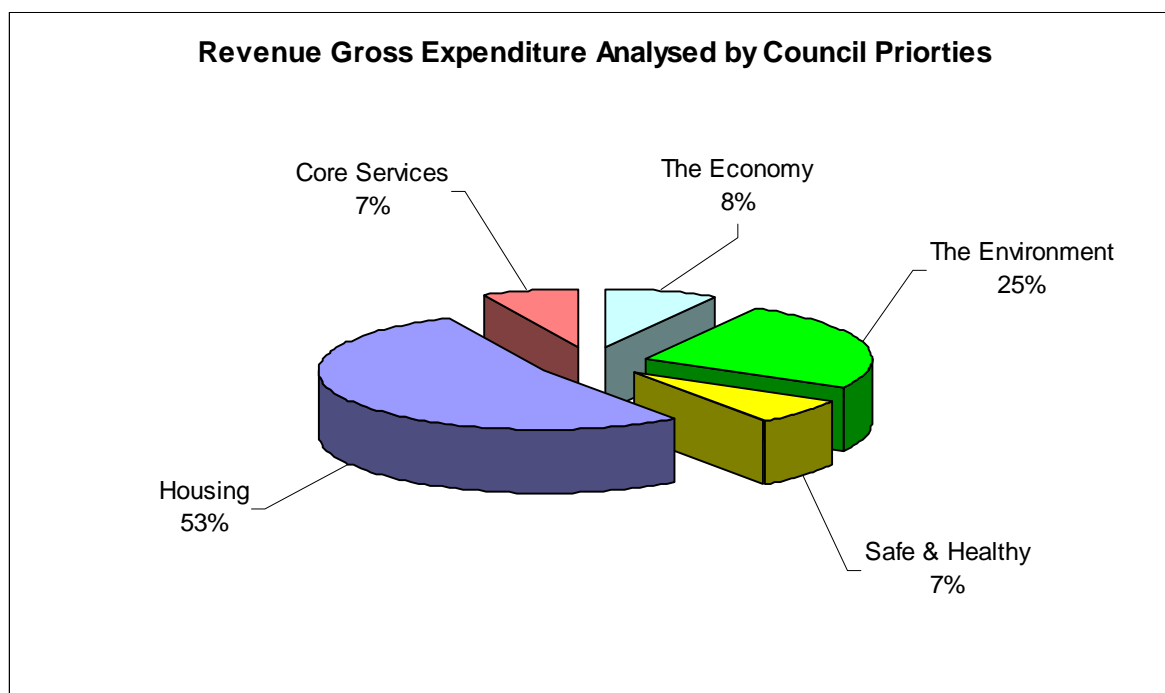
In line with the Statement of Recommended Practice (SORP) the Income & Expenditure Account must be presented in a specific format with the Net Operating Expenditure reported here of £13.208m. This Statement is reconciled back to the reported Net Requirement position as follows -

	£'m	
Net Operating Expenditure	13.208	(see page 31)
Less Parish Council Precepts	(0.522)	
Less reconciling items*	(1.313)	
Less contribution to reserves	(1.114)	
Add back adjustment for difference in Council tax	(0.036)	
Net Requirement for Year	<u>10.223</u>	

\* See Note of Reconciling Items in the Statement of Total Movement on the General Fund (page 33)

As already stated this adjusted Income & Expenditure position for the year has no overall impact on the Council's General Fund position at the end of the year.

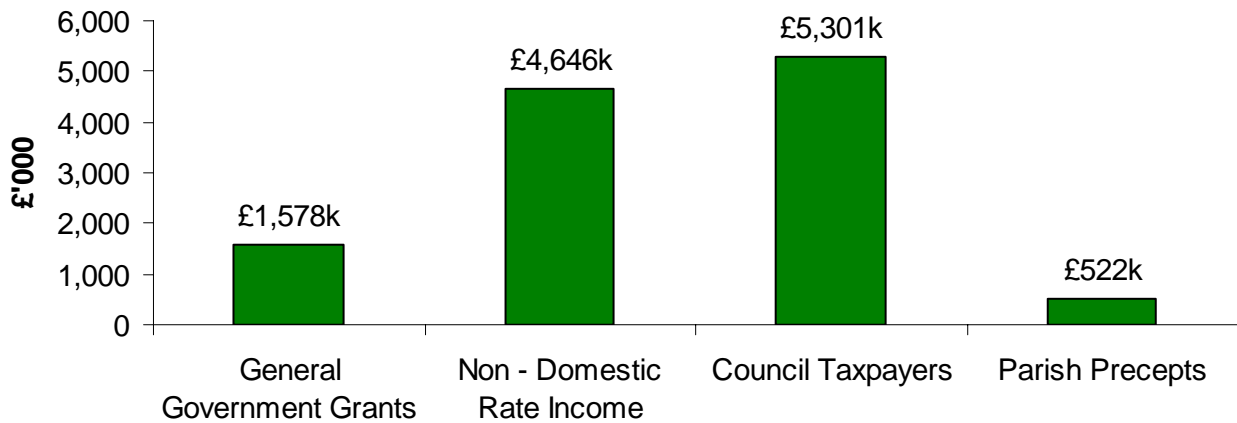
The 2009/10 Gross Cost of General Fund Services is analysed by priority in the following chart -



### **Income**

The Council finances its net operating expenditure (before any contributions from Reserves) from Council Tax, General Government Grants and National Non Domestic Rate Redistribution. The contribution made by each is shown in the following graph -

## General Fund Net Revenue Funding Sources



### Council Tax

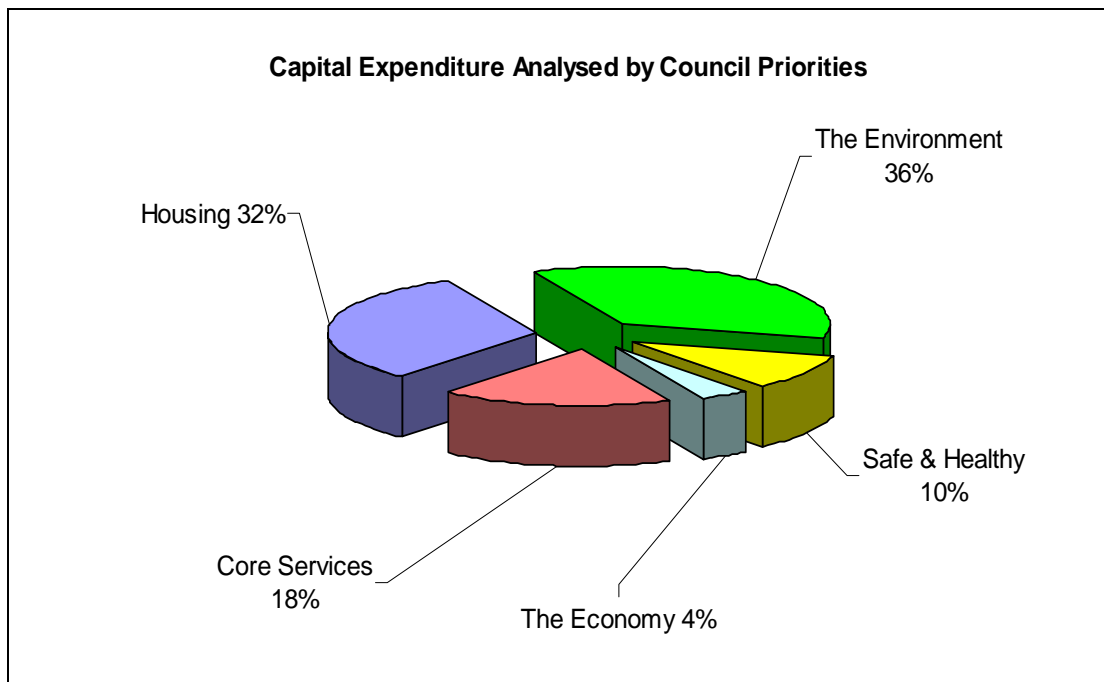
For 2009/10 the charge for Fylde Borough Council Tax increased by an average of 4.99%. Individual increases within the Borough varied due to the impact of changes in special expenditure. The actual in-year rate of collection in 2009/10 was 97.5% (97.7% for 2008/09).

### General Government Grants and Non Domestic Rate Redistribution

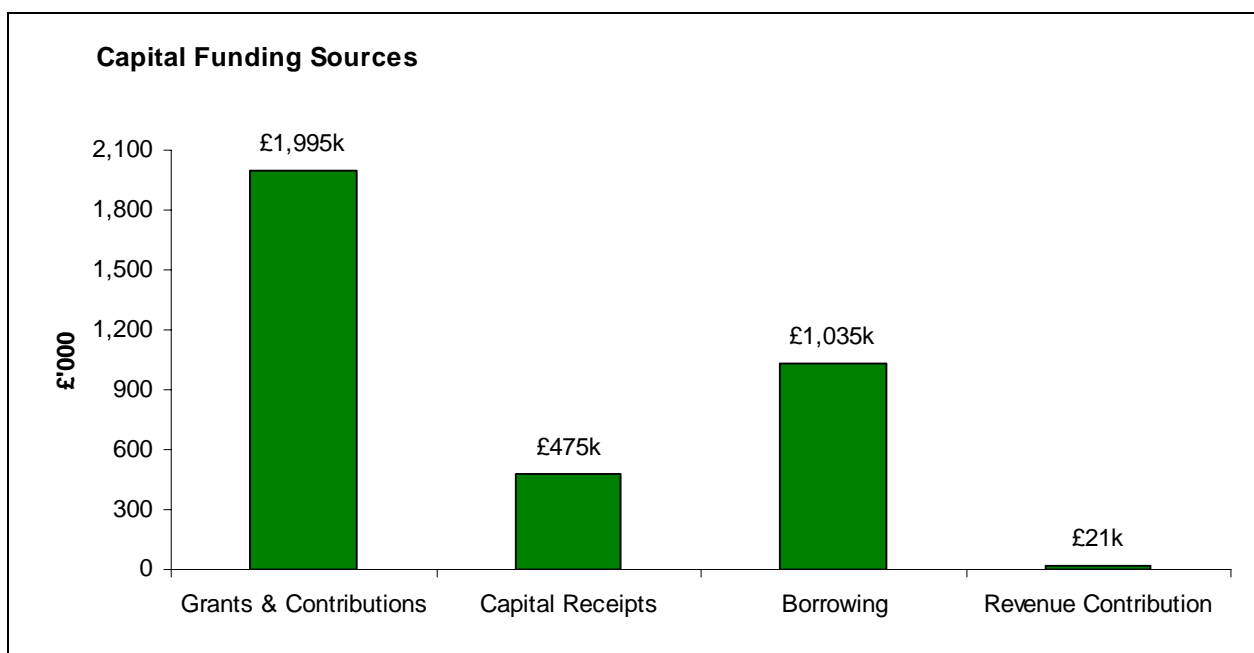
These grants are determined by Central Government. The Comprehensive Spending Review (CSR) for the three year period commencing 2008/09 contained an increase in Aggregate External Finance nationally of 3.7%, 2.8% and 2.6% in cash terms, equivalent to real term increases of 0.9%, 0.1% and - 0.1% over the 3 years.

## 5. CAPITAL

In 2009/10 total expenditure including capitalisation was £3.526m. An analysis of how the money was spent is shown in the following chart -



The actual sources of capital funding are shown in the following graph -



### Capitalisation

During the year the Department of Communities and Local Government approved the Council's Capitalisation submission, with approvals for 2009/10 totalling £950k. The actual amount incorporated into the 2009/10 General Fund Outturn was £588k.

## 6. TREASURY MANAGEMENT

The Council is bound by the requirements of the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both these Codes through Regulations issued under the Local Government Act 2003.

The Prudential Indicators and Treasury Management Strategy for 2009/10 to 2011/12 have been agreed by the Council. Performance is monitored and reported during the year on a quarterly basis to the Portfolio Holder for Finance & Resources.

For 2009/10 the Council has complied with all agreed internal procedures and the Prudential Indicators set for borrowing have been managed within the limits set. Long term debt for the year ending 31 March 2010 stands at £3.5m and is analysed in the notes to the Balance Sheet.

The Council's authorised limit for external debt for 2009/10 was £10.1m.

## 7. REVIEW OF THE COUNCIL'S FINANCIAL POSITION

In March 2009, the Council was informed of the continuing external risks to the Council's budget position and the problems associated with its historically low reserves position. The Council's Medium Term Financial Strategy shows a continuing tight budget position during the period of the forecast due to several areas of uncertainty from external factors which could adversely affect the Council's financial position. Like many tourist destinations Fylde is dealing with the significantly escalating costs of concessionary bus travel as well as reductions in many income streams given the current economic downturn.

The Council has delivered a significant planned savings programme since 2007 and has continued to significantly reduce senior management and overhead costs through a corporate restructuring

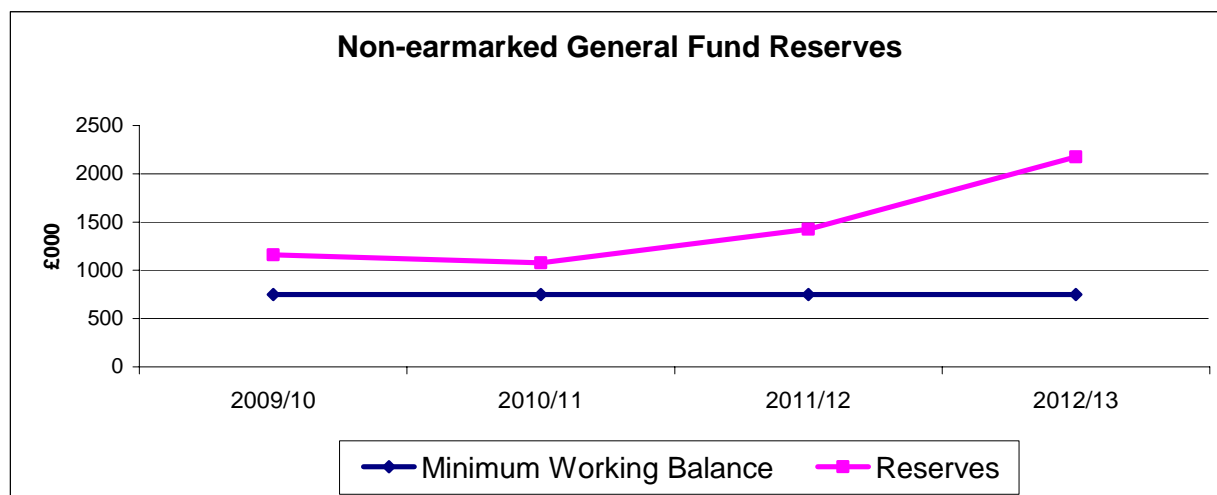
programme. Ongoing work includes a continuous improvement programme plan which aims to make Council services more efficient, save money and improve service satisfaction for customers. We continue to examine the balance between our charges and tax levels looking closely at new opportunities for income generation, although the latter is challenging against the backcloth of recession and potential further Government restrictions.

The Council has demonstrated its intent to address the issues identified in the Medium Term Financial Strategy and has taken difficult decisions in recent years to keep Council Tax at 4.99% and adopt the Cabinet savings proposals in order to balance the budget and create a more stable financial position for the Council.

The Council is aware that it faces a difficult situation moving forward and will maintain the pressure to achieve efficiency improvements to help improve the overall financial position.

Overall the Strategy recognises the pressure points of the financial forecasts as at March 2010 and their volatility in the context of the economic downturn.

In the light of the current financial situation the Council agreed to increase the minimum recommended General Fund Reserve balance to £750k and has acknowledged that this may need to be further increased. Revenue balances at the 31<sup>st</sup> March 2010 were £1.5m The Chart shows the forecast levels of non-earmarked General Fund Reserves for the next five years as reported in the March 2010 Medium Term Financial Strategy:



## 7. OUTLOOK FOR THE FUTURE

The current economic climate and the speed with which it has deteriorated means the Council's main focus for 2010/11 and beyond will be to identify further efficiencies, maximise income and look to create more capacity within the Council in order to deliver a balanced and sustainable budget in the medium term. Inevitably this may lead to a further scaling down of service provision in some areas and a slow down in the achievement of improvement in our priority areas.

The next four year period is likely to be very challenging for the public sector generally and specifically for the Council. To maintain quality services we must manage efficiently and target our resources wisely. The Council has become smaller as an organisation and we have recognised that as we move forward our priorities must be clearly focused. To deliver our ambitious plans we must collaborate with our key partners and stakeholders in the Borough and avoid duplication of effort. Our ability to raise income through fees and Council Tax is limited and to maintain our services we must sharpen our priorities, find efficiencies and maximise external funding opportunities.

Pressures outside the Council's control are also being experienced by other local authorities, e.g. utility cost increases, rising concessionary fare costs and income reductions as a result of the recession.

The current economic situation brings with it a great deal of uncertainty associated not only with inflation and interest rate volatility, but also pressure on income budgets as consumer spending reduces. Some sources of external funding have ended and few opportunities have arisen. Competition for these resources is expected to be greater in view of the expected overall reductions in availability.

The Council's priorities for improvement remains. Cabinet continuously monitors the Council's current strategy addressing emerging budget pressures to ensure a sustainable position in the medium term.

Overall the Council holds reserves in line with the minimum recommended. However, the level of risk within the Medium Term Financial Strategy and its financial forecast is high, both in terms of its significance and probability. At the levels forecast the reserves provide only minimum comfort to the Council. With this in mind, the commitment to reopen St. Annes Pool will inevitably restrict the Council's options, should one or more of the significant risks identified materialise in future years.

The introduction of International Financial Reporting Standards (IFRS) is planned for Local Government with effect from the financial year 2010/11. This will result in major changes to the accounting for transactions and subsequent presentation of the financial statements and work is underway in preparing the Council for such changes.

Looking forward, key financial risks to the Council in addition to the impact of the economic downturn include:-

### **Concessionary Fares**

The new national scheme was introduced from April 2008 and resulted in large cost increases. Actuals for 2009/10 were in line with budget. The costs of Concessionary Fares remains a major financial problem.

A settlement with the bus operators has still not been achieved. At this stage, until a final settlement is reached no adjustment has been made to the Medium Term Financial Forecast. If the operators accept the Lancashire Leaders' final offer further savings could be generated.

The Council's forecast assumes a transfer of responsibility to Lancashire County Council with effect from 1<sup>st</sup> April 2011. The assumption made is that current expenditure and grant allocation transfers saving the Council £800k per annum from 2011/12 and thereafter. Central Government have confirmed the transfer will take place but not what the financial arrangements will be.

Concessionary fare costs continue to need careful monitoring both in respect of usage variations and the bus operator negotiations. The magnitude of potential variations compared to the assumptions made in the budget make this an area of concern. In addition the assumption regarding the transfer of Concessionary Fares to the County Council in 2011/12 needs to be monitored as proposals develop.

In order to mitigate the risk the Council has set aside an earmarked reserve to help reduce the financial burden if any of these risks materialise.

**This is a high level risk.**

### **Pension Review**

The review of the pension fund takes place during 2010/11 with the results being implemented from 1/4/2011. The last review increased staffing costs by 2%. Given that a major factor in the review is the value of investments, if the current economic climate persists a significant increase in cost can be expected. Having consulted Lancashire County Council, who administer the Pension Scheme, the forecast has been amended to include an increase of 1% per annum from 2011/12.

**This is a high level risk.**

### **Government Grant Support**

The current three year grant settlement runs to the end of financial year 2010/11. The new Government

have made it clear that public expenditure will need to be reduced in future years. Many commentators are forecasting that in the 2012 Comprehensive Spending Review (CSR), grant support to local government will be reduced significantly. Forecasts vary between 5% and 20%. As an indication a 20% cut would reduce grant by £1m per annum for Fylde. The Council will not know the outcome of this review until late 2010.

**This is a high level risk.**

### **Waste Contract & Other Income Streams**

The contract with an adjacent Borough Council ends on 31<sup>st</sup> March 2012. That Council has indicated that it will take back in house the Street Cleansing Service and retender the Waste Collection Service. The Council's budget forecast was predicated on a continuation of that service. The Council has not yet determined if it will re-bid for the work. If the Council were to not bid/or be unsuccessful, the financial impact would be a loss of the contract surplus, reduced contributions to central and management overheads and at the same time they would incur restructuring costs and residual lease vehicle costs. Whilst the Council will be making a provision over the last years of the contract this reserve may not cover these costs and any shortfall in costs would result in additional financial burden on the General Fund.

**This is a high level risk.**

### **General Income Streams**

Income streams in general are under pressure as the recession continues; notable examples are sand extraction and planning applications.

**This is a medium level risk.**

This is the Statement of Accounts upon which the auditor should enter his certificate and opinion, and has been prepared under the Local Government Finance Act 1982.

**Signed:**

**B. P. Hayes, CPFA**  
**Section 151 Officer**

**Date:**



## STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

### The Council's Responsibilities

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Section 151 Officer.
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

### The Section 151 Officer's Responsibilities

The Section 151 Officer is responsible for the preparation of the Authority's Statement of Accounts which, in terms of the CIPFA (Chartered Institute of Public Finance & Accountancy)/LASAAC (Local Authority (Scotland) Accounts Advisory Committee) Code of Practice on Local Authority Accounting in Great Britain ('the Code of Practice'), is required to present a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2010.

In preparing this Statement of Accounts, the Section 151 Officer has:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that were reasonable and prudent; and
- complied with the Code of Practice.

The Section 151 Officer has also:

- kept proper accounting records which were up to date; and
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

The Council has delegated the responsibility of signing off the Statement of Accounts to the Audit Committee.

It presents a true and fair view of the financial position of the Authority at 31<sup>st</sup> March 2010 and its income and expenditure for the year.

**B.P. Hayes, CPFA**  
**Section 151 Officer**

**Date:**

**Cllr. J. Singleton**

## **ANNUAL GOVERNANCE STATEMENT**

### **Scope of responsibility**

Fylde Borough Council is responsible for ensuring that its 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. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs and for ensuring that there is a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.

The Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework Good Governance in Local Government. A copy of the code is on our website at [www.fylde.gov.uk](http://www.fylde.gov.uk) or can be obtained from the Town Hall, St Annes Road West, St Annes. This statement explains how the Council has complied with the code and also meets the requirements of regulation 4 of the Accounts and Audit Regulations 2003 in relation to the publication of a statement on internal control.

### **The purpose of the governance framework**

The governance framework comprises the systems and processes for the direction and control of the authority and its activities through which it accounts to, engages with and leads the community.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The governance framework has been in place at the Fylde Borough Council for the year ended 31 March 2010 and up to the date of approval of the annual report and statement of accounts.

### **The governance environment**

#### **Principles**

The Council has adopted a code of corporate governance ("the Code") and recognises that effective governance is achieved through the core principles enshrined in it. These are:

1. Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area.
2. Members and officers working together to achieve a common purpose with clearly defined functions and roles.
3. Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.

4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.
5. Developing the capacity and capability of members to be effective and ensuring that officers - including the statutory officers - also have the capability and capacity to deliver effectively.
6. Engaging with local people and other stakeholders to ensure robust accountability.

The Council's corporate governance environment comprises a multitude of systems and processes designed to regulate, monitor and control the various activities of the authority in its pursuit of its vision and objectives. The following describes the key elements:

#### Constitution

The Council's constitution sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people. The constitution also identifies the principal obligations and functions of the Council.

The constitution and its appendices clearly explain how the different elements of the Council interact and work together. It sets out procedure rules to which members and officers must adhere, codes of conduct and protocols.

The constitution builds on model constitutions and guidance maintained by the Department for Communities and Local Government.

The monitoring officer has a standing obligation to keep the operation of the constitution under review and recommend any changes to help better achieve its objectives. The constitution is also presented annually to the Council for re-adoption and updating to ensure that it remains relevant to its purposes.

#### Political structure

The Council, meeting as a body, is responsible under the constitution and the Local Government Act 2000 for setting the policy framework and the budget for the authority. It also exercises certain other functions that are reserved to it. The Council appoints, and can remove, the Council leader.

The Council meeting also acts as a channel for executive accountability through mechanisms such as notices of motion and cabinet questions.

The authority operates a leader and cabinet form of executive comprising the Council leader and six other cabinet members. The role of the cabinet, as set out in the constitution and relevant legislation, is to be responsible for those matters not expressly reserved to the Council meeting.

Meetings of the Cabinet are open to the public even when not required to by legislation, except where personal or confidential matters may be disclosed. Public platform has also been introduced during the course of the year, allowing members of the public to make a point and seek to have it addressed during the course of the meeting. Members of the Council who are not members of the cabinet can ask questions at cabinet meetings. This helps ensure robust accountability of cabinet decisions.

Accountability of cabinet decisions is also achieved through scrutiny mechanisms, including the ability of a scrutiny committee to call-in a Cabinet decision, and by the power of the full Council meeting to remove the Council leader.

In addition to the statutory Forward Plan of key decisions to be taken by the cabinet, the Council publishes forward plans showing non-key decisions to be taken by the Cabinet and business expected to be considered by scrutiny committees, Audit Committee and the full Council. Each plan gives details of when decisions are expected to be made, who will take the decision, who will be consulted before the decision is made and how representations can be made.

The Council has established two overview and scrutiny committees to assist the cabinet in policy development and review, to scrutinise decisions made by the Cabinet and analyse the performance of the Council in meeting its

policy objectives and performance targets. The work of the Committees is co-ordinated by a Scrutiny Management Board consisting of the chairmen and vice chairmen of the overview and scrutiny committees.

The Council's Standards Committee deals with all aspects of advice and guidance for Members on matters of conduct, ethics, propriety and declaration of interest. It also assesses, oversees and determines complaints made against Members under the Code of Conduct. The Committee has five independent persons appointed to it. An independent person chairs the committee and all of its subcommittees.

The Committee is a point of reference for the Monitoring Officer who investigates or arranges for the investigation of any allegations of misconduct in accordance with agreed procedures and statutory regulations.

The monitoring and performance of the Council's assurance and governance framework is led by the Council's Audit Committee. This is a committee independent of the executive and scrutiny processes and reports directly to Council. The committee has the responsibility to ensure that the monitoring and probity of the Council's governance framework is undertaken to the highest standard and in line with the Chartered Institute of Public Finance and Accountancy (CIPFA) guidelines.

Decisions on planning, licensing and other regulatory or quasi-judicial matters are taken by committees of the Council in accordance with the principles of fairness and natural justice and, where applicable, article 6 of the European Convention on Human Rights. Such committees always have access to legal and other professional advice.

#### Officer structure

The authority implements its priorities, objectives and decisions through officers, partnerships and other bodies. Officers can also make some decisions on behalf of the authority.

The Chief Executive is designated as the head of the authority's paid service. As such, legislation and the constitution make him responsible for the corporate and overall strategic management of the authority. He is responsible for establishing a framework for management direction, style and standards and for monitoring the performance of the organisation.

The Council has designated its Head of Governance as Monitoring Officer. The Monitoring officer must ensure compliance with established policies, procedures, laws and regulations. He must report to the full Council or cabinet as appropriate if he considers that any proposal, decision or omission would give rise to unlawfulness or maladministration. Such a report will have the effect of stopping the proposal or decision being implemented until the report has been considered.

The Council has designated the Director of Finance at Preston City Council as the officer responsible for the proper administration of its financial affairs in accordance with Section 151 of the Local Government Act 1972. The principal responsibilities of this officer include financial management, reporting and monitoring financial information, ensuring compliance with financial codes of practice including the Accounts and Audit Regulations 2003.

Four directors report to the chief executive and collectively form the authority's management team. The Management Team assists the Chief Executive with the strategic and overall management of the organisation. The constitution makes it responsible for overseeing and co-ordinating the management, performance and strategic priorities of the authority within the agreed policy framework and budget. Each member of the management team takes lead responsibility for major elements of the authority's business and manages a business unit.

The Management Team collectively and individually are responsible for securing the economical, effective and efficient use of resources as required by the duty of best value.

Powers delegated to each member of management team are documented in the constitution.

The Council maintains an independent Internal Audit Service, which operates to the standards set out in the 'Code of Practice for Internal Audit in Local Government in the United Kingdom'.

A Corporate Governance Group has been established to co-ordinate the receipt and actioning of reports from the various sources of audit and inspection. The group also is responsible to the Audit Committee and Management Team and to compile, maintain and monitor the Code.

## Operational

The Corporate Plan establishes Fylde Borough Council's corporate priorities and reflects the Council's principal statutory obligations. Performance against the plan is supported by a performance management system.

The financial management of the authority is conducted in accordance with the Financial Regulations set out in Appendix 4 of the Constitution. The Council has in place a Medium Term Financial Strategy, updated annually, to support the aims of the Corporate Plan.

The Council ensures continuous improvement in the economy, efficiency and effectiveness of services through the annual service and financial planning process. All services are reviewed annually to ensure that they meet the needs of customers and that performance targets for quality improvements are set and monitored. The Medium Term Financial Strategy includes targets for efficiency savings, to be met across all service areas.

Annual budgets are set by the Council in the context of the Medium Term Financial Strategy, and each budget is allocated to a named budget holder. The responsibilities of budget holders in financial management are clearly set out within Financial Regulations.

A robust process of financial monitoring is in place. Budgets are regularly reviewed, the regularity and depth of attention is linked to the risks associated with each budget area. The financial position of the Council is reported to the Management Team and the Cabinet. Corrective action is required where there is any indication of a likely variance against budget.

The Council has adopted a "Local Code of Corporate Governance" in accordance with the CIPFA/SOLACE Framework for Corporate Governance. The local code contains appropriate monitoring and reporting procedures, and can be found on the Council's website.

The Council had adopted and implemented a Corporate Risk Management Strategy, which incorporates the identification and management of existing risks to the achievement of corporate objectives in accordance with recognised standards of control assurance. A Corporate Risk Register is in place and is monitored and regularly reviewed, combined with action planning for risks identified. Appropriate employees have been trained in the assessment, management and monitoring of risks.

A corporate Risk Management Group (RMG) has been established with an effective monitoring and reporting mechanism. A member of Management Team is the nominated chair of the RMG and the executive portfolio-holder and member risk champion attend group meetings.

The authority's risk management policy requires that officers understand and accept their responsibility for risk and for implementing appropriate controls to mitigate those risks. To this end, executive managers are required to incorporate a register of risks relevant to their unit within each unit's service plan.

Internal Audit provides in its annual report an independent and objective opinion on the effectiveness and operation of the internal control framework during the year. The Internal Audit Team is subject to regular inspection by the Council's external auditors, who place reliance on the work carried out by the team.

The Council has an objective and professional relationship with external auditors and statutory inspectors, as evidenced by the Annual Audit Letter. Council services are delivered by trained and experienced people. All posts have a detailed job description and person specification and training needs are identified through the Personal Development Appraisal Scheme. In addition the Council has comprehensive policies and procedures in place, which provide the framework for the operation of its services and ensure that its actions and decisions are undertaken within the framework of effective internal control.

The authority has a zero tolerance policy towards fraud and corruption. The Council's Whistleblowing Policy provides the opportunity for anyone to report their concerns confidentially and enable these to be investigated impartially.

The authority is committed to working in partnership with public private and voluntary sector organisations where this will enhance its ability to achieve its identified aims. The authority's Partnership Working Protocol has been

developed and is applied to ensure that appropriate governance arrangements are in place with those partnerships to ensure that aims and objectives can be achieved.

## **Review of effectiveness**

The authority supplements the mandatory Audit Commission judgements on use of resources and direction of travel by annually assessing itself against the relevant criteria. This, together with the authority's own Performance Management Framework, provides the evidence needed to ensure a culture of continuous performance improvement.

Inherent within the review of internal control arrangements is the need to assess the extent of compliance with statutory requirements and the authority's rules and regulations, which includes not only its Financial and Contract Procedure Rules but also its Scheme of Delegation, and Codes of Conduct. In addition, the Head of Internal Audit is required to produce an Annual Report and provide an opinion on the effectiveness of the authority's internal control system.

Fylde Borough Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The Corporate Governance Group, which comprises the Section 151 Officer, the Monitoring Officer, the Director of Governance and Partnerships and the Head of Internal Audit, has been given the responsibility to annually review the Corporate Governance Framework and to report to Audit Committee on the adequacy and effectiveness of the Code and the extent of compliance with it.

The review of effectiveness is informed by the work of the directors within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The Group has also received unit assurance statements from each of the authority's directorates. These assurance statements show the extent of compliance within the unit concerned with key corporate procedures designed to embed good governance and internal control. In addition, the group has taken account of external assurance sources including the external auditor's Annual Audit Letter, Use of Resources scored assessment and interim report.

In accordance with the Accounts and Audit (Amendment) Regulations 2006, a review of the system of internal audit has been carried out by the Council's external auditors against the Code of Practice for Internal Audit in Local Government and the results reported to the Audit Committee. The review concluded that internal audit met the appropriate professional standards required by the Code.

Internal Audit has carried out an annual programme of reviews as approved by the Audit Committee. The managers of the services and functions reviewed have each agreed actions and priorities arising from the review and the achievement of those actions is monitored on an ongoing basis by the authority's internal audit service. Any significant failure to achieve agreed actions is reported to the Audit Committee, who can require an explanation from the director concerned.

The Strategic Risk Management Group meets regularly to review achievement of control measures in relation to strategic risks identified in the annual risk identification exercise. In addition, Internal Audit now carries out an annual review of the Risk Management Framework in accordance with the terms of the Risk Management Policy.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework and system of internal control by the Audit Committee, and a plan to address weaknesses and ensure continuous improvement of the system is set out below.

## **Significant Governance Issues**

Building on 2009/10 improvements the Council has identified the following areas where it wishes to see improvements in 2010/11:

1. An effective corporate framework for project management will be adopted and utilised in future for all major schemes and developments to secure the successful achievement of specified goals and objectives
2. Within a context of rising financial pressures services will be prioritised strategically against reducing budgets available
3. The development of corporate purchasing arrangements will be finalised with the roll out of the Civica purchasing module on an authority-wide basis
4. Data Protection training and guidance will be provided for staff to refresh and embed knowledge concerning the individual's right to privacy with respect to the handling and processing of personal data
5. Information governance arrangements will be reviewed and enhanced to ensure they support the Council's regulatory, legal, risk and operational requirements
6. Procurement arrangements will be further enhanced to achieve best value and effective use of resources

*On the basis of the work carried out, which has been reviewed by the Audit Committee, we are satisfied that the Governance Framework is effective. We propose over the coming year to address the above matters to further enhance our governance arrangements. We are satisfied that these actions will address the need for improvements that were identified in our review and will monitor their implementation and operation as part of our next annual review.*

Signed

Signed

**Leader of the Council**

**Monitoring Officer**

Signed

Signed

**Chief Executive**

**Section 151 Officer**

Signed

## RISK MANAGEMENT POLICY STATEMENT

The diversity of services offered by the Council presents a vast potential for personal injury, loss and damage. It is essential for the Council to develop Risk Management programmes which ensure that, in discharging its responsibilities to the citizens, the likelihood of personal injury and loss or damage to physical assets is minimised by means of anticipating and controlling our exposure to risk.

Accordingly it is the responsibility of every member of staff to identify, analyse, eliminate and control exposure to risk and to minimise such losses as they may occur. The purpose of the risk management policy is to achieve the following:

1. To support operating units in their efforts to appraise the risks to which they are exposed.
2. To provide advice through networks of specialists.
3. To provide guidance on best practice in loss control.
4. To motivate managers and others to manage risk effectively.
5. To provide incentives in order to increase the level of risk management.
6. To ensure that adequate risk financing is available.

The Council's Strategic and Operational Risk Management Groups are fundamental to this process. Elected Members, the Chief Executive, Directors and staff of all directorates must be fully supportive of the initiative.

It is the responsibility of every directorate to implement a sound Risk Management strategy. Management at directorate and cost centre level has the responsibility and accountability for managing the risks to which their area is exposed.

This philosophy has the support of the Council which recognises that any reduction in injury, illness or damage benefits the whole community.



## STATEMENT OF ACCOUNTING POLICIES

### 1. Introduction

These accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom issued by the Chartered Institute of Public Finance and Accountancy (CIPFA); a Statement of Recommended Practice (SORP), as recommended by CIPFA, supported by guidance notes on the application of accounting standards.

The statement of accounting policies explains the basis of the figures included in the accounts.

In accordance with the SORP, the authority has adopted the following accounting concepts in the preparation of the Statement of Accounts:

- i) The revenue and capital accounts are maintained on an accruals basis. This means that expenditure and income are recognised in the accounts in the period in which they are incurred or earned (i.e. when goods/services/work are received, or when income is due), not as money is paid or received. Income is also matched with associated costs and expenses as far as the relationship can be established or justifiably assumed.
- ii) Consistent accounting policies have been applied both within the year and between years. Where accounting policies are changed, the reason and effect have been separately disclosed.
- iii) Income has only been recognised in the accounts where there is reasonable certainty, and proper allowances have been made for foreseeable losses and liabilities.
- iv) The accounts have been prepared on a going concern basis.
- v) As allowed under the SORP, the concept of materiality has been utilised in the process of preparing the accounts

### 2. Changes in Accounting Policies

As explained in the Explanatory Foreword the changes introduced in the SORP 2009 have necessitated some changes to accounting policies.

The main changes are as follows:

- Council Tax – the Council (“Billing Authority”) acting as the agent of the major preceptors must now account for their own share of council tax transactions and the effects of timing differences between collecting the council tax attributable to major precepting authorities and paying it across to those authorities. Previous practice of including all council tax debtors in the Balance Sheet did not comply with UK GAAP.
- National Non-domestic Rates (NNDR) – the Council (“Billing Authority”) acting as the agent of the Government is required to recognise a creditor or debtor for cash collected from NNDR debtors but not paid to the Government, or overpaid to the Government, at the Balance Sheet date instead of recognising NNDR debtors in their Balance Sheets

- Requirement that the portion of long term financial liabilities due to be settled within 12 months after the Balance Sheet date to be presented in current liabilities.

### 3. **Accrual of Income and Expenditure**

The financial statements have been prepared on an accruals basis for all transactions and balances hence transactions and balances have been accounted for in the period to which they relate. The Authority has procedures established to ensure a fair assessment of the outstanding debtors and creditors are reflected within the Statement of Accounts. Debtors and creditors are analysed within the notes to the Balance Sheet.

### 4. **Discontinued Operations**

Where, and if, appropriate, income and expenditure directly relating to discontinued operations is shown separately on the face of the Income and Expenditure Account under the heading of discontinued operations.

### 5. **Exceptional Items**

Where, and if, appropriate, exceptional items are included in the cost of the service to which they relate or on the face of the Income and Expenditure Account if that degree of prominence is necessary to give a fair presentation of the accounts.

### 6. **Prior Year Adjustments**

The effect of Prior Year Adjustments arising from changes in accounting policies or from the correction of fundamental errors are disclosed in the Statement of Accounts showing the effect of the change on the results of the current period and explaining the necessity for the adjustments.

### 7. **Provisions**

The Council sets aside provisions for specific liabilities or losses which are likely to be incurred or which will certainly be incurred, but the date on which they will arise is uncertain. Details of provisions, where appropriate, are shown in the notes to the Balance Sheet.

### 8. **Uninsured Losses**

No provision is held in respect of Uninsured Losses and any costs which fall under this heading will have to be met directly from the General Fund.

### 9. **Reserves**

Reserves are classified as either earmarked reserves (identified for specific purposes) or unallocated reserves (planned set-aside of cash for purposes such as general contingencies and cash flow management). Reserves can be for Revenue purposes or Capital purposes. Details of these reserves are shown in a note to the Balance Sheet.

The pension reserve is an adjustment account which manages the effects of FRS17 charges made to the income and expenditure account against the statutory requirements for meeting the cost of retirement benefits from local taxes, as well as absorbing the impact of actuarial gains and losses. It normally balances exactly the pensions liability carried in the top half of the Balance Sheet.

In compliance with the SORP the system of capital accounting requires the use of two reserve accounts contained within the balance sheet: -

- A Revaluation Reserve – to record unrealised revaluation gains arising (since 1 April 2007) from holding fixed assets.
- A Capital Adjustment Account - this provides a balancing mechanism between the different rates at which assets are depreciated under the SORP and are financed through the capital controls

system.

These two capital reserves are matched by fixed assets within the Balance Sheet and do not represent resources available to the authority.

Certain reserves are required for the accounting of financial instruments: -

- The Available-for-Sale Financial Instruments Reserve - to hold the gains and losses arising from the policy of carrying available-for-sale financial assets at fair value. This reserve manages the fair value process. It is permitted to have a negative value provided that the losses posted to it are not impairment losses. Fylde Borough Council currently has no financial assets classified as available for sale.
- The Financial Instruments Adjustment Account - to hold the accumulated difference between the financing costs included in the Income and Expenditure Account and the accumulated financing costs required in accordance with regulations to be charged to the General Fund Balance. This reserve provides a balancing mechanism between the different rates at which gains and losses (such as premiums on the early repayment of debt) are recognised under the SORP and are required by statute to be met from the General Fund. This is not applicable to Fylde Borough Council for 2009/10.

These two financial instruments reserves are matched by borrowing and investments within the Balance Sheet and do not represent resources available to the authority.

#### **10. Government Grants and Contributions**

Where the acquisition of a fixed asset is financed either wholly, or in part, by a government grant or other contribution, the amount of the grant or contribution is credited initially to the Government Grants Deferred Account.

Government grants and other contributions are accounted for on an accruals basis and recognised in the accounting statements when the conditions for their receipt have been complied with and there is reasonable assurance that the grant or contribution will be received.

Amounts are released from the Government Grants Deferred Account to the revenue service or trading account over the useful life of the asset to match the depreciation charged on the asset to which it relates.

#### **11. Retirement Benefits**

Employees of the Council are members of the Local Government Pensions Scheme administered by Lancashire County Council. The scheme provides defined benefits to members, earned as employees work for the Council.

The Local Government Scheme is accounted for as a defined benefits scheme and the Council has adopted the recommendations of Financial Reporting Standard (FRS) 17 Retirement Benefits in its accounting for pensions:

- The liabilities of the scheme attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc and projections of projected earnings for current employees. Liabilities are discounted to their value at current prices, using a real discount rate of 2.5% determined by reference to market yields at the balance sheet date based on high quality corporate bonds.
- The assets of the pension fund attributable to the Council are included in the Balance Sheet at their fair value:
  - scheme assets – market expectations at the beginning of the period for investment returns over the entire life of the related obligation

- government bonds / equities – yield on a 20 year fixed interest gilt
- corporate bonds – market yields at the balance sheet date
- The revenue account shows the net asset/liability changes during the year of account including the future cost of pensions earned in the year and predicted returns on the fund's assets. The transactions are not cost based but are actuarially-calculated amounts that reflect more closely the true changes in the fund's long term liabilities and assets.

The balances and transactions for pension arrangements are included in the accounts to give a more informative picture of the pension fund's position but in order that there is no impact on the level of council tax the account is adjusted to bring it back to a cash basis. Adjustments are made in the Statement of Movement on the General Fund Balance.

## 12. **Value Added Tax (VAT)**

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue & Customs and all recoverable tax is reclaimed from it.

## 13. **Central Support Service Overheads**

In line with the Code of Practice charges for the costs of central support services e.g. Accountancy and Legal Services, are fully charged or apportioned, in accordance with a pre-determined model, over the Council's services. In line with the Code the costs of the corporate and democratic core and of non distributed costs are charged to a separate account and are not apportioned to any other service.

## 14. **Intangible Fixed Assets**

Intangible Fixed Assets are assets that do not have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis (eg software licences). These assets are capitalised at cost and amortised (depreciated) to the relevant revenue service over their economic lives. They are reviewed for the impact of any impairment at the end of each financial year.

## 15. **Tangible Fixed Assets**

### 15.1 Recognition

Expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised on an accruals basis, provided that it yields benefits to the Council and the services that it provides for more than one financial year. This excludes expenditure on routine repairs and maintenance of fixed assets which is charged direct to service revenue accounts.

Assets acquired under finance leases are also capitalised in the Authority's accounts, together with the liability to pay future rentals. Other assets, previously acquired under advance and deferred purchase schemes, are also recognised and included in the balance sheet at their fair value.

### 15.2 Valuation

Fixed assets are valued on the basis recommended by CIPFA (Chartered Institute of Public Finance & Accountancy) and in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by the RICS (The Royal Institute of Chartered Surveyors). Fixed assets are classified into the groupings required by the Code of Practice on Local Authority Accounting.

All valuations have been undertaken in accordance with the Royal Institution of Chartered Surveyors (RICS) Appraisal and Valuation Standards by our in house surveyor. The values have been arrived at by having regard to market evidence and the Surveyor's knowledge and experience of the properties involved.

**Operational properties** have been valued on the basis of Existing Use Value, unless they are Specialised, in which case they have been valued on the basis of Depreciated Replacement Cost. All Depreciated Replacement Cost valuations are subject to the prospect and viability of the continued

occupation and use of the properties concerned.

**Non-operational properties** have been valued on the basis of Market Value. In the case of the **Community assets** they have been valued on either Existing Use Value or Market Value.

Definitions of each of the valuation methodologies used are:

**Market Value** - *"The estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".*

**Depreciated Replacement Cost** - *"The current cost of replacing an asset with its modern equivalent asset less deductions for the physical deterioration and all relevant forms of obsolescence and optimisation."*

**Existing Use Value** - *"The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction, after proper marketing wherein the parties had acted knowledgeably, prudently and without compulsion, assuming that the buyer is granted vacant possession of all parts of the property required by the business and disregarding potential alternative uses and any other characteristics of the property that would cause its Market Value to differ from that needed to replace the remaining service potential at least cost".*

Revaluations of fixed assets included in the balance sheet at current value are planned at five yearly intervals, with the exception of investment properties which are re-valued every two years. In addition material changes in asset values are recorded as they occur.

Where a fixed asset is included in the Balance Sheet at current value, the increase over the previous carrying amount at which that asset was included in the Balance Sheet immediately prior to the latest valuation should be credited to the Statement of Total Recognised Gains and Losses and taken to the Revaluation Reserve except to the extent it reverses revaluation losses (after adjusting for depreciation) on the same asset that were previously recognised in the Income and Expenditure Account (or Consolidated Revenue Account Net Operating Expenditure) when it should be recognised in the Income and Expenditure Account.

### 15.3 Impairment

A review for impairment of a fixed asset whether carried at historical cost or valuation is carried out if events or changes in circumstances occur. For example evidence of physical damage to a fixed asset or a significant decline in a fixed asset's market value during the financial year may indicate that the fixed asset may have reduced in value.

Where an impairment loss has occurred, consideration is given to whether the loss has been caused by clear consumption of economic benefits and if so any such loss is charged to the Income and Expenditure Account.

If the impairment loss has not been caused by clear consumption of economic benefits then the impairment loss is written off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charged to the Income and Expenditure Account.

Where an impairment loss is charged to the Income and Expenditure Account but there were accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

### 15.4 Depreciation

Depreciation is charged on a straight line basis on all fixed and intangible assets with a finite useful life (except for land and non operational investment properties which are not depreciated in line with the Statement of Recommended Practice and on the basis recommended by CIPFA (Chartered Institute of

Public Finance & Accountancy). The useful lives (the period over which the local authority will derive benefits) of assets are estimated on a realistic basis in line with the SORP.

### **15.5 Disposal**

Income from the disposal of fixed assets is accounted for on an accruals basis. When an asset is disposed of, the value of the asset in the balance sheet is debited to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure Account as part of the gain or loss on disposal.

Income from the disposal of fixed assets are categorised as capital receipts. The balance of receipts is required to be credited to the Usable Capital Receipts Reserve and can then only be used for new capital investment or set aside to reduce the Councils underlying need to borrow (the Capital Financing Requirement). Receipts are appropriated to the Reserve from the Statement of Movement on the General Fund Balance.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. An appropriation in the Statement of Movement on the General Fund Balance ensures a neutral impact to the council tax payer.

## **16. Charges to Revenue for Capital Assets**

Service revenue accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding fixed assets during the year:

- Depreciation attributable to the tangible assets used by the relevant service
- Impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service
- Amortisation (depreciation) of intangible fixed assets attributable to the service

The Council is not required to raise council tax to cover depreciation, impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement. The General Fund is required to make a charge (the Minimum Revenue Provision) of not less than 4% of the underlying need to borrow as measured by the Capital Financing Requirement for supported capital expenditure. Depreciation, impairment losses and amortisations are therefore replaced by the Minimum Revenue Provision within the Statement of the Movement on the General Fund Balance.

## **17. Revenue Expenditure Funded by Capital Under Statute**

The approach to accounting for expenditure that is not capital in accordance with accounting standards but which statute allows to be funded from capital resources is classified as Revenue Expenditure Funded by Capital Under Statute. Such expenditure is debited to the income and expenditure statement and then accounted for by debiting the Capital Adjustment Account and crediting the Statement of Movement on the General Fund. The purpose of this is to enable it to be funded from capital resources rather than be charged to the General Fund and impact on the year's council tax.

## **18. Leases**

Leases meeting the definition of an operating lease according to the Statement of Standard Accounting Practice 21 Accounting for Leases and Hire Purchase Rentals, are treated as revenue transactions and are charged to revenue on a straight line basis over the term of the lease agreement. Leases qualifying as finance leases are treated as capital transactions with the asset being recognised in the Balance Sheet and the corresponding rentals payable being recognised as a liability within the Balance Sheet. Details of operating and finance leases are given in the notes to the Balance Sheet.

## **19. Financial Instruments**

The term 'financial instrument' covers both financial assets and financial liabilities and includes both the most straightforward financial assets and liabilities such as trade receivables and trade payables and the

most complex ones such as derivatives and embedded derivatives.

### 19.1 Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the Income and Expenditure Account in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Income and Expenditure Account is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Income and Expenditure Account, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Income and Expenditure Account to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Statement of Movement on the General Fund Balance.

### 19.2 Financial Assets

Financial assets are classified into three types:

- a) **Loans and Receivables** – assets that have fixed or determinable payments but are not quoted in an active market.

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Income and Expenditure Account.

- b) **Fair Value through Income and Expenditure Account** – assets that are held for trading.

Investments that are held for trading can be classified as fair value through the income and expenditure account depending on the instructions given to the fund manager. Unrealised gains and losses are accounted for in the Income and Expenditure Account when they arise.

- c) **Available for Sale Assets** – assets that have a quoted market price and/or do not have fixed or determinable payments.

Available for sale assets are initially measured and carried at fair value.

Financial Instruments are accounted for in accordance with the following Financial Reporting Standards (FRS): -

FRS25 - Financial Instruments: Presentation and Disclosures,  
FRS26 - Financial Instruments: Recognition and Measurement, and

FRS29 - Financial Instruments Disclosures (this FRS has replaced the disclosure requirements of FRS25 but not the presentation requirements).

Note - leases and employers rights and obligations under pension's schemes are not accounted for as financial instruments under FRS25, FRS26 and FRS29.

**20. Stocks and Work in Progress**

Stocks such as fuel are valued for balance sheet purposes at the lower of last known price or net realisable value.

**21. Contingent Liabilities**

Contingent liabilities are not accrued into the accounting statements. They are disclosed as notes to the Balance Sheet if there are possible obligations that may require payment or a transfer of economic benefits by the Council.

**22. Contingent Assets**

Contingent assets are not accrued into the accounting statements. They are disclosed as notes to the Balance Sheet if an inflow of a receipt or economic benefit is probable.

**23. Events after the Balance Sheet Date**

Events may occur between the balance sheet date and the date the accounts are signed by the responsible Financial Officer which might have a bearing upon the financial results of the past year. The SORP requires that the occurrence of a material post balance sheet event should be disclosed in the Statement of Accounts.



## CORE FINANCIAL STATEMENTS

## INCOME AND EXPENDITURE ACCOUNT

This account summarises the resources that have been generated and consumed in providing services and managing the Council during the last year. It includes all day-to-day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and the real projected value of retirement benefits earned by employees in the year.

2008/09 Restated		Notes	2009/10		
			Gross Expend- iture	Income	Net Expend- iture
£'000			£'000	£'000	£'000
796	Central Services to the Public		1,330	(486)	844
8,436	Cultural, Environmental and Planning Services		15,432	(9,048)	6,384
1,163	Highways, Roads and Transport Services		1,779	(832)	947
751	Housing Services		22,674	(22,004)	670
3,573	Corporate and Democratic Core		2,215	(108)	2,107
290	Non distributed costs	A1	768	-	768
<b>15,009</b>	<b>Total Continuing Operations</b>		<b>44,198</b>	<b>(32,478)</b>	<b>11,720</b>
6,381	Exceptional Items	A2	87	(434)	(347)
<b>21,390</b>	<b>Net Cost of Services</b>		<b>44,285</b>	<b>(32,912)</b>	<b>11,373</b>
	<b>Other Items</b>				
-	(Gain) / Loss on Disposal of Fixed Assets				(165)
453	Parish Councils Precepts				522
43	Interest Payable and Similar Charges				66
(321)	Interest and Investment Income				(28)
813	Pensions interest cost and expected return on pensions assets				1,440
<b>22,378</b>	<b>Net Operating Expenditure</b>				<b>13,208</b>
	<b>Amount provided from Government grants and local taxpayers</b>				
(839)	General government grants				(1,578)
(4,915)	Non Domestic Rates redistribution				(4,646)
(5,516)	Demand on the Collection Fund				(5,854)
	Transfers (from)/to the Collection Fund in respect of				

58	surpluses/deficits	31
<u>(11,212)</u>		<u>(12,047)</u>
<b>11,166</b>	<b>Net General Fund (Surplus) / Deficit for the year</b>	<b><u>1,161</u></b>

## STATEMENT ON THE MOVEMENT ON THE GENERAL FUND BALANCE

The Income and Expenditure Account shows the Council's actual financial performance for the year, measured in terms of the resources generated and consumed over the last twelve months. However, the authority is required to raise council tax on a different accounting basis, the main differences being:

- (i) Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- (ii) Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.

The General Fund Balance compares the Council's spending against the council tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

This reconciliation statement summarises the differences between the deficit for the year on the Income and Expenditure Account and the General Fund Balance. A note of the reconciling items for the Statement of Movement on the General Fund Balance is given overleaf.

<b>2008/09 Restated</b>		<b>2009/10</b>
£'000		£'000
11,166	(Surplus) / Deficit on the Income and Expenditure Account for the year	1,161
	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	
<u>(11,652)</u>		<u>(1,313)</u>
(486)	Movement on the General Fund for the year	(152)
(862)	General Fund balance at the start of the year	(1,348)
<u>(1,348)</u>	General Fund balance at the end of the year	<u>(1,500)</u>

## NOTE OF RECONCILING ITEMS FOR THE STATEMENT ON THE MOVEMENT ON THE GENERAL FUND BALANCE

2008/09 Restated		2009/10	
£'000		£'000	£'000
Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the movement on the General Fund Balance for the year			
(9,988)	Depreciation and impairment of fixed assets	(949)	
215	Government Grants Deferred amortisation	206	
(574)	Revenue Expenditure Funded from Capital Under Statute	(328)	
-	Gain / (Loss) on Disposal of Fixed Assets	165	
(650)	Capitalisation Adjustment	(589)	
(11)	De-minimis Capital Expenditure	(15)	
	Net charges made for retirement benefits in		
(2,138)	accordance with FRS17	(2,611)	
	Adjustment for difference in Council Tax income included in		
(22)	Income & Expenditure Account in accordance with regulation	35	
(13,168)			(4,086)
Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the movement on the General Fund Balance for the year			
66	Statutory Minimum Revenue Provision	108	
22	Direct revenue funding of capital spending	21	
(88)	Commutation Adjustment	-	
	Employers contributions payable to the Local		
	Government Pension Fund and retirement benefits		
1,378	payable direct to pensioners	1,530	
1,378			1,659
Transfers to or from the General Fund Balance that are required to be taken into account when determining the movement on the General Fund Balance for the year			
138	Contributions to / (from) specified reserves	1,114	
138			1,114
(11,652)	Net Additional Amount to be credited to the General Fund Balance for the year		(1,313)

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

The Statement of Total Recognised Gains and Losses identifies all gains and losses for the year, the transfers between reserves and the resulting carry forward of reserves into future years.

2008/09 Restated		2009/10
£'000		£'000
11,166	(Surplus)/Deficit on the Income and Expenditure Account for the year	1,161
(1,034)	(Surplus)/Deficit arising on revaluation of Fixed Assets	(602)
(750)	Actuarial (Gain)/Loss on the Pension Fund Assets and Liabilities	6,493
(872)	Reclassification of Capital Grants and Contributions	(1,090)
3	Other Items	6
<b>8,513</b>	<b>Total Recognised (Gains) and Losses for the Year</b>	<b>5,968</b>

## THE BALANCE SHEET

2008/09 Restated £'000		Notes	2009/10	
			£'000	£'000
	<b><u>FIXED ASSETS</u></b>			
	<i><b>Intangible Fixed Assets</b></i>			
112	Purchased software licences	<b>B3</b>		114
	<i><b>Tangible Fixed Assets</b></i>			
	<i>Operational Assets</i>			
6,544	Land and Buildings	<b>B2</b>	6,542	
1,112	Vehicles, Plant and Equipment	<b>B2</b>	937	
1,645	Community Assets	<b>B2</b>	3,547	
	<i>Non-Operational Assets</i>			
4,602	Investment Properties	<b>B2</b>	3,904	14,930
<b>14,015</b>	<b>Total Fixed Assets</b>			<b>15,044</b>
46	Long Term Debtors	<b>B12</b>		38
<b>14,061</b>	<b>Total Long Term Assets</b>			<b>15,082</b>
	<b><u>CURRENT ASSETS</u></b>			
107	Stocks and Work in Progress		128	
4,136	Debtors	<b>B13</b>	5,777	
829	Short Term Investments	<b>B24</b>	2,813	
2	Cash and Bank		1	8,719
<b>19,135</b>	<b>Total Assets</b>			<b>23,801</b>
	<b><u>CURRENT LIABILITIES</u></b>			
(2,805)	Creditors	<b>B14</b>	(2,878)	
-	Short Term Borrowing	<b>B24</b>	(1,025)	
(313)	Cash Overdrawn		(327)	(4,230)
<b>16,017</b>	<b>Total Assets less Current Liabilities</b>			<b>19,571</b>
	<b><u>LONG TERM LIABILITIES</u></b>			
(20)	Finance Leases	<b>B9</b>	(10)	
(1,163)	Government Grants – deferred		(958)	
-	Unapplied Grants and Contributions		(141)	
(133)	Provisions	<b>B16</b>	-	
(1,801)	Long Term Creditors – Section 106 Agreements	<b>B17</b>	(2,456)	
(1,000)	Long Term Borrowing	<b>B24</b>	(2,500)	
(17,358)	Liability related to defined benefit pension scheme	<b>B18/B23</b>	(24,932)	(30,997)
<b>(5,458)</b>	<b>TOTAL ASSETS LESS LIABILITIES</b>			<b>(11,426)</b>
	<b><u>FINANCED BY:</u></b>			
11	Deferred Capital Receipts	<b>B15</b>	5	

-	Usable Capital Receipts Reserve	B21	-	5
11				
	<i>Reserves:</i>			
8,295	Capital Adjustments Account	B20	8,004	
1,992	Revaluation Reserve	B19	2,594	
(17,358)	Pensions Reserve	B18	(24,932)	
325	Earmarked Reserves	B18	1,439	
1,348	General Fund Balance	B18	1,500	
(71)	Collection Fund Balance	B18	(36)	(11,431)
<b>(5,458)</b>	<b>TOTAL NET WORTH</b>			<b>(11,426)</b>

## CASH FLOW STATEMENT

2008/09		Notes	2009/10	
£'000			£'000	£'000
	<b><u>Revenue Activities</u></b>			
354	Net Cash (Inflow) / Outflow from Operating Activities	C1		(692)
	<b><u>Returns on Investments and Servicing of Finance</u></b>			
	<b><u>Cash Outflows</u></b>			
42	Interest paid		65	
2	Interest element of finance lease rental payments		1	
	<b><u>Cash Inflows</u></b>			
(322)	Interest Received		(28)	
(278)				38
	<b><u>Capital Activities</u></b>			
	<b><u>Cash Outflows</u></b>			
2,288	Purchase of Fixed Assets		2,846	
	<b><u>Cash Inflows</u></b>			
-	Sale of Fixed Assets		(402)	
(1,250)	Capital grants received		(2,117)	
(110)	Other Capital cash receipts		(90)	
928				237
1,004	<b>Net Cash (Inflow)/Outflow Before Financing</b>			(417)
	<b><u>Management of Liquid Resources</u></b>			
(1,057)	Net increase / (decrease) in short term deposits	C2	1,984	
-	Net increase / (decrease) in other liquid resources		938	
(1,057)				2,922
	<b><u>Financing</u></b>			
	<b><u>Cash Outflows</u></b>			
10	Capital element of finance lease rental payments		10	
	<b><u>Cash Inflows</u></b>			
-	New loans raised		(2,500)	
				(2,490)
<b>(43)</b>	<b>Net (Increase) / Decrease in Cash</b>	<b>C2</b>		<b>15</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS



## A - NOTES TO THE INCOME AND EXPENDITURE ACCOUNT

### A1 Non Distributed Costs

Non Distributed Costs are costs which are excluded from being recharged to particular services. During 2007/08 the Local Government Pension Scheme Regulations 2007 introduced new provisions that have augmented the benefits for active members which have given rise to a past service cost. For example, the introduction of pensions for cohabiting partners and an increase in the "guarantee" period during which a pension continues after a pensioner's death. In line with the Statement of Recommended Practice, an increase in the value of accrued liabilities are defined as past service costs and are to be treated as non distributed costs. These past service costs are reversed out in the Statement of Movement on the General Fund Balance.

### A2 Exceptional Items

Exceptional items are items which are material in terms of the authority's overall expenditure and not expected to recur frequently or regularly.

Following advice from external advisors PriceWaterhouseCoopers, the Council submitted claims to HM Revenue & Customs for overpaid VAT that had arisen as a result of VAT paid on leisure and culture services. The overpayment was due to provisions introduced by HM Revenue & Customs into UK Law which required Councils to charge VAT on this service, whereas European VAT law in relation to these areas would have allowed Councils to treat this income as VAT free. The claims relates to the period prior to 1997. HM Revenue & Customs agreed the claims and paid the Council a total of £0.434m.

### A3 Agency Services

The Council acts as agent for Lancashire County Council for two areas of work, in respect of:

- Highways work in the urban core and also street lighting, gully cleansing and special maintenance
- A 5 year agency agreement between Fylde Borough Council and Lancashire County Council in respect of Civil Parking Enforcement (CPE) came to an end in September 2009.

A summary of the Off-Street CPE Parking Accounts, as required by Section 55 of the Road Traffic Regulation Act 1984, is shown below:

2008/09		2009/10
£'000		£'000
(68)	Income (Penalty Charge Notice only)	(38)
82	Expenditure	46
<b>14</b>	<b>(Surplus) Deficit</b>	<b>8</b>

### A4 Government Grants (not attributable to specific services)

2008/09		2009/10
£'000		£'000
684	Revenue Support Grant	1,072

-	Performance Reward Grant	479
130	Local Authority Business Growth Incentive Scheme	-
23	Area Based Grant	27
2	Other	-
<u>839</u>		<u>1,578</u>

#### A5 Members' Allowances

Council Members were paid allowances and expenses for the year totalling £254,989 (2008/09 £255,405).

#### A6 Employees' Remuneration

The number of employees whose total remuneration, excluding employer's pension contributions, exceeds £50,000 in bands of £5,000 were as follows:-

2008/09	Remuneration Bands	2009/10
1	£50,000 - £54,999	1
3	£55,000 - £59,999	2
1	£60,000 - £64,999	3
-	£65,000 - £69,999	-
1	£70,000 - £74,999	1
1	£75,000 - £79,999	-
1	£80,000 - £84,999	-
-	£85,000 - £89,999	-
-	£90,000 - £94,999	-
-	£95,000 - £99,999	-
1	£100,000 - £104,999	1

#### Disclosure of remuneration for senior employees

The following table sets out the remuneration of Senior Officers whose salary was £50,000 or more, excluding employer's pension contributions, in 2009/10.

Post-holder	Remuneration	Expense Allowances	Compens'tn for loss of office	Total Remuneration excl. pension contributions	Pension contrib'tns	Total Remuneration incl. pension contributions
	£'000	£'000	£'000	£'000	£'000	£'000
Chief Executive	101	-	-	101	18	119
Deputy Chief Executive	34	-	37	71	2	73
Director – Customer and Operational Services	60	-	-	60	11	71
Director – Strategic Development	60	-	-	60	11	71
Director – Community Services	60	-	-	60	11	71
Director – Governance and Partnerships	59	(2)	-	57	10	67
Monitoring Officer	59	-	-	59	10	69
Assistant Director – Customer and Operational Services	52	1	-	53	9	62

Note 1: Fylde BC contracts the services of the Section 151 Officer from Preston City Council. The contract sum of £75,500 paid to Preston City Council in 2009/10 relates to a range of finance services including those of the Section 151 Officer.

Note 2: The Deputy Chief Executive left Fylde Borough Council in May 2009. His annualised salary was

£63,521.

For comparative purposes the equivalent figures for 2008/09 are shown in the table below:

Post-holder	Remuneration	Expense Allowances	Compens'tn for loss of office	Total Remuneration excl. pension contributions	Pension contrib'tns	Total Remuneration incl. pension contributions
	£'000	£'000	£'000	£'000	£'000	£'000
Chief Executive	99	2	-	101	16	117
Deputy Chief Executive	78	1	-	79	12	91
Director – Customer and Operational Services	57	1	-	58	9	67
Director – Strategic Development	57	1	-	58	9	67
Director – Community Services	57	1	-	58	9	67
Director – Governance and Partnerships	54	1	-	55	9	64
Monitoring Officer	60	-	-	60	10	70
Executive Manager – Community and Cultural Services	55	1	24	80	7	87
Executive Manager – Streetscene Services	42	1	29	72	6	78

Note 1: The Executive **Manager** (Community and Cultural Services) left Fylde Borough Council in January 2009. His annualised salary was £53,518.

Note 2: The Executive **Manager** (Streetscene Services) left Fylde Borough Council in November 2008. His annualised salary was £66,103.

#### A7 **Audit Fees**

In 2009/10, the Council incurred the following fees relating to external audit and inspection from the appointed auditors:

2008/09	Audit Fee Type	2009/10
£'000		£'000
125	Fees payable with regard to external audit services	120
-	Fees payable in respect of statutory inspection	-
30	Fees payable for the certification of grant claims and returns	25
<u>155</u>		<u>145</u>

#### A8 **Related Party Transactions**

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

(a) Central Government

Central Government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions the at the Council has with other parties. Details of transactions with Government departments are set out in a note to the cash flow statement.

(b) Members of the Council

Members of the Council have direct control over the Council's financial and operating policies. Each Councillor has agreed to be bound by a code of conduct, requiring them to disclose certain personal interests on a register, which is available for public inspection at the Town Hall, Lytham St Annes.

A full list of Member appointments to outside bodies is available to the public and detailed in the Council's agenda for 23<sup>rd</sup> March 2010. However, the following are worthy of note in accordance with Financial Reporting Standards:

- 6 Members are Directors of Clifton (Lytham) Housing Association Ltd.
- 4 Members are on the board of New Fylde Housing (to whom the Council transferred its Housing Stock)
- 4 Members are appointed to the Fylde Citizens Advice Bureau (CAB)

The Council makes a financial contribution to a number of partner organisations, most notably:

- Fylde Borough Council Lancashire Strategic Partnership;
- Fylde Citizens Advice Bureau;
- Age Concern;
- Face to Face;

(c) Partnership working

During 2009/10 the Council continued to work both formally and informally in partnership with neighbouring authorities. The main partnership operations were as follows :

Blackpool BC	<ul style="list-style-type: none"> <li>- Payroll services</li> <li>- Human Resources</li> <li>- Corporate Communications (to January 2010)</li> <li>- Health &amp; Safety</li> <li>- Revenues &amp; Benefits Services</li> <li>- Coastal defence strategy (Shoreline Management Plan)</li> </ul>
Wyre BC	<ul style="list-style-type: none"> <li>- Streetscene Services (incl. Refuse Collection &amp; Street Cleansing)</li> <li>- Building maintenance</li> <li>- Procurement</li> <li>- Car Parking Management</li> <li>- Coastal defence maintenance</li> </ul>
Preston CC	<ul style="list-style-type: none"> <li>- Financial Services Management</li> <li>- Benefit Fraud &amp; Revenue Advice</li> <li>- Fleet Management</li> </ul>

(d) Other Public Bodies

Precepts were raised for Lancashire County Council, Lancashire Police Authority, Lancashire Combined Fire Authority, and local Parish Councils within the Fylde area. Details of these are contained within the Collection Fund statements.

(e) Associated Companies and Joint Venture Partners

- (i) The Council has set up the company registered as FBC Solutions. The Council's Chief Executive and Monitoring Officer are Directors of the company. The company has not yet commenced trading.
- (ii) Clifton (Lytham) Housing Association Ltd. This association comprises serving Members of the Council and is supported by officers of the Council. The association owns a number of properties in the Lytham area.
- (f) Lowther Trust  
The Council formalised arrangements for the Trust, with the Charity Commission during 2007/08. The Council remained as the sole Trustee during 2009/10 and provides all the finance required for the Trust operations. The Trust is serviced by officers of the Council.

## A9 Retirement Benefits

As part of the terms and conditions of employment of its employees, the authority offers retirement benefits. Although these benefits will not actually be payable until employees retire, the authority has a commitment to make the payments that need to be disclosed at the time the employees earn their future entitlement. The authority participates in one major pension scheme, the Lancashire County Pension Fund, administered by Lancashire County Council. This is a defined scheme, meaning retirement benefits are determined independently of scheme investments and the authority must contribute to any deficit where assets are insufficient to meet retirement benefits.

The cost of retirement benefits is recognised in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge required against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out in the Statement of Movement in the General Fund Balance. The following transactions have been made in the Income and Expenditure Account and Statement of Movement in the General Fund Balance during the year:-

2008/09 £'000	Local Government Pension Scheme	2009/10 £'000
	<b>Income and Expenditure Account</b>	
	<b>Net Cost of Services</b>	
1,294	- Current Service Cost	759
31	- Past Service Costs	412
	<b>Net Operating Expenditure</b>	
3,562	- Interest Cost	3,477
(2,749)	- Expected Return on Assets in the Scheme	(2,037)
<u>2,138</u>	<b>Net Charge to the Income and Expenditure Account</b>	<u>2,611</u>
	<b>Statement of Movement on the General Fund Balance</b>	
<u>(2,138)</u>	- Reversal of net charges made for retirement benefits in accordance with FRS17	<u>(2,611)</u>
	<b>Actual amount charged against the General Fund Balance for pensions in the year</b>	
1,127	- Employers' contributions payable to scheme	941
251	- Retirement benefits payable to pensioners	589
<u>1,378</u>		<u>1,530</u>

Employer's contributions into the Superannuation Fund, represent 17.2% of pensionable pay (2008/09 16.2%). The contribution rate is determined by the Fund's Actuary based on triennial actuarial valuations, the last review being at the end of March 2007. Under Superannuation Fund Regulations contribution rates are set to meet the overall liabilities of the Fund in future years.

Further information can be found in the Lancashire County Pension Fund Annual Report which is available upon request from the Superannuation Manager (email [Pensions.Helpdesk@Lancashire.gov.uk](mailto:Pensions.Helpdesk@Lancashire.gov.uk) or call 01722 530530). The Fund Actuary is Mercer Human Resource Consulting Limited (0151 236 9771).

Note B23 to the Balance Sheet (page 54), sets out in detail the assets and liabilities in relation to Retirement Benefits.

## A10 Leases

### **Finance Leases:**

Finance Lease rentals of £11,648 for one vehicle was paid in 2009/10 (2008/09 £11,648).

### **Operating Leases:**

Operating Lease rentals of £774,839 for various items of plant, vehicles and equipment were paid in 2009/10 (2008/09 £719,774). These amounts are included in the Net Cost of Services in the Income and Expenditure Account.

The outstanding commitment at 31<sup>st</sup> March 2010 for operating leases is £1,748,061, of which the Council is committed to making payments in 2010/11 of £620,391.

### **Land and Property Leases;**

The Council acts as lessor in respect of land and property owned by it and leased to tenants. The value of the income from rents associated with these agreements, and included within the Council's Income and Expenditure account, is as follows:

2008/09		2009/10
£'000		£'000
262	Land and Property Leases	340

The capital value held within the balance sheet at 31 March 2010 in respect of land and property generating leasehold income is £2.656m. The accumulated depreciation charge applicable to these assets reflected in the 2009/10 financial statements is £nil.

The Council also rents property itself for operational purposes. The value of the rentals paid in respect of its responsibilities as a lessee in 2009/10 is as follows:

2008/09		2009/10
£'000		£'000
54	Poulton Vehicle Maintenance Depot	38
47	Poulton Waste Services Depot	43
<u>101</u>	<b>Total</b>	<u>81</u>

## B - NOTES TO THE BALANCE SHEET

### B1 Prior Period Adjustments

#### Council Tax

In accordance with the SORP 2009, the Council ('the Billing Authority') has changed the way in which it accounts for Council Tax.

#### a) **Income and Expenditure Account**

Billing authorities must now account for (i) their own share of council tax transactions, and (ii) the effects of timing differences between collecting the council tax attributable to major precepting authorities and paying it across to those authorities. Comparative figures for 2008/09 must therefore be restated and are set out as follows:

	2008/09 Statement of Accounts	Restated comparatives for 2008/09
	£'000	£'000
Demand on the Collection Fund	(5,516)	(5,516)
Distribution of deficit in the year, as determined by statute	36	-
Attributable share of the deficit on the Collection Fund at year end	-	71
Adjusted for the share of the deficit which relates to the preceding year (2007/08)	-	(13)
<b>Demand on the Collection Fund (including the deficit for the year)</b>	<b>(5,480)</b>	<b>(5,458)</b>

The difference between the accrued income for the year and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Statement of Movement on the General Fund Balance (see page 33)

#### b) **Balance Sheet**

Since the collection of Council Tax is an agency arrangement, cash collected by the billing authority belongs 12.6% to the Billing Authority and the remainder to the rest of the major preceptors (Lancashire County Council, Lancashire Police Authority and Lancashire Fire Authority). The SORP 2009 states that the precepting authorities will not account in full for the amounts of council tax billed on their behalf. The Balance Sheet has been restated as follows:

	Council Tax balances per Balance Sheet as at 31/03/09	Less: balances attributable to major preceptors	Balance Sheet Restated comparatives as at 31/03/09
	£'000	£'000	£'000
<b>Amounts attributable to Fylde Borough Council:</b>			
Council Tax Arrears	1,819	(1,584)	235

Provision for Bad Debts	(870)	758	(112)
Council Tax prepayments and amounts in credit	(468)	407	(61)
<b>Total</b>	<b>481</b>	<b>(419)</b>	<b>62</b>

**Amounts owed by precepting authorities:**

Share of Collection Fund deficit	489	-	489
Share of arrears, creditors and provision for bad debts	-	419	419
<b>Total</b>	<b>489</b>	<b>419</b>	<b>908</b>

**National Non-Domestic Rates (NNDR)**

The Council acts as a billing agent for NNDR, collecting income on behalf of central government. The SORP 2009 states that the NNDR income is not the income of the billing authority (the Council), it should not be included in the Income and Expenditure Account. The Balance Sheet should not include NNDR arrears, the impairment allowances for doubtful debts, prepayments and overpayments. Instead, these balances should be consolidated into a net debtor/creditor for amounts due to/from central government.

	<b>NNDR balances per Balance Sheet as at 31/03/09</b>	<b>Balance Sheet Restated comparatives as at 31/03/09</b>
	£'000	£'000
Arrears	459	-
Prepayments	(703)	-
Provision for Bad Debts	(206)	-
Amount due to the Government for underpayment to the national pool for the year	(195)	-
NNDR Creditor	-	(645)
<b>Total</b>	<b>(645)</b>	<b>(645)</b>

**B2 Tangible Fixed Assets**

The following table illustrates the movements in tangible fixed assets during the year:

	<b>Land and Buildings</b>	<b>Vehicles, Plant &amp; Equipment</b>	<b>Infra- structure</b>	<b>Communi- ty</b>	<b>Investment Properties</b>	<b>Total</b>
	£'000	£'000	£'000	£'000	£'000	£'000
Certified Valuation at 31/03/09	6,734	3,247	-	1,645	4,602	<b>16,228</b>
Accumulated Depreciation and Impairment	(190)	(2,135)	-	-	-	<b>(2,325)</b>
Net Book Value of Assets at 31/03/09	6,544	1,112	-	1,645	4,602	<b>13,903</b>
<b><i>Movement in 2009/10</i></b>						
Additions	83	179	-	1,345	25	<b>1,632</b>
Disposals	(17)	(158)	-	-	(302)	<b>(477)</b>
Revaluations	175	-	-	18	410	<b>603</b>
Depreciation	(165)	(354)	-	-	-	<b>(519)</b>
Historical Depreciation Adjustment	2	158	-	-	-	<b>160</b>
Impairments	(70)	-	-	(5)	(297)	<b>(372)</b>
Reclassifications	(10)	-	-	544	(534)	<b>-</b>



<b>Net Book Value of Assets at 31/03/10</b>	<b>6,542</b>	<b>937</b>	<b>-</b>	<b>3,547</b>	<b>3,904</b>	<b>14,930</b>
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### B3 Intangible Fixed Assets

Intangible fixed assets comprise the software licences for the main Council systems, and other new e-government systems. The policy adopted is to depreciate over the useful life of the asset, which is either 3 or 5 years, dependent upon the system. The table below illustrates the movements in intangible fixed assets during the year:

	<b>Land and Buildings</b>	<b>Vehicles, Plant &amp; Equipment</b>	<b>Infra-structure</b>	<b>Communi-ty</b>	<b>Investment Properties</b>	<b>Total</b>
	£'000	£'000	£'000	£'000	£'000	£'000
Certified Valuation at 31/03/09	-	229	-	-	-	229
Accumulated Depreciation and Impairment	-	(117)	-	-	-	(117)
<b>Net Book Value of Assets at 31/03/09</b>	<b>-</b>	<b>112</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>112</b>
<b><i>Movement in 2009/10</i></b>						
Additions	-	58	-	-	-	58
Depreciation	-	(56)	-	-	-	(56)
<b>Net Book Value of Assets at 31/03/10</b>	<b>-</b>	<b>114</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>114</b>

### B4 Depreciation Methodologies

Depreciation is charged on a straight line basis on all fixed and intangible assets with a finite useful life. Newly acquired assets are depreciated fully in the year of acquisition in line with the SORP.

There has been no change during the period in either the estimate of useful lives or the estimate of any residual values

### B5 Revenue Expenditure Funded From Capital Under Statute

The 2008 Statement of Recommended Practice has effectively replaced deferred charges with a new category of expenditure – Revenue Expenditure Funded From Capital Under Statute. As explained in the Statement of Accounting Policies, this is expenditure that is not capital in accordance with accounting standards, but which statute allows to be funded from capital resources. As such, whilst this expenditure has been charged against the Council's Net Cost of Services within the Income and Expenditure Account (page 31), there is no impact on council tax in the year that it was incurred, as a corresponding credit entry is included within the Statement on the Movement on the General Fund Balance (pages 32 and 33). Prior to 2008/09, this expenditure was entitled Deferred charges.

<b>2008/09</b>		<b>2009/10</b>
£'000		£'000
25	Warton Sports Pavilion	-
41	Town Centre Regeneration	30
648	Disabled Facilities Grants	657
255	Private Sector Renewal	473
-	Kirkham Building Refurbishment	33
126	Heritage (HERS) Grants	-
176	Tourist Board Project	39
90	Office Accommodation	-
100	Compulsory Purchase Order	-
650	Capitalisation Directive	589

2,111		1,821
(887)	Grants and Contributions received in respect of above	(904)
<b>1,224</b>		<b>917</b>

## B6 Capital Expenditure and Financing

Under the prudential regime for capital finance introduced on 1 April 2004, one of the key measures is the capital financing requirement i.e. the underlying need to borrow to finance capital expenditure. Movements in the capital financing requirement are shown overleaf.

2008/09		2009/10
£'000		£'000
1,048	Opening Capital Financing Requirement	2,586
612	Re-statement Adjustment	-
<b>1,660</b>		<b>2,586</b>
	<b>Capital Investment:</b>	
87	Operational Assets	320
144	Non-Operational Assets	1,370
2,111	Revenue Expenditure Funded From Capital Under Statute	1,821
483	Impairments	-
11	De-minimis Expenditure	15
<b>4,496</b>		<b>6,112</b>
	<b>Sources of Finance:</b>	
(398)	Capital Receipts	(475)
(1,430)	Government Grants and Other Contributions	(1,995)
(102)	Direct Revenue Financing	(21)
20	Other Adjustments	-
<b>2,586</b>	<b>Closing Capital Financing Requirement</b>	<b>3,621</b>

## B7 Commitments under Capital Contracts

Capital projects often take several years to complete. This means that the Authority is often committed to capital expenditure in later years arising from contracts entered into at the balance sheet date whereby all or part of the capital work has yet to be undertaken. The estimated value of capital expenditure committed at 31st March 2010 to be paid from 2010/11 onwards is £0.566m and is mainly in respect of the long-term Ashton Gardens Project (£0.432m), the Tourist Board Project (£0.074m) and Big lottery Play Equipment (0.060m).

## B8 Information on Assets Held

An analysis of the main fixed assets:-

2008/09 (No's)	Asset Types	2009/10 (No's)
	<b>Operational Buildings</b>	
1	Town Hall	1
4	Other Offices	4
1	Swimming Pools	1
3	Depots	3
18	Surface Car Parks	18
1	Cemetery	1
1	Crematorium	1
1	Museum	1
	<b>Operational Equipment</b>	
60	Vehicles and Plant	47
	<b>Infrastructure Assets</b>	
72	Bus Shelters	72
	<b>Community &amp; Investment Assets</b>	
-	Other Offices / Buildings	10

25	Parks and Open Spaces	25
105	Works of Art (items)	105
21	Civic Regalia (items)	21
1	Swimming Pools	1
5	Allotment Sites	5

#### B9 Assets held under Finance Leases

The Council has a small finance lease outstanding on the purchase of a Refuse Collection Vehicle. The value of this asset, together with related accumulated depreciation, is shown below:

	Gross Book Value as at 1 <sup>st</sup> April 09	Depreciation Charge in Period	Accumulated Depreciation b/fwd	Net Book Value as at 31 <sup>st</sup> March 2010
	£'000	£'000	£'000	£'000
Refuse Collection Vehicle	71	10	51	10

#### B10 Leases

The Authority was committed at 31<sup>st</sup> March 2010 to making payments of £620,391 under operating leases and £11,648 for finance leases in 2010/11. All of this relates to Vehicles, Plant and Equipment, and these commitments are due within the following financial years:

	Operating Leases	Finance Leases
	£'000	£'000
Leases expiring in 2010/11	27	12
Leases expiring between 2011/12 and 2014/15	593	-
Leases expiring after 2014/15	-	-
	620	12

#### B11 Revaluation of Fixed Assets

The freehold and leasehold properties which comprise the authority's property portfolio were valued as at 01<sup>st</sup> April 2009 by Fylde Borough Council's internal valuer on the under-mentioned basis in accordance with the Royal Institute of Chartered Surveyors' Appraisal and Valuation Manual.

Some items of plant and machinery are included in the valuation of the buildings, with notable exceptions being trade fixtures and fittings and furniture and furnishings.

Properties regarded as operational can be further divided into Specialised and Non-specialised. Specialised properties are valued on the basis of depreciated replacement cost. Non-specialised properties are valued on the basis of open market value for the existing use or, net current replacement cost.

Works of Art relate to paintings and artefacts bequeathed to the Authority, some of which are to be held in perpetuity for the benefit of the residents of the Borough and have been included in the register at a nominal amount.

#### Impairment

An impairment review during the course of the year identified significant reductions in the value of a number of the Council's Fixed Assets. A summary of these impairments and the reasons for them are shown below:

	2009/10
	£'000
288-289 Clifton Drive – fall in Market Value valuation method	270
Public Conveniences – incorrect valuation method used previously	37

Other impairments identified  
**Total Impairments**

65  
372

## B12 Long Term Debtors

These relate to amounts owing to the Council which are being repaid over various periods longer than one year.

2008/09	Analysis	2009/10
£'000		£'000
3	Mortgages	3
11	Housing Association	10
22	Parish Council Interest Free Loan	20
10	YMCA Land Sale	5
<u>46</u>		<u>38</u>

## B13 Debtors

2008/09	Analysis	2009/10
£'000		£'000
	<u>Amounts falling due in one year:-</u>	
685	Government Departments	1,677
1,873	Other Public Authorities	2,505
10	Housing Associations	91
235	Council Taxpayers	253
1,168	Sundry Debtors	1,429
701	Payments in Advance	497
20	Car Loans to Employees	15
<u>4,692</u>		<u>6,467</u>
(556)	Provision for doubtful debts	(690)
<u>4,136</u>		<u>5,777</u>

## B14 Creditors

2008/09	Analysis	2009/10
£'000		£'000
	<b>Creditors</b>	
830	Government Departments	170
810	Other Public Authorities	1,279
19	Housing Associations	20
903	Sundry Creditors	715
<u>2,562</u>		<u>2,184</u>
	<b>Receipts in Advance</b>	
59	Receipts in Advance – Council Tax	47
184	Other Receipts in Advance	647
<u>243</u>		<u>694</u>
<u>2,805</u>		<u>2,878</u>

**B15 Deferred Capital Receipts**

This relates to an area of land in St. Albans Road, St. Annes, sold to the YMCA on which payment of the consideration has been deferred. The payment by the YMCA is to be phased by ten equal annual instalments from 1<sup>st</sup> January 2003.

**B16 Provisions**

2008/09	Analysis	2009/10
£'000		£'000
113	Planning Delivery Grant Expenditure	-
20	Homelessness	-
<u>133</u>		<u>-</u>

**Planning Delivery Grant Expenditure** – for the fulfilment of obligations relating to Planning expenditure

**Homelessness** – for the cost of potential repairs to fulfil obligations to private sector properties used for temporary accommodation

**B17 Long Term Creditors – Section 106 Agreements**

Section 106 Agreements are for the fulfilment of obligations under certain Planning Application Approvals. During 2009/10 these were reclassified as Long-Term Creditors, in line with the requirements of the Statement of Recommended Practice 2008 (SORP 2008).

2008/09	Analysis	2009/10
£'000		£'000
2,144	Balance brought forward as at 1 <sup>st</sup> April	1,801
-	Add: Reclassification in year	-
6	Contributions Received – Revenue Schemes	1,343
104	Contributions Received – Capital Schemes	60
<u>2,254</u>		<u>3,204</u>
	Less: Contributions Applied in Year	
(403)	- Revenue Schemes	(748)
(50)	- Capital Schemes	-
<u>1,801</u>	Balance carried forward as at 31 <sup>st</sup> March	<u>2,456</u>

The balances available to the Council can be further analysed between revenue and capital schemes:

2008/09	Analysis	2009/10
£'000		£'000
1,693	Revenue Schemes	2,366
108	Capital Schemes	90
<u>1,801</u>		<u>2,456</u>

**B18 Movements in Reserves**

General Fund Balances	Collection Fund Balances	Earmarked Reserves	Pensions Reserve
		See note (a) below	See note B23

	£'000	£'000	£'000	£'000
Surplus/(deficit) for 2009/10	(1,161)	35	-	(1,081)
Appropriations to/(from) revenue	1,313	-	1,114	-
Actuarial gains / (losses) relating to pensions	-	-	-	(6,493)
	152	35	1,114	(7,574)
Balance brought forward at 1 <sup>st</sup> April 2009	1,348	(71)	325	(17,358)
Balance carried forward 31 <sup>st</sup> March 2010	1,500	(36)	1,439	(24,932)

#### **(a) Earmarked Reserves**

	Balance at 1st April £'000	Transfers To/(From) £'000	Balance at 31 March £'000
<b>Capital Reserves</b>			
Capital Projects Fund – Bus Monies	22	-	22
	<b>22</b>	<b>-</b>	<b>22</b>
<b>Revenue Reserves</b>			
Building Control Regs.	28	(25)	3
Revenues & benefits shared service	63	(63)	-
Replacement Systems	84	-	84
Vehicle Maintenance	27	-	27
Land Charges	28	(14)	14
Parks/Open Spaces	39	-	39
Business Improvement Grant (NNDR)	34	-	34
Economic Promotion and Recovery	-	40	40
Comprehensive Spending Review	-	520	520
Concessionary Fares	-	177	177
Performance Reward Grant	-	479	479
	<b>303</b>	<b>1,114</b>	<b>1,417</b>
<b>Total Earmarked Reserves</b>	<b>325</b>	<b>1,114</b>	<b>1,439</b>

#### **Purpose of Earmarked Reserves**

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

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

- **Capital Project Fund (Ansdell Bus Money) Reserve** – Set aside from the revenue receipts on the sale of the Bus Company allocated to each area of the Authority. Balance to be expended in Ansdell on schemes to be identified.
- **Building Control Regulations Reserve** – A fundamental principal of the Building Regulations Scheme introduced 1<sup>st</sup> April, 1999, is that there is a three year rolling accounting period over which costs should equate with charge income. This reserve will assist in achieving that aim in future periods.
- **Revenues & Benefits Shared Service Reserve** – The Council's revenues and benefits service is provided by Blackpool Council under a shared service arrangement. This reserve has been established to support continuing delivery of this service.
- **Replacement Systems Reserve** – for the funding of new IT initiatives and the development of IT systems.

- **Vehicle Maintenance Reserve** – created in 2008/09 to contribute towards the cost of vehicle maintenance repairs.
- **Land Charges Reserve** – Surpluses generated on land charges set aside for reinvestment into the service.
- **Parks & Open Spaces Reserve** – Developers' who seek the adoption of areas of open space by the Council are required to deposit a commuted sum that is used to support additional grounds maintenance expenditure incurred by the Council following adoption.
- **Business Improvement Grant (NNDR) Reserve** – Created in 2005/06. The Council was awarded additional monies that have been earmarked for general use to support Economic Development wherever possible.
- **Economic Promotion and Recovery Reserve** – Created in 2009/10, this reserve was established in order to support and promote economic recovery.
- **Comprehensive Spending Review Reserve** – Created in 2009/10, this is a voluntary set aside established to enable the Council to prepare for future financial pressures in a planned and cost effective way.
- **Concessionary Fares Reserve** – Created in 2009/10, this is a voluntary set aside in respect of the concessionary fares scheme for the potential repayment of an additional reimbursement rate which is still subject to a legal challenge from Bus Operators.
- **Performance Reward Grant Reserve** – Created in 2009/10, this is a voluntary set aside of performance reward grant (PRG). Although Fylde Borough Council is the Accountable Body for the Fylde PRG, the Fylde Local Strategic Partnership are the appointed decision making body in relation to the allocation of the PRG.

#### **B19 Revaluation Reserve**

2008/09	Analysis	2009/10
£'000		£'000
957	<b>Balance as at 1<sup>st</sup> April</b>	1,992
1,033	Gain / (Loss) on Revaluation of Fixed Assets	602
2	Depreciation on Revaluations	-
<u>1,992</u>	<b>Balance as at 31<sup>st</sup> March</b>	<u>2,594</u>

The Revaluation Reserve represents the gains on revaluation of fixed assets not yet realised through sales. The Revaluation Reserve contains gains recognised since 1<sup>st</sup> April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

#### **B20 Capital Adjustment Account**

The Capital Adjustment Account represents a store of resources set aside to finance past capital expenditure. It also contains the difference between amounts provided for depreciation and that required to be charged to revenue to repay the principal element of external loans. The balance on the account is reduced as the loan debt is repaid.

2008/09	Analysis	2009/10
£'000		£'000
18,351	<b>Balance as at 1<sup>st</sup> April (see note B1)</b>	8,295
398	Usable Capital Receipts Applied	480
473	Capital Grants and Contributions Applied	1,090
215	Government Grants Deferred	206
102	Revenue Contribution to Capital	21

-	Use of Reserves to Fund Capital Expenditure	-
66	Minimum Revenue Provision	108
	<b>Less:</b>	
(9,524)	Impairments	(372)
-	Write Down of Deferred Grants	-
(1,224)	Revenue Expenditure Funded From Capital Under Statute	(917)
-	Disposal of Fixed Assets	(317)
(88)	Commutation Adjustment	-
(463)	Depreciation Charged in Year	(574)
(11)	De-Minimis Capital Expenditure	(16)
<u>8,295</u>	<b>Balance as at 31<sup>st</sup> March</b>	<u>8,004</u>

## B21 Movements in Usable Capital Receipts

2008/09	Analysis	2009/10
£'000		£'000
-	<b>Balance as at 1<sup>st</sup> April</b>	-
398	Amounts receivable in Year	480
398		480
(398)	Less: Usable Capital Receipts Applied	(480)
<u>-</u>	<b>Balance as at 31<sup>st</sup> March</b>	<u>-</u>

The usable capital receipts reserve represents the capital receipts available to finance capital expenditure in future years.

## B22 Contingent Assets and Contingent Liabilities

### Contingent Liabilities:

- **Insurance Claims** - As at 31<sup>st</sup> March 2010, the Council has outstanding insurance claims against it with a reserve amount of £300,989. However, the Council's liability is limited to the excess on the insurance policy, with the maximum amount payable by the Council on these claims being £5,000 for revenue items. No adjustments have been made within the Accounts for these revenue items as, at the balance sheet date, it was not known if the claims were successful.
- **Housing Stock Transfer - Property Warranties** - The Council has made a number of warranties with New Fylde Housing in respect of the stock transfer of 2 October 2000. The liability of the Council in this respect terminates on the fifteenth anniversary of the date of transfer, on 2 October 2015. The Council has made duplicate warranties with Halifax PLC which terminate on the thirty sixth anniversary of the date of transfer, on 2 October 2036. The maximum that New Fylde Housing may recover is £12,192 per dwelling subject to the claim; except for any claim arising out of breach of the environmental pollution warranty which shall not exceed £5m.
- **Municipal Mutual Insurance** - Municipal Mutual Insurance was the predominant insurer of public sector bodies prior to its cessation of underwriting operations in September 1992. A Scheme of Arrangement was implemented in 1993 which effectively means that public sector bodies, including this Council, could still have a significant financial exposure to MMI. Given that MMI have re-affirmed in September 2009 the view that the Board continued to foresee a solvent run off of the Company's business the Council will monitor the likelihood and level of exposure and will make any arrangements in light of any new information.
- **Section 106 (s106) Agreements** - S106 of the Town and Country Planning Act 1990 allows a local planning authority to enter in to a legally binding agreement or planning obligation with a landowner in association with the granting of planning permission. The obligation is termed a S106 Agreement and S106 monies received by the Council are increasingly used to support the provision of services and infrastructure such as highways, recreational facilities, education, health and affordable housing. Such agreements or obligations may lay down conditions that monies must be spent by a specified date and on specified items, if these conditions are not met then monies must be returnable and in some cases with interest applied. The Council has a number of S106 agreements. These accounts have been prepared



on the basis that no monies are returnable at the balance sheet date.

- **Equal Pay Claims** - Under the terms of the 2004/07 National Pay Award it was agreed by the National Joint Council (NJC) that all local authorities should undertake a Pay Review using the National Job Evaluation system as the recommended model. This pay review was completed in November 2007. The future years increased costs associated with this pay review exercise are contained within the Council's base revenue budget. At this stage the Council is not able to assess the financial impact of any outstanding equal pay claims because of uncertainties regarding the likelihood of liability, if any, the amount, and timing of any such outstanding claims. There has been no indication since November 2007 that the Council has any outstanding or historical equal pay claims and the likelihood of any emerging is very low.
- **Accountable Body Status** - The Authority has been appointed Accountable Body status for a number of schemes and projects operated by the Government and related agencies. Accountable Bodies have to operate within rigorous and stringent Government regulations giving wide ranging rights for grant to be clawed back, if specific output targets are not met by the partner organisations. These accounts have been prepared on the basis that none of the grants involved will either be clawed back or withheld.
- **Planning Appeals** - During the year the Council received several large planning appeals, some of which remain ongoing. At the time of preparing these accounts the cost of defending the ongoing appeals cannot accurately be assessed. As the remaining appeals progress any additional costs incurred beyond the budgeted level will be dealt with via updates to the Council's Medium Term Financial Strategy.
- **Potential Legal Action** – the Council commissioned an organisation to carry out a piece of consultancy work, but due to unsatisfactory performance the contract was terminated during 2008/09. The consultants instructed solicitors and disputed the Council's termination of the contract, and have threatened to sue for breach of contract. However, no action has yet materialised. Any costs incurred in dealing with this potential legal action which are beyond the budgeted Legal Fees budget will be dealt with via updates to the Council's Medium Term Financial Strategy.
- **Potential Arbitration** – The Council is in a contractual relationship with another public sector organisation that has experienced some challenges to the interpretation of the contract and potential differences in the original contract and the delivery method statements. Both parties have made a commitment to attempt to resolve any differences through consultation and negotiation. However, it is not certain that this is possible in every case and there may be further instances of contractual differences raised in the future. It is not possible at this stage to place a financial amount on this if it was to go to arbitration.

#### **Contingent Assets:**

- **Claims for recovery of overpaid VAT** - Following advice from external advisors PriceWaterhouseCoopers, the Council has submitted a claim to HM Revenue & Customs for overpaid VAT that has arisen as a result of VAT paid on sports tuition. The overpayment is due to provisions introduced by HM Revenue & Customs into UK Law which required Councils to charge VAT on this service, whereas European VAT law in relation to these areas would have allowed Councils to treat this income as VAT free. The claim relates to the period prior to 1994. At the time of writing, there is no certainty that the amount claimed can be recovered or the timescale on when the outcome will be known as the claim is being considered by HM Revenue & Customs policy section.

The Council has also submitted a claim to the High Court for the interest on both the sports tuition claim referred to above and the leisure and culture claims settled in 2009/10 (see note A2) to be calculated on a compound basis rather than a simple basis. It is expected that this claim will take approximately three to five years before a decision is reached, but if successful, the amount due could be significant.

- **Housing Stock Transfer - Right to Buy (RTB) Sharing Arrangements** - New Fylde Housing has agreed to share RTB receipts, calculated according to the formula as set out in the transfer agreement of 2 October 2000. This arrangement will terminate at the end of the financial year 2029/30, on 31 March 2030. The amount the Council receives in any given year is dependent on prevailing market conditions. Due to current economic conditions and the stagnant state of the housing market during 2009/10, only one such

sale was completed during 2009/10 which generated a capital receipt of £72k.

- **Housing Stock Transfer - Development Clawback Agreement** - New Fylde Housing has agreed to pay the Council a proportion of any development gain, as defined in the transfer agreement of 2 October 2000. This arrangement will terminate on the fifteenth anniversary of the date of transfer, on 2 October 2015.

## B23 Retirement Benefits

Note A9 to the Income and Expenditure Account contains details of the Authority's participation in the Local Government Pension Scheme, administered by Lancashire County Council.

### Assets and Liabilities in Relation to Retirement Benefits

Reconciliation of the present value of the scheme liabilities:

2008/09		2009/10
£'000		£'000
58,671	Balance b fwd as at 1 <sup>st</sup> April	49,770
1,294	Current service cost	759
3,562	Interest cost	3,477
431	Member contributions	397
(11,934)	Actuarial (gains)/losses on liabilities	15,020
(2,285)	Benefits/transfers paid	(2,750)
31	Curtailments	381
-	Past service costs	31
49,770	Balance c fwd as at 31 <sup>st</sup> March	67,085

Reconciliation of the fair value of the scheme assets:

2008/09		2009/10
£'000		£'000
41,406	Balance b fwd as at 1 <sup>st</sup> April	32,412
2,749	Expected return on plan assets	2,037
(11,184)	Actuarial gains/(losses) on assets	8,527
1,378	Employer contributions	1,530
431	Member contributions	397
(2,285)	Benefits/transfers paid	(2,750)
(83)	Actuarial Revaluation	-
32,412	Balance c fwd as at 31 <sup>st</sup> March	42,153

The expected return on assets is based on market expectations at the beginning of the period for investment returns over the entire life of the related obligations. The assumed investment return on government bonds and equities is the yield on a 20 year fixed interest gilt. The expected return on corporate bonds is based on market yields at the balance sheet date.

The actual return on scheme assets in the year was a deficit of £10.564m. The return on assets in 2008/09 was a deficit of £8.435m. The deterioration in return is due to the losses incurred in the investment markets.

### Scheme History

	2005/06	2006/07	2007/08	2008/09	2009/10
	£'000	£'000	£'000	£'000	£'000
Present value of liabilities	(49,257)	(49,334)	(58,671)	(49,770)	(67,085)

Fair value of assets	39,014	40,335	41,406	32,412	42,153
Surplus/(Deficit) in the Scheme	(10,243)	(8,999)	(17,265)	(17,358)	(24,932)

The liabilities show the underlying commitments that the Authority has in the long-run to pay retirement benefits. The total net liability of £24.932m has a substantial impact on the net worth of the authority as recorded in the Balance Sheet, resulting in an overall negative balance of £11.426m.

However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy and the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31<sup>st</sup> March 2011 is £0.8m.

### Basis for Estimating Assets & Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Pension Fund liabilities has been assessed by Mercer Human Resource Consulting Ltd, an independent actuary, estimates for the pension fund being based on the last valuation of the Scheme as at 31<sup>st</sup> March 2007.

The main assumptions used in their calculations have been:

31 March 2009		31 March 2010
%		%
	<b>Long-term expected rate of return on assets in the scheme:</b>	
7.50	Equity investments	7.50
4.00	Government Bonds	4.50
6.00	Other Bonds	5.20
6.50	Property	6.50
0.50	Cash/Liquidity	0.50
7.50	Other	7.50
3.30	Rate of inflation	3.30
5.05	Rate of increase in salaries	5.05
3.30	Rate of increase in pensions	3.30
7.10	Rate for discounting scheme liabilities	5.60
50%	Take-up of option to convert annual pension into retirement lump sum	50%
	<b>Longevity at 65 for future pensioners (aged 65 in 20 years' time)</b>	
22.2 years	Men	22.2 years
25 years	Women	25 years
	<b>Mortality assumptions:</b>	
PA92mc YoB Tables + 1 year	Longevity at 65 for current pensioners	PA92mc YoB Tables + 1 year

The Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

31 March 2009	Split of assets between categories	31 March 2010
%		%
61.2	Equity investments	66.0
7.8	Government bonds	7.0
12.3	Other bonds	12.0
7.4	Property	5.0

4.9	Cash/Liquidity
6.4	Other assets

4.0
6.0

### History of Experience of Gains and Losses

The actuarial gains/(losses) identified as movements on the Pensions Reserve can be analysed into the following categories, measured as a percentage of the schemes assets or liabilities at 31 March 2010:

	2005/06	2006/7	2007/08 (restated)	2008/09 (restated)	2009/10
	%	%	%	%	%
Experience Gains/(Losses) on Assets	13.8	0.7	3.1	34.5	20.2
Experience Gains/(Losses) on Liabilities	1.4	-	5.4	-	-

### B24 Financial Instrument – Borrowings and Investments

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments:

	Long Term		Current	
	31/03/09	31/03/10	31/03/09	31/03/10
	£'000	£'000	£'000	£'000
Financial liabilities (principal amount)	1,000	2,500	313	1,327
Add Accrued Interest	-	-	-	25
<b>Total Borrowings</b>	<b>1,000</b>	<b>2,500</b>	<b>313</b>	<b>1,352</b>
Loans and receivables	-	-	829	2,812
Add Accrued Interest	-	-	-	1
<b>Total Investments</b>	<b>-</b>	<b>-</b>	<b>829</b>	<b>2,813</b>

Long Term Financial Liabilities have increased as the Council borrowed £2.5M of new long term loans in 2009/10

The SORP now requires accrued interest to be accounted for against the carrying amount of loans rather than Debtors or Creditors as in previous years

Current Financial Liabilities now includes the Council's overdraft.

### B25 Financial Instruments Gains/Losses

The gains and losses recognised in the Income & Expenditure Account and the Statement of Recognised Gains and Losses in relation to financial instruments are made up as follows:

2008/09				
Financial Liabilities	Financial Assets			
Liabilities	Loans	Available	Fair Value through	

	measured at Amortised cost	and receivables	for sale assets	Income & Expenditure Account	Total
	£'000	£'000	£'000	£'000	£'000
Interest expense	(44)	-	-	-	
<b>Interest payable &amp; similar charges</b>	(44)	-	-	-	(44)
Interest income	-	322	-	-	
<b>Interest and investment income</b>	-	322	-	-	322

2009/10				
Financial Liabilities	Financial Assets			
Liabilities measured at amortised cost	Loans and receivables	Available for sale assets	Fair Value through Income & Expenditure Account	Total
£'000	£'000	£'000	£'000	£'000
Interest expense	(66)	-	-	-
<b>Interest payable &amp; similar charges</b>	(66)	-	-	(66)
Interest income	-	28	-	-
<b>Interest and investment income</b>	-	28	-	28

## B26 Fair Value of Assets and Liabilities carried at Amortised Cost

Financial liabilities and financial assets represented by loans and receivables are carried on the balance sheet at amortised cost. Their value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- The fair values for financial liabilities have been determined by reference to the Public Work Loan Board (PWLB) redemption rules and prevailing PWLB redemption rates as at each balance sheet date, and include accrued interest.
- No early repayment or impairment is recognised;
- The fair value of trade and other receivables is taken to the invoiced or billed amount.

The fair values calculated are as follows:

	31 March 2009		31 March 2010	
	Carrying amount	Fair value	Carrying amount	Fair value
	£'000	£'000	£'000	£'000
PWLB Debt	1,000	1,063	3,500	3,583
<b>Total Borrowings</b>	1,000	1,063	3,500	3,583
Creditors	1,918	1,918	976	976
Bank Overdraft	313	313	327	327
<b>Total financial liabilities</b>	3,231	3,294	4,803	4,886

The fair value is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans

in the market at the balance sheet date.

	31 March 2009		31 March 2010	
	Carrying amount	Fair value	Carrying amount	Fair value
	£'000	£'000	£'000	£'000
Investments < 1 year	829	829	2,813	2,813
Investments > 1 year	-	-	-	-
Long Term Debtors	46	46	38	38
Debtors	2,244	2,244	3,401	3,401
<b>Total Loans and receivables</b>	<b>3,119</b>	<b>3,119</b>	<b>6,252</b>	<b>6,252</b>

The Council does not have any loans and receivables greater than one year in duration.

## **B27 Nature and Extent of Risks arising from Financial Instruments**

### **(i) Key Risks**

The Council's activities expose it to a variety of financial risks. The key risks are;

Credit risk – the possibility that other parties might fail to pay amounts due to the Council;

Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments;

Re-financing risk – the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms;

Market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates movements.

### **(ii) Overall Procedures for Managing Risk**

The Council's overall risk management procedures focus on the unpredictability of financial markets, and implementing restrictions to minimise these risks. The procedures for risk management are set out through a legal framework set out in the Local government Act 2003 and the associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice and Investment Guidance issued through the Act. Overall these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the Code of Practice;
- by approving annually in advance prudential indicators for the following three years limiting:
  - The Council's overall borrowing;
  - Its maximum and minimum exposures to fixed and variable rates;
  - Its maximum and minimum exposures of the maturity structure of its debt;
  - Its maximum annual exposures to investments maturing beyond a year.
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the Government Guidance.

These are required to be reported and approved at or before the Council's annual Council Tax setting meeting. These items are reported with the annual Treasury Management Strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported quarterly to the Portfolio Holder (Finance & Resources)

The annual treasury management strategy which incorporates the prudential indicators was approved by Council on 03/03/09, and was revised and approved again by Council on 01/03/10. These reports are

available on the Councils website within the Medium Term Financial Strategy

Treasury policies are implemented by an in-house treasury team. The Council maintains written principles for overall risk management, as well as written policies covering specific areas such as interest rate risk, credit risk and the investment of surplus cash through Treasury Management practices (TMPs). These TMPs are a requirement of the Code of Practice and are reviewed regularly.

### (iii) Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

The risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with Fitch, Moody's and Standard & Poors Ratings Services. The Annual investment strategy also imposes a maximum amount and time to be invested with a financial institution located within each category. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria approved by Council.

The following analysis summarises the Authority's potential maximum exposure to credit risk. The table (historical experience from rating agencies) gives details of global corporate finance average cumulative deposit rates for the period 1990 – 2009 on investments out to 1 year. Trade debtors are assessed using local historical experience over the last three years.

	31/03/2010 £'000	Historical experience of default %	Adjustment for market conditions at 31/03/08 %	Estimated maximum exposure to default £'000
	A	b	c	a * c
Deposits with banks and financial institutions (market value):				
AA rated counterparties	2,813	0.03%	0.03%	-
Trade debtors	2,330	27%	27%	629
	<u>5,143</u>			<u>629</u>

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits.

Whilst the current credit crisis in international markets has raised the overall possibility of default, the Council maintains strict credit criteria for investment counterparties.

The Council does not generally allow credit for its trade debtors. Of the £2,330k (£1,611k 2008/09) outstanding for trade debtors, £2,330k (£1,611 2008/09) is overdue. The past due amount can be analysed by age as follows:

2008/09 £'000		2009/10 £'000
1,109	Less than three months	476
227	Three months to one year	1,581
275	More than one year	273
<u>1,611</u>		<u>2,330</u>

Collateral - During the reporting period the Council held no collateral as security.

### (iv) Liquidity risk

The Council has a comprehensive cash flow management process that seeks to ensure that cash is available as needed. If unexpected movements occur, the Council has ready access to borrowings from the money markets and the Public Work Loans Board. There is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Council may be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The approved prudential indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address the risk. The Council approved treasury and investment strategies address the main risks and the in-house treasury team address the operational risks within the approved parameters.

The maturity analysis of financial liabilities is as follows:

2008/09		2009/10
£'000		£'000
2,231	Less than one year	2,303
1,000	Between one and two years	-
-	Between two and five years	1,500
-	Between five and ten years	1,000
-	More than ten years	-
3,231		4,803

The maturity analysis of financial assets is as follows:

2008/09		2009/10
£'000		£'000
3,084	Less than one year	6,224
8	Between one and two years	3
3	Between two and three years	3
24	More than three years	21
3,119		6,251

#### (v) Market risk

**(a) Interest rate risk** – The Council has limited exposure to interest rate movements on its borrowings and investments.

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Income & Expenditure Account or the Statement of Recognised Gains and Losses. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Income and Expenditure Account and affect the General Fund Balance.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Council's prudential indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a prudential indicator is set which provides maximum and minimum limits for fixed and variable interest rate exposure. The in-house treasury team will monitor market and forecast interest rates within the year to adjust exposures approximately.

If all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

	£'000
Increase in interest payable on variable rate borrowings	-
Increase in interest receivable on variable rate	60
Impact on Income and Expenditure Account	60
Decrease in fair value of fixed rate investment assets	-



Impact on Statement of Recognised Gains & Losses	-
Decrease in fair value of fixed rate borrowings liabilities (no impact on Income & Expenditure Account or Statement of Recognised Gains & Losses)	36

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed.

**(b) Price risk** – The Council, excluding the pension fund, does not generally invest in instruments with this type of risk, e.g. equity shares or marketable bonds

**(c) Foreign exchange risk** – The Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.

## **B28 Authorisation for Issue**

The Section 151 Officer has, on 29<sup>th</sup> September 2009, authorised that this Statement of Accounts should be issued for distribution to Members of the Council's Audit Committee.

## **B29 Events after the Balance Sheet Date**

### **Non-adjusting event – St Annes Pool**

At a meeting of Cabinet on 28<sup>th</sup> April 2010 Members agreed to re-open St Annes Pool. This follows the closure of the pool during 2008/09. The re-opening of the pool will have future ongoing revenue and capital costs and will also result in a re-classification of the asset on the balance sheet. In anticipation of the Cabinet decision the Council's budget for 2010/11 and future years included estimates of the projected capital and revenue costs.

The asset is currently classified as an "Investment Property" and is held on the balance sheet at market value. Capita Symonds who carried out the valuation on this basis in 2008/09 were of the opinion that there would be little or no demand for the building for existing or alternative use. The valuation was based on a site for re-development and demolition costs were deducted.

When the asset returns operational, the classification will change to "Operational Land and Buildings" and will subsequently be re-valued on a depreciated replacement cost basis. This is likely to see a significant positive increase to the net book valuation of the asset which is currently held at £0.275m.

### **Non-adjusting event – FRS17**

In his budget statement on 22 June 2010, the Chancellor announced that the government would start to increase public service pensions in line with the consumer price index (CPI) rather than the retail price index (RPI), which has been the practice in the past. As a result, future pension increases under the Lancashire County Pension Fund are expected to be slightly lower, on average, than would have been the case if this change had not been made. In the opinion of the Pension Fund Actuary, this change is estimated to reduce the FRS17/IAS19 benefit obligations by between 5% and 8% for most employers. The precise financial effect will be taken into account in the FRS17/IAS19 figures for the financial year ending 31 March 2011.

## C - NOTES TO THE CASH FLOW STATEMENT

### C1. Reconciliation of Revenue Surplus to Net Cash Flow

2008/09		2009/10	
£'000		£'000	£'000
	(Surplus) Deficit for the Year		
(486)	General Fund		(152)
154	Collection Fund		(35)
(332)			(187)
	<b>Non-cash transactions</b>		
(138)	Contribution (to)/from reserves	(1,114)	
88	Commutation Adjustment	-	
650	Capitalisation Directives	589	
(22)	Revenue Funding of Capital Expenditure	(21)	
(66)	Minimum Revenue Provision	(108)	
40	Other	-	
(69)	Provision for doubtful debts	(134)	
			(788)
	<b>Items on an accrual basis</b>		
419	(Increase) Decrease in creditors	(968)	
(431)	Increase (Decrease) in debtors	1,278	
(53)	Increase (Decrease) in stocks and WIP	21	
			331
	<b>Items in another classification</b>		
278	Servicing of finance	(38)	
(10)	Financing	(10)	
			(48)
354	<b>Net Cash (Inflow) / Outflow from Operating Activities</b>		(692)

### C2. Movement in Management of Liquid Resources and Cash

	As at 31 March		Movement
	2010	2009	
	£'000	£'000	£'000
<b>Net increase/(decrease) in short term deposits</b>			
Short Term Investments	2,813	829	1,984
<b>Net increase/(decrease) in Cash</b>			
Bank Overdraft	(327)	(313)	(14)
Petty Cash	1	2	(1)

**C3. Analysis of Government Grants**

2008/09		2009/10	
£'000		£'000	£'000
(12,738)	Housing Benefit Grant (Rent Allowances)		(15,315)
(4,256)	Council Tax Benefit Grant	(4,814)	
(507)	Benefit Administration	(544)	
(72)	Housing and Planning Delivery Grant	(9)	
(130)	Local Authorities Business Growth Incentive Grant	-	
(275)	Concessionary Fares Grant	(281)	
-	DCMS Free Swimming Grant	(74)	
-	Performance Reward Grant	(479)	
(143)	Other Grants	(75)	(6,276)
(18,121)			(21,591)

**COLLECTION FUND****1. Foreword**

These statements represent the transactions of the Collection Fund. This is a statutory fund set up to account separately Council Tax and National Non-Domestic Rates (and also previously Community Charge) on behalf of those bodies (including the Council's own General Fund) for whom the income has been raised. Administration costs are borne by the billing authority's General Fund Revenue Account.

**2. Statement of Accounting Policies**

The Accounts have been prepared on an accruals basis and in accordance with the Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

**3. Collection Fund Income and Expenditure Account**

2008/09		Notes	2009/10	
£'000			£'000	£'000
<b><u>INCOME:-</u></b>				
(39,335)	Income from Council Tax			(40,656)
	Transfers from General Fund			
(4,206)	- Council Tax Benefit			(4,761)
(20,931)	Income collectable from Business Ratepayers			(21,093)
<b><u>(64,472)</u></b>	<b>TOTAL INCOME</b>			<b><u>(66,510)</u></b>
<b><u>EXPENDITURE:-</u></b>				
43,652	Precepts and Demands	4a		45,305
	Business Rate			
20,820	- Payment to National Pool		20,980	
111	- Costs of Collection Allowance		113	
				21,093
	Bad and Doubtful Debts			
280	- Write offs		262	

66	- Provisions		<u>97</u>	
				359
	Contributions			
	- Towards the previous year's Collection Fund			
(304)	(deficit)/surplus	<b>4b</b>		(522)
<u>64,625</u>	<b>TOTAL EXPENDITURE</b>			<u>66,235</u>
<u>153</u>	<b>Movement in Collection Fund Balance in Year</b>			<u>(275)</u>
	<b><u>Collection Fund Balance</u></b>			
406	Balance at 1 <sup>st</sup> April			559
153	(Surplus) / Deficit for Year			(275)
<u>559</u>	<b>Balance at 31<sup>st</sup> March – Accumulated (Surplus) / Deficit</b>			<u>284</u>

#### 4. NOTES TO THE COLLECTION FUND

##### a) Precepts and Demands

2008/09		2009/10
£'000		£'000
32,262	Lancashire County Council	33,305
4,072	Lancashire Police Authority	4,270
1,802	Lancashire Fire Authority	1,876
5,516	Fylde Borough Council	5,854
<u>43,652</u>		<u>45,305</u>

##### b) Distribution of Collection Fund Prior Year Balance

2008/09		2009/10
£'000		£'000
(229)	Lancashire County Council	(385)
(26)	Lancashire Police Authority	(49)
(13)	Lancashire Fire Authority	(22)
(36)	Fylde Borough Council	(66)
<u>(304)</u>		<u>(522)</u>

##### c) Income from Business Ratepayers

The total non-domestic rateable value at 31 March 2010 was £50,049,941. The Government set a National Non-domestic multiplier (rate in the pound) of 48.5 pence in the pound for 2009/10 and a Small Business non-domestic multiplier of 48.1 pence.

The rateable value figure shown above is different from the income figure in the Collection Fund due to various adjustments. A reconciliation of the figures is shown below:

2008/09		2009/10
£'000		£'000
22,706	Gross Rates Due	23,808
	(rateable value x appropriate multiplier)	
(1,577)	Less: Reliefs and Exemptions	(2,399)
21,129		21,409
(194)	Less: Write Offs/Bad Debt Provision	(304)
(4)	Less: Interest paid on Refunds	(12)
20,931	<b>Income Due from NNDR Payers</b>	21,093
(111)	Less: Cost of collection Allowance	(113)
<u>20,820</u>	<b>Contribution to NNDR Pool</b>	<u>20,980</u>

##### d) Council Tax

The Council Tax base for 2009/10 was calculated at 30,051 and a Band D Council Tax set at £1,444.34, split £1,108.30 for Lancashire County Council, £131.55 for Fylde Borough Council, £142.08 for Lancashire Police Authority and £62.41 for Lancashire Fire Authority. In addition, Parish Councils agreed additional Council Taxes of between £14.79 and £77.10 at Band D level.

The tax base was calculated as follows:-

	(a)	Multiplier	(b)
Additional Band (Disabled)	20	5/9	11
Band A	4,979	6/9	3,319
Band B	4,806	7/9	3,738
Band C	7,371	8/9	6,552
Band D	5,924	9/9	5,924
Band E	3,968	11/9	4,850
Band F	2,122	13/9	3,065
Band G	1,328	15/9	2,213
Band H	72	18/9	144
Other Adjustments	117	-	117
	<u>30,707</u>		<u>29,933</u>
Collection Rate 99%, = (b) x 0.99			29,634
Add: Other Adjustments			417
<b>Council Tax Base</b>			<u><b>30,051</b></u>

(a) = Total number of chargeable dwellings.

(b) = Number of dwellings (a) adjusted where discounts apply and converted to an equivalent number of Band D dwellings.

## GLOSSARY OF ACCOUNTING TERMS

This Glossary of Terms is designed to aid interpretation of the Council's Statement of Accounts.

- **Accounting Policies**  
These specify how transactions and other events should be reflected in financial statements.
- **Accruals**  
The concept that income and expenditure are recognised as they are earned or incurred, not as cash is received or paid. The Local Government Pension Scheme Actuary reassesses the rate of employer contributions to the pension fund every three years.
- **Actuary**  
An actuary is an expert on pension scheme assets and liabilities.
- **Actuarial Gains and Losses**  
Changes in the actuarial deficits or surpluses over time arising from either or both of i) differences between the actual events as they have turned out and the assumptions that were made as at the date of the earlier actuarial valuation (known as experience gains and losses), and ii) changes in the actuarial assumptions.
- **Amortisation**  
An annual charge to the revenue account that spreads the cost of an asset over a period of time.
- **Appropriation**  
A contribution to or from a financial reserve.
- **Area Based Grant (ABG)**  
A new Government Grant that came into force on 1 April 2008 replacing Local Area Agreement Grant. ABG is a non-ringfenced general grant, no conditions on use is imposed as part of the grant determination, ensuring full local control over how funding can be used.
- **Audit Commission**  
An independent body, established under the Local Government Finance Act 1982, which has a duty to ensure that local authorities secure economy, efficiency and effectiveness in their use of resources.
- **Best Value Accounting Code Of Practice (BVACOP)**  
A code of practice prepared to provide accounting guidance on financial reporting to stakeholders which is designed to enhance the comparability of local authority financial information. The code represents proper accounting practice for the purpose of best value reporting.
- **Budget**  
A statement of the Council's spending plans for revenue and capital expenditure over a specified period of time.
- **Capital Expenditure**  
Expenditure on the acquisition and/or improvement of an existing fixed asset which adds to, and not merely maintains, its value. Expenditure that does not fall within the definition must be charged to a revenue account.
- **Capital Receipts**  
Proceeds from the sale of capital assets which can only be used to repay the original loan or to finance new capital expenditure. Any receipts which have not yet been utilised as described are referred to as 'capital receipts unapplied'.

- **Collection Fund**  
The Collection Fund is a separate statutory fund which billing authorities have to maintain. It shows the transactions in relation to non-domestic rates, any residual Community Charge and the Council Tax, and illustrates the way in which these have been distributed to precepting authorities and the General Fund.
- **Community Assets**  
Assets that the local authority intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.
- **Consistency**  
This is a concept that the accounting treatment of like items, within an accounting period and from one period to the next, is the same.
- **Contingency**  
This is a condition which exists at the balance sheet date, where the outcome will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events. Contingent assets and contingent liabilities should not be recognised in the accounting statements but be disclosed by way of notes.
- **Corporate and Democratic Core**  
The corporate and democratic core comprises all activities which local authorities engage in specifically because they are elected, multi-purpose authorities. The cost of these activities are thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services. There is, therefore, no logical basis for apportioning these costs to services.
- **Council Tax**  
This is a banded property tax which is levied on domestic properties throughout the country. The banding is based on estimated property values as at 1 April 1991. The level of tax is set annually by each local authority for the properties in its area.
- **Creditors**  
Amounts owed by the Council for work done, services rendered or goods received for which payment has not been made by the balance sheet date.
- **Current Assets**  
Current assets are items that can be readily converted into cash.
- **Current Liabilities**  
Amounts which will become payable or could be called in within the next accounting period.
- **Current Service Cost (Pensions)**  
The increase in the pension liabilities as a result of years of service earned this year.
- **Curtailment**  
For a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include termination of employees' services earlier than expected and termination of, or amendment to the terms of, a defined benefits scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify only for reduced benefits.
- **Debtors**  
Amounts owed to the Council for work carried out, services rendered or goods provided by the Council for which income has not been received by the balance sheet date.
- **Debt Redemption**  
This is where a debt is repaid early.



- **Deferred Credits**  
These represent capital income to be received in the future, when disposals have taken place, and deferred payments have been agreed
- **Defined Benefit Scheme**  
A pension or other retirement benefits scheme other than a defined contribution scheme, where the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme.
- **Depreciation**  
This is the measure of the cost or revalued amount of the benefits of the fixed asset that have been consumed during the period.
- **Direct Revenue Financing**  
Resources provided from an authority's revenue budget to finance the cost of capital projects.
- **Discontinued Operations**  
An operation should be classified as discontinued when the activities related to the operation have ceased permanently and the termination has a material effect on the nature and focus of the authority's operations and represents a material reduction in its provision of services.
- **Emoluments**  
All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash. Pension contributions payable by either employer or employee are excluded.
- **Estimation Techniques**  
The methods adopted to arrive at estimated monetary amounts, corresponding to the measurement bases selected for assets, liabilities, gains, losses and changes to reserves.
- **Events after the Balance Sheet Date**  
These are events, favourable and unfavourable, that occur between the balance sheet date and the date when the Statement of Accounts is authorised for issue.
- **Exceptional Items**  
Material items which derive from events or transactions that fall within the ordinary activities of the authority and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.
- **Expected Rate of Return on Pensions Assets**  
For a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.
- **Fair Value**  
Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's-length transaction.
- **Financial Instruments**  
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. The term 'financial instrument' covers both financial assets and financial liabilities and includes both the most straightforward financial assets and liabilities such as trade receivables (debtors) and trade payables (creditors) and the most complex ones such as derivatives and embedded derivatives.

- **Finance Lease**  
This is a lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. Such a transfer of risks and rewards may be presumed to occur if at the inception of the lease the present value of the minimum lease payments, including any initial payment, amounts to substantially all of the fair value of the leased asset.
- **Financial Reporting Standards (FRSs)**  
FRSs are statements which deal with accounting issues of fundamental importance and general application. They are applicable to all published accounts and compliance is mandatory. The Code of Practice on Local Authority Accounting in UK applies FRSs to Councils' accounts as appropriate.
- **Financial Year**  
The Council's financial year runs from the 1<sup>st</sup> April to 31<sup>st</sup> March.
- **Fixed Assets**  
Assets that yield benefits to the Council and the services it provides for a period of more than one year.
- **General Fund**  
This is the main revenue account of the Council covering day to day spending on services other than the provision of housing. Credited to the fund are charges made by the authority, specific Government and other grants and receipts from the Collection Fund.
- **Going Concern**  
The concept that the authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations.
- **Government Grants**  
Assistance by Government and inter-Government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an authority in return for past or future compliance with certain conditions relating to the activities of the authority.
- **Historic Cost**  
The cost of an asset at the time it was bought.
- **Housing Revenue Account (HRA)**  
The HRA is an account which includes the expenditure and income arising from the direct provision of housing by the Council.
- **Impairment**  
This is a reduction in the value of a fixed asset below its carrying amount on the balance sheet.
- **Infrastructure Assets**  
Fixed assets that are inalienable, expenditure on which is recoverable only by continued use of the asset created. Examples of infrastructure assets are highways and footpaths.
- **Intangible Assets**  
These are non-financial fixed assets that do not have physical substance but are identifiable and are controlled by the entity through custody or legal rights. Examples are purchased software licences.
- **Investments - Non Pension Fund**  
A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the authority. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment. Investments, other than those in relation to the pensions fund, that do not meet the above criteria should be classified as current assets.

- **Investment Properties**  
This represents an interest in land and/or buildings in respect of which construction work and development have been completed, and which is held for its investment potential, with any rental income being negotiated at arm's length.
- **Leasing**  
Leasing is a method of utilising assets where a rental charge is paid for a specified period of time, instead of outright purchase.
- **Liquid Resources**  
Current asset investments that are readily disposable by the authority without disrupting its business and are either readily convertible to known amounts of cash at or close to the carrying amount, or traded in an active market.
- **Local Public Service Agreement (LPSA)**  
Government initiative whereby demanding performance targets are set to deliver improvements for local people through partnerships with district Councils and other organisations.
- **Materiality**  
The concept that any omission from or inaccuracy in the statement of accounts should not be so large as to affect the understanding of those statements by the reader.
- **Minimum Revenue Provision (MRP)**  
The minimum amount (as laid down in Statute) that the Council must charge to the accounts each year in order to meet the costs of repaying amounts borrowed.
- **National Non Domestic Rates (NNDR)**  
NNDR is a tax levied on business properties and sometimes known as Business Rates. This tax is set nationally by the Government. Sums based on rateable values are collected by billing authorities and paid into a national pool. The proceeds are then redistributed by central government as a grant to local authorities in proportion to adult population.
- **Net Book Value**  
The amount at which fixed assets are included in the balance sheet i.e. their historical cost or current value less the cumulative amount provided for depreciation.
- **Net Current Replacement Cost**  
This is the cost of replacing or recreating the particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.
- **Net Debt**  
The authority's borrowings less cash and liquid resources. Where cash and liquid resources exceed borrowings, reference should be to net funds rather than net debt.
- **Net Realisable Value**  
The open market value of the asset in its existing use (or market value in the case of non-operational assets), less the expenses to be incurred in realising the asset.
- **Non-cash Adjustments**  
Changes in debtors' and creditors' balances over the year
- **Non-distributable Costs**  
These are costs that cannot be specifically applied to a service or services and are held centrally, comprising certain pension costs and the costs of unused shares of IT facilities and other assets.

- **Non-Operational Assets**  
Fixed assets held by a local authority but not directly occupied, used or consumed in the delivery of services or for the service or strategic objectives of the authority. Examples of non-operational assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.
- **Operating Leases**  
An operating lease is a lease other than a finance lease. This is a method of financing assets which allows the Council to use, but not own an asset. A third party purchases the asset on behalf of the Council, who then pay the lessor an annual rental over the life of the asset. Expenditure financed by operating leasing does not count against capital allocations.
- **Operational Assets**  
Fixed assets held and occupied, used or consumed by the local authority in the direct delivery of those services for which it has either a statutory or discretionary responsibility. Examples include Council dwellings, other land and buildings, vehicles, plant, equipment, infrastructure assets and community assets.
- **Past Service Cost**  
For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvements to, retirement benefits.
- **Post Balance Sheet Events**  
These are events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer.
- **Precept**  
This is a charge levied by one Council which is collected on its behalf by another by adding the precept to its own Council Tax and paying over the appropriate cash collected.
- **Principal**  
The amount of money borrowed, not including interest charges.
- **Principal Repayment of Debt**  
Repayment of a loan, not including interest charges.
- **Prior Year Adjustments**  
Prior year adjustments are material adjustments, arising from changes in accounting policies or from the correction of fundamental errors. A fundamental error is one that is of such significance as to destroy the validity of the financial statements. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.
- **Projected Unit Method**  
An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:
  - the benefits for pensioners and deferred pensioners (ie individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases, and
  - the accrued benefits for members in service on the valuation date.
  - The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not.
- **Provision**  
These are monies set aside for liabilities or losses which are likely or certain to be incurred but the exact amount and dates are not currently known.

- **Prudence**  
The concept that revenue is not anticipated but is recognised only when realisation in cash is reasonably certain. Conversely, provisions should be made for all known liabilities.
- **Prudential Code for Capital Finance**  
This Code was introduced from 1<sup>st</sup> April 2004. The basic principle of the Code is that local authorities will be free to invest so long as their capital spending plans are affordable, prudent and sustainable. The Code sets out indicators that the authority must use and factors that they must take into account to demonstrate that they have fulfilled this objective.
- **Public Works Loan Board (PWLB)**  
A government agency which provides longer-term loans to local authorities at interest rates only slightly higher than those at which the government itself can borrow.
- **Related Parties**  
Two or more parties are related parties when at any time during the financial period:
  - one party has direct or indirect control of the other party; or
  - the parties are subject to common control from the same source; or
  - one party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interest; or
  - the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interests
- **Related Party Transactions**  
A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made.
- **Reserves**  
Amounts set aside in one year's accounts which can be spent in later years. Reserves are often earmarked for specific purposes, including the financing of future capital expenditure, replacement or renewals and the funding of future defined Council initiatives.
- **Residual Amount**  
The amount an asset can be sold for, less the cost of selling it.
- **Retirement Benefits**  
All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable as a result of either (i) an employer's decision to terminate an employee's employment before the normal retirement date or (ii) an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by the employee.
- **Revenue Expenditure**  
This is money spent on the day-to-day running costs of providing services. It is usually of a constantly recurring nature and produces no permanent asset.
- **Revenue Expenditure Funded from Capital Under Statute**  
A new term introduced in 2008/09 accounts. Expenditure that is not capital in accordance with UK GAAP is allowed by statute to be funded from capital resources and hence such expenditure would have no impact on council tax in the year that it was incurred.
- **Revenue Support Grant (RSG)**  
This is a general grant received from Central Government to contribute towards the cost of providing services. It is based on the Government's assessment of how much an authority needs to spend in order to provide a standard level of service.

- **Scheme Liabilities**  
The liabilities of a defined benefit scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method, reflect the benefits that the employer is committed to provide for service up to the valuation date.
- **Settlement**  
An irrevocable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. Settlements include:
  - a lump-sum cash payment to scheme members in exchange for their rights to receive specified pension benefits
  - the purchase of an irrevocable annuity contract sufficient to cover vested benefits, and
  - the transfer of scheme assets and liabilities relating to a group of employees leaving the scheme.
- **Specific Grants**  
Government grants for a particular service.
- **Stocks**  
The amount of unused or unconsumed stocks bought but not used at the end of the accounting period, held in expectation of future use. Eg: goods or other assets purchased for resale, consumable stores, raw materials and components purchased for incorporation into products for sale, products and services in intermediate stages of completion, long term contract balances and finished goods.
- **Statement of Recommended Practice – (SORP)**  
This is the Code of Practice on Local Authority Accounting in the United Kingdom.
- **Tangible Fixed Assets**  
Assets which have a physical form eg buildings, equipment.
- **Total Cost**  
The total cost of a service or activity includes all costs which relate to the provision of the service (directly or bought in) or to the undertaking of the activity. Gross total cost includes employee costs, expenditure relating to premises and transport, supplies and services, third party payments, support services and capital charges. This includes an appropriate share of all support services and overheads which need to be apportioned.
- **Total Net Worth**  
The total net value of resources available to or owned by the Council.
- **Unapportionable Central Overheads**  
Overheads for which no user now benefits and that are not apportioned to services.
- **Useful Life**  
The period over which the local authority will derive benefits from the use of a fixed asset.

# REPORT



REPORT OF	MEETING	DATE	ITEM NO
FINANCE	AUDIT COMMITTEE	23 <sup>RD</sup> SEPTEMBER 2010	6

## MANAGEMENT LETTER OF REPRESENTATION 2009/10

### Public Item

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

### 1. Summary

1. The Council's external auditors KPMG require the Council to provide them with representations on specific matters such as the Council's financial standing and whether the transactions within the accounts are legal and unaffected by fraud.
2. The wording for these representations is standard and prescribed by auditing standards. KPMG require a signed copy of the Council's management representations before they issue their audit opinion.
3. This process is facilitated by the signing of a management letter of representation by the Chief executive.

### Recommendations

Audit Committee is recommended to give authority to the Chief Executive to sign the Management Letter of representation for 2009/10.

### Alternative options considered and rejected

None

## Cabinet Portfolio

The item falls within the following Cabinet portfolio:

Portfolio: Finance and Resources.

Councillor Karen Buckley.

## REPORT

### 2. Information

- 2.1 The Council's external auditors KPMG require the Council to provide them with representations on specific matters such as the Council's financial standing and whether the transactions within the accounts are legal and unaffected by fraud.
- 2.2 The wording for these representations is standard and prescribed by auditing standards. KPMG require a signed copy of the Council's management representations before they issue their audit opinion.
- 2.3 This process is facilitated by the signing of a management letter of representation by the Chief executive.

### 3. Conclusion

- 3.1 Audit Committee is required to give authority to the Chief Executive to sign the Management Letter of representation for 2009/10, to allow KPMG to issue their audit opinion.

Report Author	Tel	Date	Doc ID
Joanna Scott – Section 151 Officer for Fylde Borough Council	(01772) 906059	September 2010	

List of Background Papers		
Name of document	Date	Where available for inspection
Statement of accounts 2009/10	29 <sup>th</sup> June 2010	<a href="http://www.fylde.gov.uk">www.fylde.gov.uk</a>

## Attached documents

### Appendix A: Management Letter of Representation 2009/10.



IMPLICATIONS	
Finance	None arising directly from this report
Legal	None arising directly from this report
Community Safety	None arising directly from this report
Human Rights and Equalities	None arising directly from this report
Sustainability and Environmental Impact	None arising directly from this report
Health & Safety and Risk Management	None arising directly from this report

KPMG LLP  
St James' Square  
Manchester  
M2 6DS

**OUR REF:** PW/SC/

*Your Ref:*

*Please ask for:* Phil Woodward

*Tel.:* 01253 658517

*Email:* phillipw@fylde.gov.uk

*Date:* 23 September 2010

Dear Sirs

We understand that auditing standards require you to obtain representations from management on certain matters material to your opinion. Accordingly we confirm to the best of our knowledge and belief, having made appropriate enquiries of other members of the Authority, the following representations given to you in connection with your audit of the financial statements for Fylde Borough Council for the year ended 31 March 2010.

All the accounting records have been made available to you for the purpose of your audit and the full effect of all the transactions undertaken by Fylde Borough Council has been properly reflected and recorded in the accounting records in accordance with agreements, including side agreements, amendments and oral agreements. All other records and related information, including minutes of all management and Committee meetings, have been made available to you.

We confirm that we have disclosed all material related party transactions relevant to the Authority and that we are not aware of any other such matters required to be disclosed in the financial statements, whether under FRS 8 or other requirements.

We confirm that we are not aware of any actual or potential non-compliance with laws and regulations that would have had a material effect on the ability of the Authority to conduct its business and therefore on the results and financial position to be disclosed in the financial statements for the year ended 31 March 2010.

We acknowledge that we are responsible for the fair presentation of the financial statements in accordance with the Local Government Statement of Recommended Practice ("SORP") and wider UK accounting standards. We have considered and approved the financial statements.

We confirm that we:

- understand that the term "fraud" includes misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Misstatements resulting from fraudulent financial reporting involve intentional

misstatements or omissions of amount or disclosures in financial statements to deceive financial statement users. Misstatements resulting from misappropriation of assets involve the theft of an entity's assets, often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation;

- are responsible for the design and implementation of internal control to prevent and detect fraud and error;
- have disclosed to you our knowledge of fraud or suspected fraud affecting the Authority involving:
  - management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the financial statements.
- have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the Authority's financial statements communicated by employees, former employees, analysts, regulators or others; and
- have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

We confirm that the presentation and disclosure of the fair value measurements of material assets, liabilities and components of equity are in accordance with applicable reporting standards. The amounts disclosed represent our best estimate of fair value of assets and liabilities required to be disclosed by these standards. The measurement methods and significant assumptions used in determining fair value have been applied on a consistent basis, are reasonable and they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Authority where relevant to the fair value measurements or disclosures.

We confirm that there are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than that already disclosed in the financial statements; and
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements.

Finally, no additional significant post balance sheet events have occurred that would require additional adjustment or disclosure in the financial statements, over and above those events already disclosed.

This letter was tabled at the meeting of the Audit Committee on 23 September 2010.

Yours faithfully

**P Woodward**  
**Chief Executive**  
On behalf of Fylde Borough Council

# REPORT



REPORT OF	MEETING	DATE	ITEM NO
FINANCE	AUDIT COMMITTEE	23 <sup>RD</sup> SEPTEMBER 2010	7

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

### Public Item

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

### Summary

The purpose of the report is to brief the Audit Committee on the project progress made to the end of August 2010 in relation to the introduction of a new financial reporting framework, whereby the accounts for local authorities will be prepared under International Financial Reporting Standards (IFRS), with effect from 2010/11 (1/4/2010).

The majority of the preparatory IFRS work has now been completed, but final detailed guidance from CIPFA is still outstanding and the completion of the final parts of this project are dependant on the receipt of this information.

### Recommendation

1. That the Audit Committee notes the progress on the implementation of the IFRS project.

### Reasons for recommendation

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

### Alternative options considered and rejected

N/A

### Cabinet Portfolio

The item falls within the following Cabinet portfolio:

Finance & Resources

Councillor Karen Buckley

## Report

### **1. Progress to Date**

- 1.1 The background preparatory work on this project was initially scheduled for completion by 30th April 2010. This timescale was extended to 30th June 2010 due to the extensive work that had to be carried out by the temporary project manager at that time. Some of the original tasks were originally underestimated in terms of time required for their detailed review. The main focus of this work has concentrated on:-
- A comprehensive review of Fixed Assets. The valuation of fixed assets as at 31<sup>st</sup> March 2010 was £15.1. As part of the IFRS project each individual asset (circa 400 assets) has been reviewed by the Principal Estates Surveyor and a Senior Accountant in Finance as well as the IFRS Project Manager.
  - The classification of all Fylde leases – splitting them into Finance or Operating Leases has also been reviewed.
- 1.2 The majority of the preparatory IFRS work has now been completed including the preparation of the opening balance sheet as at 01.04.09. The IFRS Project Manager who has worked on implementing the project has now finished her contract and left the Council 30th June 2010. An exit plan was prepared to ensure all outstanding items had been dealt with or handed over to FBC staff for completion.
- 1.3 The IFRS project plan is now approximately 90% complete with the remaining work to be undertaken hopefully within the existing budget provision, the balance of which was slipped from 09/10 into 10/11 to deliver this project. The main areas of work still to be completed are listed below in Table 1.

Table 1

<b>Project Tasks Outstanding/Ongoing</b>		<b>Target Timescales</b>
•	Attend CIPFA technical update	Nov 10
•	Audit of opening Balance Sheet 1/4/09	Dec 10
•	Restatement of 2009/10 accounts in IFRS format	Dec 10
•	Opening IFRS entries to be posted to CIVICA 1/4/2010	Jan 11
•	Re submit Budgets under IFRS	Feb 11
•	Completion of 2010/11 Accounts in IFRS format	June 11
•	Audit of 2010/11 Accounts IFRS	Sept 11
•	Post project evaluation	Sept 11
•	Continuous Updates & Training	Ongoing
•	Annual review for IFRS compliance	Ongoing

- 1.4 As part of the implementation plan training on the implications of the introduction of IFRS was given by the IFRS Project Manager before she left in June. Further training will be ongoing and will remain a continuous process. CIPFA are holding a technical update event later this year which will cover various topics on IFRS including the re-statement of 2009/10 accounts and the componentisation of assets.
- 1.5 Final detailed guidance from CIPFA is still outstanding and the completion of the final parts of this project are dependant on the receipt of this information. We are beginning to get concerned that the final parts of the project may need to be 'crammed' into a few short months in order to hit the statutory deadlines. We will keep Members up to date on this situation.
- 1.6 The opening balance sheet has been restated as at 1 April 2009, and it is envisaged that the audit of the revised balance sheet will be completed by KPMG by December 2010. Any further delay in the receipt of detailed CIPFA guidance may impact on these timescales.
- 1.7 The Project Board continues to have monthly updates to ensure the project is running to plan and adequate resources are provided to ensure project success in the required timescale.

## **2. Work to be undertaken to the end of 2011 (31/03/2011)**

- 2.1 Completion of 2009/10 Statement of Accounts in IFRS format.
- 2.2 Completion of all outstanding items on the Project Plan – the detailed plan is attached at Appendix A – with the key items detailed in Table 1 above.

## **3. Risk Assessment**

- 3.1 Guidance from CIPFA is still outstanding on some IFRS issues so this could cause some delay to the delivery dates set out in the Project Plan. Constant ongoing review for guidance is required and a plan to ensure compliance as appropriate.
- 3.2 Any change of staff within areas of the council that are affected by IFRS. There is a need to ensure knowledge is carried on via detailed training and appropriate handover procedures.
- 3.3 Recent guidance from CIPFA on the componentisation of fixed assets indicates a likely increase in the complexity of carrying out valuation of assets and recording of assets in the Fixed Asset Register.

## **4. Conclusion**

- 4.1 The preparation of the Council's accounts under International Financial Reporting Standards is challenging and will have an impact on how the Council records, analyses and presents financial (and financial related) information. As the detailed guidance becomes available further reports will be presented to Audit Committee, the Portfolio Holder for Finance & Resources, and Management Team as appropriate.

Report Author	Tel	Date	Doc ID
Joanna Scott, s151 Officer for Fylde BC	(01772) 906059	September 2010	

List of Background Papers		
Name of document	Date	Where available for inspection
Briefing Note - Progress Update IFRS Project	Audit Committee March 2010	Council office or website address
Briefing Note - Progress Update IFRS Project	Audit Committee June 2010	Council office or website address

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

## IFRS - Detailed Implementation plan

## APPENDIX A

Tasks and issues for Fylde Borough Council						Deadline	Completed	Person responsible	Review by	Notes	Resources required		
											Internal	External	Cost
PROJECT PLANNING													
1 Identify an IFRS lead and Project Management within the organisation													
1.1 Set up Internal Group to oversee and ensure progress - sufficiently senior to ensure commitment of organisation - Audit Committee and Management Team													
						31/10/2009	31/10/2009	C King	P O'Donoghue	Steering group consists of Paul O'Donoghue, Gary Sams, Claire King	X		
1.1.1 Summary paper to Executive team on process, project plan, resources requirement and potential impact on future decision making						31/10/2009	31/10/2009	C King	P O'Donoghue	Outline of IFRS	X		
a High level review of wider implications involved in change						31/10/2009	31/10/2009	C King	B Hayes	Mainly Fixed Asset focus initially	X		
b Risk assessment, focus on materially affected transactions and arrangements, impact on future costs.						31/10/2009	31/10/2009	C King	P O'Donoghue		X		
c Major impact on decision making - Fixed Assets, Leases etc.						31/08/2009	31/08/2009	C King	P O'Donoghue	Detailed review of all fixed assets and leases completed	X		
d Create a risk register to help assess risk						31/08/2009	31/08/2009	C King	P O'Donoghue	Risk register created	X		
1.1.2 Paper to Audit Committee and/Senior management for support						04/09/2009	04/09/2009	C King	P O'Donoghue	Identify major impacts	X		
a Core brief issued to Management Team						31/10/2009	31/10/2009	C King	P O'Donoghue	Outline of IFRS	X		
b Keep Audit Committee informed on a quarterly basis						Next meeting 29/9/09	04/09/2009	C King	P O'Donoghue	Regular updates	X		
						31/10/2009	31/10/2009	C King	P O'Donoghue	Monthly steering meeting held	X		
c Report to steering group after stakeholder analysis is complete						31/10/2009	31/10/2009	C King	P O'Donoghue		X		
d Reporting structures and timetable with key issues highlighted													
1.2 Identify a Project Manager with IFRS expertise plus broad operational understanding with sufficient 'gravitas' to ensure delivery						31/08/2009	31/08/2009	P O'Donoghue	P O'Donoghue	Resource shared with Preston City council	X	X	
1.3 Ensure all affected functions are involved in the project planning and project itself, e.g., Accountancy, Human Resources, Legal, Procurement, System Development (Civica), Property, Management Team and Internal Audit etc.						30/09/2009	30/09/2009	C King	P O'Donoghue	Provide point of contact for Accountancy, HR, Payroll, Communications, Risk, Internal Audit and Estates	X		
1.4 Internal Audit involvement													
1.4.1 Risk management, expertise, involve from the outset						31/01/2010	31/01/2010	Risk manager	P O'Donoghue	Identify major business risks	X		
1.4.1 Evidence of materiality on adoption/non adoption for all balance sheet items						31/10/2009	31/10/2009	C King	P O'Donoghue	Review all standards for adoption/non adoption - template for each standard	X		
Consider allocated resources across all functions - Accountancy, Human Resources, Legal, Procurement, System Development, Property, Management Team and Internal audit													
2													
2.1 Identify, evaluate and quantify resource requirement						31/10/2009	31/10/2009	C King	P O'Donoghue	Resource at current stage adequate	X		
2.1.1 Staff time and expertise in relevant areas													
										1 parttime project manager for 8 weeks, additional resource provided from current staff - business as usual	X	Project Manager 40 hrs/wk for 7	
a Number required, skill levels and gaps, other commitments!						31/08/2009	31/08/2009	Relevant AD	P O'Donoghue				
										Ensure availability and commitment to implement changes - at present sufficient	X		
b In house availability of relevant staff						31/08/2009	31/08/2009	Relevant AD	P O'Donoghue				
										Assess training requirement and provide documentation on relevant standards. Training needs analysis to be undertaken - timetable issued 4/9/09	X		
c Ensure adequate training/understanding provided						04/09/2009	04/09/2009	C King	P O'Donoghue				
2.1.2 External support - CIPFA													
a Regular updates provided by CIPFA						30/06/2010		D Bennett	P O'Donoghue	Final Guidance not yet available		X	
b Other providers						30/06/2010		D Bennett	P O'Donoghue	Final Guidance not yet available		X	
2.2 Identify impact on other work/commitments													
a Transition to new systems or procedure changes						30/09/2009	30/09/2009	C King	P O'Donoghue	Consider fixed asset database	X		
b Other issues/concerns						31/01/2010	31/01/2010	C King	P O'Donoghue	None identified - Ongoing	X		
2.3 Include review by IFRS Project manager						31/01/2010	31/01/2010		C King	Review issues	X		

Continued....



## IFRS - Detailed Implementation plan

## APPENDIX A

Tasks and issues for Fylde Borough Council	Deadline	Completed	Person responsible	Review by	Notes	Resources required		
						Internal	External	Cost
<b>Obtain, read and understand all up to date current guidance for transitional arrangements to IFRS from CIPFA</b>								
3.1 Gather together all available guidance, CIPFA, Treasury, Firms' websites, Google	31/01/2010	30/06/2010	C King	P O'Donoghue	Guidance provided very late by CIPFA		X	
3.1.1 Read and understand guidance and implications to Fylde Borough Council	31/12/2009	31/12/2009	C King	P O'Donoghue	Ensure weekly checks for guidance updates are completed and documented	X		
3.2 Identify network groups, discussion forums,								
3.2.1 Join in consultations and working groups	31/01/2010	30/06/2010	C King	P O'Donoghue	Appraise others of updates effecting Fylde Council	X	X	
3.3 Lessons learnt from other IFRS implementations								
3.3.1 Prepare good quality, detailed working papers for audit commission	28/02/2010	30/06/2010	C King	P O'Donoghue	With Paul Swindells/D Appleton			
3.3.2 Start the process as soon as possible								
3.3.3 Ensure all relevant staff are well briefed on the project plan and its aims	14/09/2009	14/09/2009	C King	P O'Donoghue	Scheduled in with relevant staff	X		
<b>4 Produce detailed and realistic timetable and action plans</b>								
4.1 Separate Work Plans for different areas if required								
Accountancy Services	28/02/2010	30/06/2010	C King	P O'Donoghue	Ensure each department has detailed plan with timescale and effect mapped in, to ensure project is on plan and any slippages are reportable	X		
Risk		30/06/2010	C King	P O'Donoghue	No specific plan required	X		
Communications		30/06/2010	C King	P O'Donoghue	No specific plan required	X		
Human Resources		30/06/2010	C King	P O'Donoghue	No specific plan required	X		
Asset Management	05/12/2009	05/12/2009	C King	P O'Donoghue	Detailed plan exists - see property plan	X		
Property	05/12/2009	05/12/2009	C King	P O'Donoghue	Detailed plan exists - see property plan	X		
<b>5 Organisation kept informed - Accountancy, Management Teams, Audit Committee, etc.</b>								
5.1 Communicate	31/01/2010	30/06/2010	C King	P O'Donoghue	Suggest monthly steering meeting with stakeholders. Possible IFRS site on local intranet			
5.2 Provide High level report on current position								
5.2.1 Accountancy - weekly updates	31/01/2010	30/06/2010	C King	P O'Donoghue	Ongoing - Project management on site weekly	X		
5.2.2 Management Teams - monthly updates - brief notes issued	31/01/2010	30/06/2010	C King	P O'Donoghue	Ongoing	X		
5.2.3 Internal Audit - monthly updates for review - brief notes issued	31/01/2010	30/06/2010	C King	P O'Donoghue		X		

## IFRS - Detailed Implementation plan

## APPENDIX A

Tasks and issues for Fylde Borough Council		Deadline	Completed	Person responsible	Review by	Notes	Resources required		
							Internal	External	Cost
COMMUNICATION AND TRAINING									
6 Assessed impact of IFRS on your own organisation									
6.1 Accounting									
6.1.1 Analyse current balance sheet as at 31 March 2009		31/08/2009	31/08/2009	C King	P O'Donoghue	For materiality and current accounting policies/procedures	X		
Identify applicable standards		30/09/2009	30/09/2009	C King	P O'Donoghue	Training being prepared	X		
6.2 Governance - Accountability for consistent, cohesive policies, processes and decision rights									
6.3 Financial Statements produced in accordance with IFRS standards		31/01/2010	30/06/2010	C King	P O'Donoghue	Check with key stakeholders	X		
6.4 Review of all Fylde Borough City Council policy and procedures documentation		28/02/2010	30/06/2010	C King	P O'Donoghue	Check with key stakeholders	X		
		31/01/2010	15/01/2010	C King	P O'Donoghue	Check with key stakeholders	X		
7 Training									
7.1 Develop Training strategy and plan									
7.1.1 Staff group (Accountancy, HR, Legal, Procurement, System Development, Property, Management Team and Internal audit) once training requirements established		11/09/2009	30/09/2009	C King	P O'Donoghue	Communicate impacts to users when identified and ensure documented.	X		
7.2 Training Delivered									
7.2.1 Training for non-finance staff		05/12/2009	05/12/2009	C King	P O'Donoghue	High level training identified & delivered	X		
7.2.2 Own internal training programme delivered to Finance staff		05/12/2009	05/12/2009	C King	P O'Donoghue	Complex, detailed training identified	X		
7.2.3 Expert training programme delivered to principal/senior accountants		05/12/2009	05/12/2009		P O'Donoghue	Offered to finance staff		X	
7.2.3 Other ad-hoc external training courses undertaken by permanent staff		05/12/2009	05/12/2009		P O'Donoghue	Offered to finance staff		X	
8 Presentation to audit committee									
8.1 Identify different disclosure requirements and decide/consult on best form of presentation and presentation along with any relevant issues		09/09/2009	04/09/2009	C King	P O'Donoghue	Audit committee meeting 29/9/09 to present key points	X		

## IFRS - Detailed Implementation plan

## APPENDIX A

Tasks and issues for Fylde Borough Council	Deadline	Completed	Person responsible	Review by	Notes	Resources required		
						Internal	External	Cost
SYSTEM AND PROCESS								
9 Identify new data requirements								
9.1 Employee Benefits - Including all short term benefits such as annual leave and flexi time								
9.1.1 Holiday Pay								
a Materiality - Need to be able to prove to Audit Commission	05/12/2009	05/12/2009	C King	P O'Donoghue	relevant sums calculated	X		
b Determine financial impact of first year adoption	28/02/2010	28/02/2010	C King	P O'Donoghue	relevant sums calculated	X		
9.1.2 Flexi Time								
a Materiality - Need to be able to prove to Audit Commission	05/12/2009	05/12/2009	C King	P O'Donoghue	relevant sums calculated	X		
b Determine financial impact of first year adoption	28/02/2010	28/02/2010	C King	P O'Donoghue	relevant sums calculated	X		
9.2 Disclosures notes for the accounts	31/12/2010		D Bennett	P O'Donoghue	Notes to accounts will need re-wording when final guidance has been issued	X		
9.3 Fixed Assets								
a Spreadsheet review of assets	28/02/2010	28/02/2010	C King	P O'Donoghue	Changes to be made to current fixed asset register	X		
9.4 Internal reporting changes	28/02/2010	28/02/2010	C King	P O'Donoghue	Detailed review to be under-taken and changes as required on internal reporting e.g. budgets	X		
9.4.1 Involve Management Accounts	28/02/2010	28/02/2010	C King	P O'Donoghue	Make sure all relevant reporting is reviewed	X		
9.5 Chart of Accounts								
9.5.1 Consider changes required to Cirvica (General ledger)	31/12/2010		D Bennett	P O'Donoghue	Thorough review to be under-taken and changes as required once guidance is issued	X		
10 Conduct Cost Benefit Analysis								
10.1 Does cost of collecting data represent VFM - Audit view?	28/02/2010	28/02/2010	C King	P O'Donoghue	None identified	X		
11 Identified cost effective System changes to meet new data requirements								
11.1 Fixed Asset Systems - adaptations required etc.	30/09/2009	30/09/2009	C King	P O'Donoghue	No changes required - process adequate	X		
11.2 Internal Reporting Systems - does it incorporate IFRS requirements	31/01/2010	28/02/2010	C King	P O'Donoghue	To be improved - ongoing	X		
12 Implemented System changes								
12.1 Fixed Asset System adaptations etc.	28/02/2010	28/02/2010	C King	P O'Donoghue	Full fixed asset review underway	X		
12.2 Internal Reporting Systems - how do they support IFRS	28/02/2010	28/02/2010	C King	P O'Donoghue	Full fixed asset review underway	X		
13 Test System changes								
14 Make, Design and implement revised internal controls								
14.1 Corporate Governance						X		
14.1.1 Identified as Risk in Assurance Framework	28/02/2010	28/02/2010	C King	P O'Donoghue	To be identified and implemented	X		
14.1.2 Implement system changes for start date of IFRS compliance	28/02/2010	28/02/2010	C King	P O'Donoghue	Ensure system changes are working prior to implementation date of 1/4/2010	X		
15 Health check on Accounting Policies								
15.1 Guidance on Accounting Policies UK GAAP/SORP	28/04/2009	28/04/2009	C King	P O'Donoghue	Initial briefing paper supplied	X		
15.2 Further guidance/updates on IFRS to be provided by CIPFA	Ongoing		D Bennett	P O'Donoghue	Final Guidance not yet available		X	
16 Assess impact on Management and Departmental reporting in 2009-10	28/02/2010	28/02/2010	C King	P O'Donoghue	None identified in 2009/10	X		
17 Detailed work plan constructed								
17.1 If required on an ad hoc basis for areas not previously identified			D Bennett	P O'Donoghue	Detailed plan involving relevant stakeholders as required	X		
18 Ensure up to date Issue log is maintained	28/02/2010	30/06/2010	C King	P O'Donoghue		X		

## IFRS - Detailed Implementation plan

## APPENDIX A

Tasks and issues for Fylde Borough Council		Deadline	Completed	Person responsible	Review by	Notes	Resources required		
							Internal	External	Cost
AREA SPECIFIC ISSUES AND PLANS									
19 Accountancy									
19.1 Identify all current PFI schemes - if applicable		30/09/2009	30/09/2009	C King	P O'Donoghue	None applicable	X		
19.1.1 Assess impact by scheme		30/09/2009	30/09/2009	C King	P O'Donoghue	None applicable	X		
19.1.2 Explanation of scheme to ensure compliance (accounting & reporting)		30/09/2009	30/09/2009	C King	P O'Donoghue	None applicable	X		
19.2 Property Plant and equipment - Revaluations and impairments									
19.2.1 Analyse all fixed Assets		28/02/2010	28/02/2010	C King	P O'Donoghue	Initial analysis complete	X		
19.2.2 Acquire documentation		28/02/2010	28/02/2010	C King	P O'Donoghue	Preliminary study underway	X		
a Cast your net wide, involve whole organisation, ex-employees now working elsewhere, solicitors, past and present, you never know who might know where relevant papers are		28/02/2010	28/02/2010	C King	P O'Donoghue	Compile schedule of all assets on the books and complete review of fixed asset register for IFRS compliance.	X		
b Leases (Finance) to be split between Land and Buildings elements - this will require estates involvement		28/02/2010	28/02/2010	C King	P O'Donoghue	Accurate valuation will be required	X		
c Identify building elements		28/02/2010	28/02/2010	C King	P O'Donoghue	Work with property to evaluate land/build split.	X		
d Identify material elements of property as separate assets		28/02/2010	28/02/2010	C King	P O'Donoghue	Work with property to evaluate land/build split.	X		
19.3 Initial implementation issues - Timetable and restatement issues.							X		
19.3.1 Establish timetable		31/08/2009	31/08/2009	C King	P O'Donoghue	Detailed timetable to be established - ongoing updates	X		
19.3.2 Further updates		30/06/2010	30/06/2010	C King	P O'Donoghue	Ongoing updates	X		
19.3.3 Ensure Key Dependencies are included		30/06/2010	30/06/2010	C King	P O'Donoghue	Ongoing updates	X		
19.4 Budget process to be re-aligned with IFRS		31/01/2010	31/01/2010	C King	P O'Donoghue	Further guidance for 2010/11 required	X		
19.5 Early Retirements and Discount rates		28/02/2010	28/02/2010	C King	P O'Donoghue	calculations completed	X		
19.6 Financial instruments									
19.6.1 Embedded derivatives		31/01/2010	31/01/2010	C King	P O'Donoghue	Not used at FBC	X		
19.7 Consider implications of obligations under Section 106 agreements following planning approval		31/01/2010	31/01/2010	C King	P O'Donoghue		X		
20 Human Resources									
20.1 Employee benefits									
20.1.1 Consider the cost of providing employee benefits should be recognised in the period in which the benefit is earned by the employee rather than when it is paid or payable Main example - Holiday Pay Accrual, Flexi time accrued and Long term sickness		31/01/2010	31/01/2010	C King	P O'Donoghue	relevant sums calculated	X		
21 Legal									
To be identified if required		30/06/2010	30/06/2010	C King	P O'Donoghue	no specific requirements			
22 Procurement									
To be identified if required		30/06/2010	30/06/2010	C King	P O'Donoghue	no specific requirements			
23 System Development									
To be identified if required		30/06/2010	31/01/2011	D Bennett	P O'Donoghue				

## IFRS - Detailed Implementation plan

## APPENDIX A

Tasks and issues for Fylde Borough Council	Deadline	Completed	Person responsible	Review by	Notes	Resources required		
						Internal	External	Cost
<b>24 Property</b>								
<b>Leases (Lessee/Lessor - remember both)</b>								
24.1 Identify all Lessee lease arrangements	28/02/2010	28/02/2010	C King	P O'Donoghue	Compile schedule with Estates on every property in portfolio	X		
24.1.1 Traditional' UK GAAP Leases	28/02/2010	28/02/2010	C King	P O'Donoghue		X		
24.1.2 Lease arrangements under IFRS (transitional) for Lessee	28/02/2010	28/02/2010	C King	P O'Donoghue	Consider 'Arms length' transactions	X		
24.2 Acquire all relevant Lessee documentation	28/02/2010	28/02/2010	C King	P O'Donoghue		X		
24.2.1 Ensure all Lessee lease documentation is correctly reflected for IFRS	28/02/2010	28/02/2010	C King	P O'Donoghue		X		
24.3 Establish whether Finance or Operating lease for Lessee	28/02/2010	28/02/2010	C King	P O'Donoghue	assessment completed	X		
24.3.1 Review Lessee Lease to determine treatment	28/02/2010	28/02/2010	C King	P O'Donoghue	assessment completed	X		
24.4 Assess impact of IFRS								
24.4.1 a List leases/category of lease Operating/Finance for Lessee	28/02/2010	28/02/2010	C King	P O'Donoghue	assessment completed	X		
b Establish discount factors/Interest rate for Lessee	28/02/2010	28/02/2010	C King	P O'Donoghue	calculations completed	X		
c Recalculate if required	28/02/2010	28/02/2010	C King	P O'Donoghue	calculations completed	X		
24.5 Identify all Lessor lease arrangements	28/02/2010	28/02/2010	C King	P O'Donoghue	Compile schedule with Estates on every property in portfolio	X		
24.5.1 Traditional' UK GAAP Leases	28/02/2010	28/02/2010	C King	P O'Donoghue		X		
24.5.2 Lease arrangements under IFRS (transitional) for Lessor	28/02/2010	28/02/2010	C King	P O'Donoghue	Consider 'Arms length' transactions	X		
24.6 Acquire all relevant Lessor documentation	28/02/2010	28/02/2010	C King	P O'Donoghue		X		
24.6.1 Ensure all Lessor lease documentation is correctly reflected for IFRS	28/02/2010	28/02/2010	C King	P O'Donoghue		X		
24.7 Establish whether Finance or Operating lease for Lessor	28/02/2010	28/02/2010	C King	P O'Donoghue		X		
24.7.1 Review Lessor Lease to determine treatment	28/02/2010	28/02/2010	C King	P O'Donoghue	Compile schedule of all current leases on the books	X		
24.8 Assess impact of IFRS								
24.8.1 a List leases/category of lease Operating/Finance for Lessor	28/02/2010	28/02/2010	C King	P O'Donoghue	Determine operating/finance lease	X		
b Establish discount factors/Interest rate for Lessor	28/02/2010	28/02/2010	C King	P O'Donoghue	Will this come from CIPFA as a global instruction to all Councils	X		
c Recalculate if required	28/02/2010	28/02/2010	C King	P O'Donoghue	Develop model to perform recalculation and use for all new leases	X		

## IFRS - Detailed Implementation plan

## APPENDIX A

Tasks and issues for Fylde Borough Council	Deadline	Completed	Person responsible	Review by	Notes	Resources required		
						Internal	External	Cost
KEY FUTURE MILESTONES								
25 2008-09 Financial Statements restated under IFRS 25.1 Restatement of Balance Sheet 31/03/2009 on an IFRS basis 25.2 Audit of re-stated balance sheet 25.3 Restatement of Financial Statements								
	30/06/2010	30/06/2010	D Bennett	P O'Donoghue	draft format completed	X		
	31/12/2010		D Bennett/KPMG	P O'Donoghue				
	31/12/2010		D Bennett	P O'Donoghue	Final Guidance not yet available	X		
26 CIPFA technical update course	30/11/2010		D Bennett	P O'Donoghue				
27 2009-10 Financial Statements produced 2009-10 Financial Statements produced under UK GAAP/SORP 2009-10 Financial Statements produced under IFRS	31/12/2010		D Bennett	P O'Donoghue		X		
	31/12/2010		D Bennett	P O'Donoghue		X		
28 Opening IFRS entries posted to CIVICA	31/01/2011		D Bennett	P O'Donoghue				
29 2010-11 Management Information produced under IFRS	31/03/2011		P O'Donoghue	P O'Donoghue	Ongoing	X		
					Transfer of accounting and monitoring onto IFRS basis	X		
30 2010-11 Financial Statements to be produced under IFRS	30/06/2011		D Bennett	P O'Donoghue	Transfer of accounting and monitoring onto IFRS basis	X		
31 Clean bill of health from Auditors	30/09/2011		D Bennett/KPMG	P O'Donoghue			X	
32 Post Project Evaluation	31/12/2011		D Bennett	P O'Donoghue		X		

# REPORT



REPORT OF	MEETING	DATE	ITEM NO
INTERNAL AUDIT	AUDIT COMMITTEE	23 SEP 2010	8

## EFFECTIVENESS OF INTERNAL AUDIT

### Public Item

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

### Summary

The internal audit function is considered to be a key indicator in providing assurance on internal control. A review of internal audit effectiveness is required as part of satisfying the overall governance arrangements in local authorities and supports the Council's Annual Governance Statement. The report presents the findings of a self assessment exercise in relation to the effectiveness of internal audit and makes certain recommendations for improvement.

### Recommendations

1. The Committee notes the findings of the review on the effectiveness of internal audit and confirms the conclusion that there is substantial compliance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.

### Reasons for recommendation

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

### Alternative options considered and rejected

No other course of action is advocated.

### Cabinet Portfolio

Finance & Resources

Councillor Karen Buckley

## **Report**

### **1 Introduction**

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

1.2 Internal audit is one of the key areas of assurance for the Audit Committee and therefore has a significant impact on the Council’s Annual Governance Statement. It is important that the Audit Committee can be assured that Internal Audit itself is effective.

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

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

Year 1 – Assessment by external audit

Year 2 – Self assessment via the checklist with independent evaluation

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

1.5 It is considered that Year 3 of this cycle has now been reached and consequently a ‘light touch’ self assessment exercise has been carried out. There were no actions outstanding from previous reviews.

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

2.1 The CIPFA Code of Practice for Internal Audit checklist (see Appendix 1) has been completed essentially indicating full or partial compliance with the Code.

2.2 Where the few responses of “Partial” compliance are given, they contain caveats explaining the relevant circumstances or reflect areas that are not considered to materially detract from the effectiveness of the system of Internal Audit in the Council. Not all areas have to be ticked as “yes” to be rated as compliant with the Code

2.3 The Code of Practice contains eleven standards as follows:

- ♦ Scope of Internal Audit
- ♦ Independence
- ♦ Ethics for Internal Auditors
- ♦ Audit Committees
- ♦ Relationships
- ♦ Staffing, Training and Development
- ♦ Audit Strategy and Planning
- ♦ Undertaking Audit Work
- ♦ Due professional care
- ♦ Reporting
- ♦ Performance, Quality and Effectiveness



**Standard 1 - Scope of internal audit**

The overall scope of Internal Audit should be formally defined by the organisation in terms of reference consistent with the CIPFA Code. A revised Internal Audit Terms of Reference has been submitted for approval by the Audit Committee. This document meets all the requirements of the code.

**Standard 2 - Independence**

The CIPFA Code states that Internal Audit should be independent of the activities that it audits to enable auditors to perform their duties in a way that allows them to make impartial and effective professional judgements and recommendations. Furthermore it stresses that internal auditors should not have any operational responsibilities.

Currently the Head of Internal Audit has indirect managerial responsibility for the Insurance and Risk Management function and also acts as liaison officer for the Benefit Fraud shared service. It is considered that by the nature of these functions there is no adverse impact on the independence of Internal Audit.

The arrangements in place ensure the independence of the audit team complies with the Code.

**Standard 3 - Ethics for internal auditors**

The Code sets the minimum standards for the performance and conduct of all internal auditors. It requires all internal audit staff to comply with ethical codes issued by professional institutes of which they are members or student members and any organisational codes of ethics or conduct.

The review concluded that Internal Audit generally complies with this standard. The Internal Audit Manager ensures that auditors are regularly reminded of their ethical responsibilities and ensure that the principles of integrity, objectivity, competence and confidentiality are upheld. This is evidenced through the completion of declarations of adherence to the Internal Audit Code of Ethics and the Employees Code of Conduct.

The only possible issue was the inability to rotate audit staff between jobs to ensure they cover different areas on an annual basis. The smallness of audit team makes this impractical.

**Standard 4 - Audit Committee**

The review concluded that Internal Audit complies fully with the standard. In particular Internal Audit maintains an effective working relationship with the Audit Committee, and the Audit Committee approves both the audit strategy and annual plan and monitors progress against them.

**Standard 5 - Relationships**

Internal Audit is involved in a wide range of internal and external relationships. The quality of these relationships impacts on the effective delivery of the audit function, its reputation and independence. The review concluded that Internal Audit generally complies with this standard. Joint working on shared services with other internal audit teams operates effectively.

**Standard 6 – Staffing, Training and Development**

For staffing, the CIPFA code stresses that Internal Audit should be appropriately resourced to meet its objectives and have appropriate 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 to comply with these standards. The review found that Internal Audit complied with the standard.

**Standard 7 – Audit Strategy and Planning**

The CIPFA code indicates that the Internal Audit Manager must produce an audit strategy which sets out at a high-level how the internal audit service will be delivered and developed in accordance with the terms of reference and how it links to the organisational objectives and priorities.

A revised Internal Audit Strategy has been submitted for approval by the Audit Committee. This document meets all the requirements of the code.

The Code requires the Internal Audit Manager to prepare a risk-based audit plan designed to implement the audit strategy. The review concluded that Internal Audit had met this part of the standard.

#### ***Standard 8 – Undertaking Audit Work***

The Code sets out the requirements for the planning, approach and recording of audit assignments. The review found that the undertaking of internal audit work met the requirements of the Code.

#### ***Standard 9 – Due Professional Care***

Due professional care is defined within the Code as working with competence and diligence; the use of audit skills, knowledge and judgement based on appropriate experience, training, ability, integrity and objectivity; and respecting and understanding confidentiality. The review found that Internal Audit has complied with this standard.

#### ***Standard 10 – Reporting***

The Code states that the primary purpose of Internal Audit reporting is to communicate to management information that provides an independent and objective opinion on the control environment and risk exposure. The report should provide information that prompts management to implement agreed actions. The review concluded that Internal Audit has complied with this standard.

#### ***Standard 11 – Performance, Quality and Effectiveness***

The Code states that Internal Audit should establish policies and procedures in an audit manual to guide staff in performing their duties and complying with this Code. This requirement has been achieved.

The Audit Procedure Manual has been updated in 2010 and reflects changes in current working practices and standards. In terms of performance management, a range of indicators and targets have been developed following consultation with stakeholders.

### **3 Performance**

3.1 During the year an exercise was carried out to canvass the views of stakeholders in developing a new suite of performance indicators for internal audit. This was one of the enhancements to arrangements arising from the 2009 review of internal audit effectiveness.

3.2 Actual performance against target is summarised below for 2009/10. No data is available for 2009/10 in relation to two of the three new indicators adopted but figures will be reported for 2010/11 and subsequently.

#### **Performance Indicators for Internal Audit**

<b>Performance Indicator</b>	<b>Target 2009/10</b>	<b>Actuals 2009/10</b>
% of audit plan completed	90%	94%
% satisfaction rating indicated by post-audit surveys	90%	92%
% of audit recommendations agreed with management	n/a	n/a
% of agreed actions implemented by management	90%	92%
% of 'High Priority' actions implemented by management	n/a	100%

% of 'High/Medium Priority' actions implemented by management	95%	93%
% of recommendations implemented by the first agreed date	n/a	n/a

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

## 4 Benchmarking – Costs

4.1 Internal Audit participates in the Lancashire District Councils benchmarking exercise on an annual basis. This compares our performance and data with other participating district authorities. The details are summarised below:

### Costs Indicators for Internal Audit

Cost Indicator 2009	FBC	Lancs Average	National Average
Cost per £M gross turnover	£2,605	£2,278	£2,540
Cost per chargeable day	£255	£253	£313
Staff cost per auditor	£32,614	£32,535	£38,700
Overhead cost per auditor	£10,650	£8,853	£12,634
Cost per auditor	£43,264	£41,387	£55,011

4.2 The main findings were that costs in general for 2009 were on a par with the Lancashire average but were considerably below the national average for district councils.

## 5 Risk Assessment

5.1 There are some minor risks associated with the actions referred to in this report. Appropriate amendments have been made to the directorate operational risk register to accommodate these risks where necessary.

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

List of Background Papers		
Name of document	Date	Where available for inspection

<ul style="list-style-type: none"> <li>♦ The Accounts and Audit Regulations 2006</li> <li>♦ CIPFA Code of Practice for Internal Audit in Local Government (including effectiveness checklist)</li> <li>♦ Head of Internal Audit's 2009/10 Annual Report presented to June 2010 Audit Committee</li> <li>♦ The report on the Annual Governance Statement presented to the June 2010 Audit Committee</li> <li>♦ Periodic progress reports during 2009/10 on the audit plan, to various meetings of the Audit Committee</li> <li>♦ KPMG's Interim Audit Report (including Review of Internal Audit)</li> </ul>	2006	All background papers or copies can be obtained from Savile Sykes – Head of Internal Audit on 01253 658413 or e-mail <a href="mailto:saviles@fylde.gov.uk">saviles@fylde.gov.uk</a>
	24 June 2010	Agendas and minutes of the Audit Committee are available online at <a href="http://www.fylde.gov.uk">www.fylde.gov.uk</a>
	24 June 2010	
	5 June 2008	

### Attached documents

1. Checklist – Compliance with the Code of Practice for Internal Audit

IMPLICATIONS	
Finance	<p>The Accounts and Audit Regulations 2003 require the Council to ensure that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.</p> <p>The report also contributes towards the production of the Annual Governance Statement which forms part of the Financial Statements of the Annual Accounts published each year by the Council.</p>
Legal	No specific implications
Community Safety	No specific implications
Human Rights and Equalities	No specific implications
Sustainability and Environmental Impact	No specific implications
Health & Safety and Risk Management	Internal audit work covers key areas of risk and should therefore strengthen the internal control framework. This report reviews the effectiveness of internal audit's contribution.

## CHECKLIST – COMPLIANCE WITH THE CODE 2010

Ref	Adherence to Standard	Y	P	N	Evidence
<b>1</b>	<b>Scope of Internal Audit</b>				
<b>1.1</b>	<b>Terms of Reference</b>				
1.1.1	<p>Do terms of reference:</p> <p>(a) establish the responsibilities and objectives of Internal Audit?</p> <p>(b) establish the organisational independence of Internal Audit?</p> <p>(c) establish the accountability, reporting lines and relationships between the Head of Internal Audit and:</p> <p>(i) those charged with governance?</p> <p>(ii) those parties to whom the Head of Internal Audit may report?</p> <p>(d) recognise that Internal Audit's remit extends to the entire control environment of the organisation?</p> <p>(e) identify Internal Audit's contribution to the review of the effectiveness of the control environment?</p> <p>(f) require and enable the Head of Internal Audit to deliver an annual audit opinion?</p> <p>(g) define the role of Internal Audit in any fraud-related or consultancy work (see also 1.3.2)?</p> <p>(h) explain how Internal Audit's resource requirements will be assessed?</p> <p>(i) establish Internal Audit's right of access to all records, assets, personnel and premises, including those of partner organisations, and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities?</p>	<p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p>			Included in Financial Regulations and IA Terms of Reference
1.1.2	Does the Head of Internal Audit advise the organisation on the content and the need for subsequent review of the terms of reference?	✓			Head of Internal Audit advises the Audit Committee on any changes required to the terms of reference
1.1.3	Have the terms of reference been formally approved by the organisation?	✓			Internal Audit Charter (now TOR) originally adopted September 2002 and a revised version approved by Performance Improvement Forum (pre-Audit Committee) in November 2005. Subsequent

					amendments have not been significant but have been approved by CMT. However, it would be worthwhile bringing a refreshed document for endorsement of the present Audit Committee.
1.1.4	Are the terms of reference regularly reviewed?	✓			Reviewed on an annual basis
<b>1.2</b>	<b>Scope of Work</b>				
1.2.1	Are the organisation's assurance, risk management arrangements and monitoring mechanisms taken into account when determining Internal Audit's work and where effort should be concentrated?	✓			Audit plan developed on a risk basis and conducts its own risk assessment. Account is taken of the Council's Strategic Risk Register but Operational Risk Registers are not yet fully reliable.
1.2.2	Where services are provided in partnership has the Head of Internal Audit identified: (a) how assurance will be sought? (b) Agreed access rights where appropriate?	n/a			Internal audit services provided by in-house team
<b>1.3</b>	<b>Other Work</b>				
1.3.1	Where Internal Audit undertakes consultancy and/or fraud and corruption work, does it have the: (a) skills, and  (b) resources to do this?	✓  ✓			Internal audit has extensive experience in the area of fraud both proactively in terms of prevention and publicity and reactively in terms of investigation. Advice on a range of topics has been provided to management in a consultancy-style capacity and also in 2009 to external audit on a procedural issue. A contingency provision for reactive fraud and consultancy is allowed for in the annual plan
1.3.2	Do the terms of reference define Internal Audit's role in: (a) fraud and corruption? (b) consultancy work?	✓			The terms of reference cover both points
<b>1.4</b>	<b>Fraud and Corruption</b>				
1.4.1	Has the Head of Internal Audit made arrangements, within the organisation's anti-fraud and anti-corruption policies, to be notified of all suspected or detected	✓			The Anti-fraud & corruption Policy & Strategy and the Whistleblowing Policy are on the Intranet and contain

	fraud, corruption or impropriety?				guidance on notifying internal audit of suspected fraud, corruption or impropriety.
<b>2</b>	<b>Independence</b>				
<b>2.1</b>	<b>Principles of Independence</b>				
2.1.1	Is Internal Audit: (a) independent of the activities it audits? (b) free from any non-audit [operational] duties?		✓		The HIA has indirect managerial responsibility for the Insurance and Risk Management function and also acts as liaison officer for the Benefit Fraud shared service
1.4.1	Where internal audit staff have been consulted during system, policy or procedure development, are they precluded from reviewing and making comments during routine or future audits?		✓		Internal audit offers all advice and consultation without prejudice to any later review of the area. HIA will review situation and the decision to preclude or not will be based on the nature of the consultation / involvement with the issue.
<b>2.2</b>	<b>Organisational Independence</b>				
2.2.1	Does the status of Internal Audit allow it to demonstrate independence?	✓			Internal audit has direct reporting lines to Chief Executive, Section 151 Officer and Audit Committee. All reports are in the name of HIA. Head of Internal Audit.
2.2.2	Does the Head of Internal Audit have direct access to: (a) officers? (b) members?	✓			As 2.2.1 above
2.2.3	Does the Head of Internal Audit report in his/her own name to members and officers?	✓			As 2.2.1 above
2.2.4	(a) Is there an assessment that the budget for Internal Audit is adequate? (b) Does any budget delegated to service areas ensure that: i) Internal Audit adherence to the Code is not compromised? ii) the scope of Internal Audit is not affected? iii) Internal Audit can continue to provide assurance for the Annual Governance Statement?	✓ n/a			Annual budgetary review Not applicable. Managers do not have delegated budgets to procure their own IA services. They have to utilise the corporate IA Service.

<b>2.3</b>	<b>Status of the Head of Internal Audit</b>				
2.3.1	Is the Head of Internal Audit managed by a member of the corporate management team?	✓			Reports to the Head of Governance who is a member of CMT as Monitoring Officer
<b>2.4</b>	<b>Declarations of Interest</b>				
2.4.1	Do audit staff make formal declarations of interest?	✓			Audit staff make annual declaration to abide by the IA Code of Ethics which requires declarations of interest
2.4.2	Does the planning process take account of the declarations of interest registered by staff?	✓			No declarations registered to date. If a significant conflict of interest was declared audit member concerned would not be allocated to that area.
<b>3</b>	<b>Ethics for Internal Auditors</b>				
<b>3.1</b>	<b>Purpose</b>				
3.1.1	Does the Head of Internal Audit regularly remind staff of their ethical responsibilities?	✓			As 2.4.1 above
<b>3.2</b>	<b>Integrity</b>				
3.2.1	Has the internal audit team established an environment of trust and confidence?	✓			The 2009 biennial staff survey indicated that 82% of staff would be confident about reporting suspicions of fraud to internal audit.  Client satisfaction surveys indicate excellent feedback regarding auditors' professionalism.
3.2.2	Do internal auditors demonstrate integrity in all aspects of their work?	✓			All audit staff abide by the IA Code of Ethics which requires integrity, truthfulness and honesty. IA is regularly asked by management to participate in confidential matters requiring integrity
<b>3.3</b>	<b>Objectivity</b>				
3.3.1	Are internal auditors perceived as being objective and free from conflicts of	✓			Acknowledged as undertaking an independent



	interest?				appraisal function
3.3.2	Is a time period set by the Head of Internal Audit for staff where they do not undertake an audit in an area where they have had previous operational roles?		✓		This has not arisen to date. Arrangements are not formalised but if an auditor had had previous operational responsibility the HIA would take appropriate action to minimise the risk of conflict.
3.3.3	Are staff rotated on regular/annually audited areas?			✓	Limitations due to smallness of audit team also some jobs require a level of expertise gained from knowledge of the system.
<b>3.4</b>	<b>Competence</b>				
3.4.1	Does the Head of Internal Audit ensure that staff have sufficient knowledge of: (a) the organisation's aims, objectives, risks and governance arrangements? (b) the purpose, risks and issues of the service area? (c) the scope of each audit assignment? (d) relevant legislation and other regulatory arrangements that relate to the audit?	✓ ✓ ✓ ✓			AGS and SRM Action Plans circulated to team IA Team meetings, pre-audit meetings, announcement letter, wash up sessions Audit programmes, checklists, assignment briefings
<b>3.5</b>	<b>Confidentiality</b>				
3.5.1	Do internal audit staff understand their obligations in respect to confidentiality?	✓			Audit staff make annual declaration to abide by the IA Code of Ethics which requires adherence to strict standards of confidentiality
<b>4</b>	<b>Audit Committees</b>				
<b>4.1</b>	<b>Purpose of the Audit Committee</b>				
4.1.1	Does the organisation have an independent audit committee?	✓			Full Audit Committee operational since October 2006
<b>4.2</b>	<b>Internal Audit's Relationship with the Audit Committee</b>				
4.2.1	Is there an effective working relationship between the audit committee and Internal Audit?	✓			Audit Committee workplan contains various internal audit agenda items. Audit training sessions run by HIA have been well received.

4.2.2	Does the committee approve the internal audit strategy and monitor progress?	✓			Internal Audit Strategy approved September 2010
4.2.3	Does the committee approve the annual internal audit plan and monitor progress?	✓			Internal Audit annual plan approved April 2010. Monitoring reports presented to Audit Committee.
4.2.4	Does the Head of Internal Audit: (a) attend the committee and contribute to its agenda? (b) participate in the committee's review of its own remit and effectiveness? (c) ensure that the committee receives and understands documents that describe how Internal Audit will fulfil its objectives? (d) report on the outcomes of internal audit work to the committee? (e) establish if anything arising from the work of the committee requires consideration of changes to the audit plan, or vice versa? (f) present the annual internal audit report to the committee?	✓ ✓ ✓ ✓ ✓ ✓			HIA attends most Audit Committee meetings HIA together with Chair and Vice Chair reviewed Audit Committee effectiveness HIA presents all documents explaining the role, remit, objectives and achievements of internal audit Outcomes of IA work presented to committee twice yearly Any changes to the audit plan arising from the work of the committee would be noted by HIA The HIA presents an annual report to the committee
4.2.5	Is there an opportunity for the Head of Internal Audit to meet privately with the committee?	✓			This has occurred when HIA briefed Chair and Vice concerning annual report, in performing review of Audit Committee effectiveness and during the annual Corporate Strategic Risk identification process
<b>5</b>	<b>Relationships</b>				
<b>5.1</b>	<b>Principles of Good Relationships</b>				
5.1.1	Is there a protocol that defines the working relationship for Internal Audit with: (a) management? (b) other internal auditors? (c) external auditors? (d) other regulators and inspectors? (e) elected members?	✓			The Internal Audit Terms of Reference defines the basis and nature of these relationships
<b>5.2</b>	<b>Relationships with Management</b>				
5.2.1	Does the Head of Internal Audit seek to maintain effective relationships between internal auditors and managers?	✓			Undertaken as part of the overall audit process, pre-closure and closure meetings, etc. Open Door policy of the team demonstrated by the level of requests for advice and guidance. Also by meetings between the Head of Internal Audit and Directors as part of the

					planning process and high levels of manager satisfaction as measured by feedback questionnaires
5.2.2	Is the timing of audit work planned in conjunction with management?	✓			The reviews within the Audit Plan are allocated across quarter periods in agreement with managers. Announcement Letter issued to managers prior to audit commencing and managers can request deferment for valid reasons
<b>5.3</b>	<b>Relationships with Other Internal Auditors</b>				
5.3.1	Do arrangements exist with other internal auditors that include joint working, access to working papers, respective roles and confidentiality?	✓			A joint approach to the audit of shared services has been developed with Blackpool Council Internal Audit in relation to council tax, business rates and benefits
<b>5.4</b>	<b>Relationships with External Audit</b>				
5.4.1	Is it possible for Internal Audit and External Audit to rely on each other's work?	✓			Annual external inspection has consistently replaced reliance on Internal Audit work
5.4.2	Are there regular meetings between the Head of Internal Audit and the External Audit Manager?		✓		Not regular meetings - as and when required
5.4.3	Are the internal and external audit plans co-ordinated?		✓		The draft internal audit plan is shared with external audit to assist in co-ordination, but there is no formal arrangement.
<b>5.5</b>	<b>Relationships with Other Regulators and Inspectors</b>				
5.5.1	Has the Head of Internal Audit sought to establish a dialogue with the regulatory and inspection agencies that interact with the organisation?		✓		Dialogue established as and when considered necessary
<b>5.6</b>	<b>Relationships with Elected Members</b>				
5.6.1	Do the terms of reference for Internal Audit define the channels of communication with members and describe how such relationships should operate?	✓			The Terms of Reference define such channels of communications. Reports are submitted on a regular basis to the Audit Committee

5.6.2	Does the Head of Internal Audit maintain good working relationships with members?	✓			Comments in meetings of the Audit Committee generally reflect Member satisfaction with the work of Internal Audit
<b>6</b>	<b>Staffing, Training and Continuing Professional Development</b>				
<b>6.1</b>	<b>Staffing of Internal Audit</b>				
6.1.1	Is Internal Audit appropriately staffed (numbers, grades, qualifications, personal attributes and experience) to achieve its objectives and comply with these standards?	✓			The grades, qualifications, personal attributes and experience of the audit team are appropriate
6.1.2	Does the Head of Internal Audit have access to appropriate resources where the necessary skills and expertise are not available within the internal audit team?	✓			Arrangement with LCC for provision of IT Audit to supplement the expertise of the section
6.1.3	Is the Head of Internal Audit professionally qualified and experienced?	✓			HIA is CCAB qualified
6.1.4	Does the Head of Internal Audit have wide experience of internal audit and management?	✓			HIA has substantial experience in internal audit
6.1.5	(a) Do all internal audit staff have up-to-date job descriptions? (b) Are there person specifications that define the required qualifications, competencies, skills, experience and personal attributes for internal audit staff?	✓			All job descriptions and person specifications are up to date
<b>6.2</b>	<b>Training and Continuing Professional Development</b>				
6.2.1	(a) Has the Head of Internal Audit defined the skills and competencies for each level of auditor?  (b) Are individual auditors periodically assessed against these predetermined skills and competencies?  (c) Are training or development needs identified and included in an appropriate ongoing development programme?  (d) Is the development programme recorded, regularly reviewed and monitored.	✓  ✓  ✓  ✓			Job descriptions define the skills and competencies required for each of the specific grades etc.  Review of quality of work produced is undertaken on every assignment completed  There are staff PDAs and Training Plans  PDAs reviewed biannually

6.2.2	Do individual auditors maintain a record of their professional training and development activities?		✓		Staff PDAs and training plans. Log for audit team accessible by all staff is maintained
<b>7</b>	<b>Audit Strategy and Planning</b>				
<b>7.1</b>	<b>Audit Strategy</b>				
7.1.1	(a) Is there an internal audit staff strategy for delivering the service? (b) Is it kept up to date with the organisation and its changing priorities?	✓			The Internal Audit Strategy was approved by the Audit Committee in April 2009. It will be reviewed on a regular basis
7.1.2	Does the strategy include: (a) Internal Audit objectives and outcomes? (b) how the Head of Internal Audit will form and evidence his or her opinion on the control environment? (c) how Internal Audit's work will identify and address local and national issues and risks? (d) how the service will be provided, ie internally, externally, or a mix of the two? (e) the resources and skills required to deliver the strategy?	✓			All these points are included in the Audit Strategy
7.1.3	Has the strategy been approved by the audit committee?	✓			The Internal Audit Strategy was approved by the Audit Committee in April 2009
<b>7.2</b>	<b>Audit Planning</b>				
7.2.1	Is there a risk-based plan that is informed by the organisations risk management, performance management and other assurance processes?	✓			Audit Plan produced on a risk basis. Internal Audit Universe comprising all auditable systems and processes is determined and incorporated into an indicative five year strategic plan from which the annual plan is derived.
7.2.2	Where the risk management process is not fully developed or reliable, does the Head of Internal Audit undertake his or her own risk assessment process?	✓			Audit plan based upon materiality, business risk, previous audit work, exposure to fraud and time since last audit

7.2.3	Are stakeholders consulted on the audit plan?	✓			CMT members consulted to identify issues in their services. S151 Officer reviews draft audit plan. Report to CMT and Audit Committee
7.2.4	Does the plan demonstrate a clear understanding of the organisation's functions?	✓			The audit planning process is comprehensive and covers all the Council's functions as well as stakeholder concerns. The plan is developed in consultation with members of CMT and the S151 Officer
7.2.5	Does the plan: (a) cover a fixed period of no longer than one year? (b) outline the assignments to be carried out? (c) prioritise assignments? (d) estimate the resources required? (e) differentiate between assurance and other work? (f) allow a degree of flexibility?	✓			The audit plan incorporates all these elements
7.2.6	If there is an imbalance between the resources available and resources needed to deliver the plan, is the audit committee informed of proposed solutions?	✓			If necessary a report would be presented to Audit Committee
7.2.7	Has the plan been approved by the audit committee?	✓			The audit plan is approved by the Audit Committee annually
7.2.8	If significant matters arise that jeopardise the delivery of the plan, are these addressed and reported to the audit committee?	✓			If necessary a report is presented to Audit Committee
<b>8</b>	<b>Undertaking Audit Work</b>				
<b>8.1</b>	<b>Planning</b>				
8.1.1	(a) Is a brief prepared for each audit? (b) Is the brief discussed and agreed with the relevant managers?	✓			A brief is prepared for each audit Copy given to managers prior to audit taking place for comment as part of audit announcement process

8.1.2	Does the brief set out: (a) objectives? (b) scope? (c) timing? (d) resources? (e) reporting requirements?	✓			The audit brief covers all these aspects
<b>8.2</b>	<b>Approach</b>				
8.2.1	Is a risk-based audit approach used?	✓			Each system is audited against its principal risks and the adequacy of the key controls in place designed to mitigate such risks. Depending upon the findings, an assurance based opinion is given on the likelihood of the system achieving its objectives. Where possible previous audit work informs the approach, alternatively high risk areas would be identified at the planning phase for audit focus
8.2.2	Does the audit approach show when management should be informed of interim findings where key (serious) issues have arisen?	✓			Management is informed of interim findings where serious issues have arisen in accordance with the Audit Procedure Manual
8.2.3	Does the audit approach include a quality review process for each audit?	✓			All working papers and draft reports are reviewed for quality by the Head of Internal Audit or Senior Auditor
<b>8.3</b>	<b>Recording Audit Assignments</b>				
8.3.1	Has the Head of Internal Audit defined a standard for audit documentation and working papers?	✓			Audit files are compiled to a standard pattern. Auditors use standard formats and templates which, if changed or adapted, are subject to approval by the Head of Internal Audit
8.3.2	Do quality reviews ensure that the defined standard is followed consistently for all audit work?	✓			All working papers and draft reports are reviewed for quality by the Head of Internal Audit or Senior Auditor to ensure they conform to planned arrangements, fulfil the audit programme and adhere to defined internal audit standards

8.3.3	Are working papers such that an experienced auditor can easily: (a) identify the work that has been performed? (b) re-perform it if necessary? (c) see how the work supports the conclusions reached?	✓			Working papers inform and permit all these tasks
8.3.4	Is there a defined policy for the retention of all audit documentation, both paper and electronic?	✓			Audit documents retained for the two most recent audits undertaken in accordance with Audit Procedure Manual
8.3.5	Do all retention and access policies conform to appropriate legislation, i.e. Data Protection Act, Freedom of Information Act, etc and any organisational requirements?	✓			The Council's corporate policy applies
8.3.6	Is there an access policy for audit files and records?	✓			Access policy Included in Audit Procedure Manual Paper files and records are secured in locked filing cabinets and access to electronic files restricted to audit team
<b>9</b>	<b>Due Professional Care</b>				
<b>9.1</b>	<b>Responsibilities of the Individual Auditor</b>				
9.1.1	Are there documents that set out the requirements on all audit staff in terms of: (a) being fair and not allowing prejudice or bias to override objectivity? (b) declaring interests that could be perceived to be conflicting or could potentially lead to conflict? (c) receiving and giving gifts and hospitality from employees, clients, suppliers or third parties? (d) using all reasonable care in obtaining sufficient, relevant and reliable evidence on which to base conclusions? (e) being alert to the possibility of intentional wrongdoing, errors or omissions, poor value for money, failure to comply with management policy or conflict of interest? (f) having sufficient knowledge to identify indicators that fraud or corruption may have been committed? (g) disclosing all material facts known to them which, if not disclosed, could distort their reports or conceal unlawful practice?	✓ ✓ ✓  ✓ ✓ ✓ ✓			Included in Internal Audit Code of Ethics Included in Internal Audit Code of Ethics  Included in Internal Audit Code of Ethics  Included in Audit Procedure Manual Included in Audit Procedure Manual  Included in Audit Procedure Manual Included in Audit Procedure Manual



	(h) disclosing any non-compliance with these standards? (i) not using information they gain in the course of their duties for personal use?	✓ ✓			Included in Internal Audit Code of Ethics Included in Audit Procedure Manual
<b>9.1</b>	<b>Responsibilities of the Head of Internal Audit</b>				
9.2.1	Has the Head of Internal Audit established a monitoring and review programme to ensure that due professional care is achieved and maintained?	✓			Quality review process on each audit performed. The Head of Internal Audit reviews all audit files and reports prior to their issue to management Annual declaration of adherence to Audit Code of Ethics by all internal auditors Annual appraisal process addresses performance issues
9.2.2	Are there systems in place for individual auditors to disclose any suspicions of fraud, corruption or improper conduct?	✓			Such issues would be raised with the Head of Internal Audit immediately at the time of discovery. Weekly team meetings also take place. Corporate Whistleblowing Policy also in place.
<b>10</b>	<b>Reporting</b>				
<b>10.1</b>	<b>Principles of Reporting</b>				
10.1.1	Is an opinion on the control environment and risk exposure given in each audit report?	✓			The audit provides 5 levels of assurance based opinion for the service area under review and all risks identified are prioritised H/M/L
10.1.2	Has the Head of Internal Audit determined the way in which Internal Audit will report?	✓			There is a standard template for reports which is sometimes adapted to suit a specific service or need
10.1.3	Has the Head of Internal Audit set out the standards for internal audit reporting?	✓			Reporting standards are established in the Audit Procedure Manual
10.1.4	Are there laid-down timescales for reports to be issued?	✓			Target reporting times for all stages of an audit including issuing the draft and final reports are included in the Audit Procedure Manual
<b>10.2</b>	<b>Reporting on Audit Work</b>				

10.2.1	Do the reporting standards include: (a) format of the reports? (b) quality assurance of reports? (c) the need to state the scope and purpose of the audit? (d) the requirement to give an opinion? (e) process for agreeing reports with the recipient? (f) an action plan or record of points arising from the audit and, where appropriate, of agreements reached with management together with appropriate timescales?	✓			Reporting standards established in the Audit Procedure Manual include all these points
10.2.2	Does the audit reporting process include discussion and agreement of reports?	✓			Pre-closure meetings with operational manager/s and end of audit closure meetings with service manager where agreed management action plans are finalised
10.2.3	Has the Head of Internal Audit determined a process for prioritising recommendations according to risk?	✓			Prioritised management action plans in accordance with Audit Procedure Manual, all risks identified are prioritised H/M/L
10.2.4	Are areas of disagreement recorded appropriately?	✓			Where matters raised are contentious, a record of the discussions and the points raised are retained on file in accordance with the Audit Procedure Manual
10.2.5	Are those weaknesses giving rise to significant risks that are not agreed drawn to the attention to senior management?	✓			If any issues are not accepted, management must explain the reasons why they wish to take no action. At this stage internal audit forms a judgement on whether no action presents an unacceptable level of risk. If this is the case, the matter is referred to the next level of senior management
10.2.6	Is the circulation of each audit report determined when preparing the audit brief?				Protocol established in Audit Procedure Manual
10.2.7	a) Does the reporting process include details of circulation of that particular audit report? (b) Is this included in the brief for each individual audit?	✓ ✓			Protocol established in Audit Procedure Manual Report circulation details are included in the audit brief
10.2.8	Does the Head of Internal Audit have mechanisms in place to ensure that: (a) recommendations that have a wider impact are reported to the appropriate	✓			Particular high-priority recommendations may be reported to the Audit Committee and be considered by

	forums?  (b) risk registers are updated?	✓			Governance Group for inclusion in AGS  Insurance & Risk Manager advised where the recommendation may have an impact on risk registers
<b>10.3</b>	<b>Follow-up Audits and Reporting</b>				
10.3.1	Has the Head of Internal Audit defined the need for and the form of any follow-up action?	✓			All audit recommendations are followed up in accordance with the Audit Procedure Manual
10.3.2	Has the Head of Internal Audit established appropriate escalation procedures for internal audit recommendations not implemented by the agreed date?	✓			High-priority recommendations not implemented are reported to the Audit Committee and escalated in accordance with protocol established in Audit Procedure Manual
10.3.3	Where appropriate, is a revised opinion given following a follow-up audit and reported to management?	✓			Where it is found that all of the high and medium priority recommendations have been implemented promptly, such that the arrangements and circumstances relating to the audit are unlikely to have changed significantly, the original assurance level placed on the system may be increased by one level
10.3.4	Are the findings of audits and follow-ups used to inform the planning of future audit work?	✓			Findings are used to inform the planning process. Audit plan is produced on a risk basis including the findings from previous audit work and follow ups
<b>10.4</b>	<b>Annual Reporting and Presentation of Audit Opinion</b>				
10.4.1	Does the Head of Internal Audit provide an annual report to support the Corporate Governance Statement?	✓			Head Of Internal Audit's Annual Report presented to Audit Committee and taken into account by Governance Group for AGS purposes
10.4.2	Does the Head of Internal Audit's annual report: (a) include an opinion on the overall adequacy and effectiveness of the organisation's control environment? (b) disclose any qualifications to that opinion, together with the reasons for the qualification?	✓			Head Of Internal Audit's Annual Report meets all the points

	(c) present as summary of the audit work from which the opinion was derived, including reliance placed on work by other assurance bodies? (d) draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Corporate Governance Statement? (e) compare the actual work undertaken with the planned work and summarise the performance of the internal audit function against its performance measures and targets? (f) comment on compliance with the standards of the Code? (g) communicate the results of the internal audit quality assurance programme?				
10.4.3	Has the Head of Internal Audit made provision for interim reporting to the organisation during the year?	✓			Head of Internal Audit reports at least twice annually to the Audit Committee
<b>11</b>	<b>Performance, Quality and Effectiveness</b>				
<b>11.1</b>	<b>Principles of Performance, Quality and Effectiveness</b>				
11.1.1	Is there an audit manual?	✓			Audit Performance Manual in place
11.1.2	Does the audit manual provide guidance on: (a) carrying out day-to-day audit work? (b) complying with the Code?	✓ ✓			Audit Performance Manual includes guidance on carrying out day-to-day audit work Audit Performance Manual refers to the Code and provides guidance on compliance
11.1.3	Is the audit manual reviewed regularly and updated to reflect changes in working practices and standards?	✓			Last reviewed in 2009 – requires some updating to reflect minor changes in working practices
11.1.4	Does the Head of Internal Audit have arrangements in place to assess the performance and effectiveness of: (a) each individual audit? (b) the internal audit service as a whole?	✓ ✓			File review arrangements and documents Performance indicators, audit standards, effectiveness review
<b>11.2</b>	<b>Quality Assurance of Audit Work</b>				
11.2.1	Does the Head of Internal Audit have a process in place to ensure that work is allocated to auditors who have the appropriate skills, experience and competence?	✓			As far as possible within a small team of auditors, work is allocated according to the skills and experience required and so that there is adequate

					supervision
11.2.2	Does the Head of Internal Audit have a process in place to ensure that all staff are supervised appropriately throughout all audits?	✓			Ongoing supervision and assistance in place Weekly team meetings used to monitor progress and highlight problems/issues arising Quality review process on each audit performed
11.2.3	Does the supervisory process cover: (a) monitoring progress? (b) assessing quality of audit work? (c) coaching staff?	✓ ✓ ✓			Weekly team meetings used to monitor progress and highlight problems/issues arising Quality review process on each audit performed Staff appraisals and probation arrangements for newly recruited staff
<b>11.3</b>	<b>Performance and Effectiveness of the Internal Audit Service</b>				
11.3.1	Does the Head of Internal Audit have a performance management and quality assurance programme in place?	✓			Individual audit reports and supporting documentation are reviewed, staff performance appraisals are conducted annually and audit satisfaction surveys are issued with each final audit report. The results are analysed and reported to the Audit Committee
11.3.2	Does the performance management and quality assurance framework include as a minimum: (a) a comprehensive set of targets to measure performance: (i) which are developed in consultation with appropriate parties? (ii) which are included in service level agreements, where appropriate? (iii) against which the Head of Internal Audit measures, monitors and reports appropriately on progress? (b) user feedback obtained for each individual audit and periodically for the whole service? (c) a periodic review of the service against the strategy and the achievement of its aims and objectives, the results of which are used to inform the future strategy? (d) Internal quality reviews to be undertaken periodically to ensure compliance with this Code and the audit manual?	✓ ✓ ✓ ✓ ✓ ✓ ✓			Several targets following 2009 stakeholder survey were established and approved by Audit Committee Input from Directors, Heads of Service and Chair/Vice of Audit Committee in developing targets Not applicable at present Measured and monitored by HIA; reported to Audit Committee Audit satisfaction surveys are issued with each final audit report; user feedback for whole unit 2005 Strategy reviewed annually to inform strategy for the next year  Self-assessment via the checklist reported to Audit Committee

	(e) an action plan to implement improvements?	✓			Action Plan presented to Audit Committee
11.3.3	Does the Head of Internal Audit compare the performance and the effectiveness of the service over time, in terms of both the achievement of targets and the quality of the service provided to the user?	✓			Annual internal audit report and opinion Comparisons are undertaken with previous years' performances. Any under achievements against measures are investigated
11.3.4	Do the results of the performance management and quality assurance programme evidence that the internal audit service is: (a) meeting its aims and objectives? (b) compliant with the Code? (c) meeting internal quality standards? (d) effective, efficient, continuously improving? (e) adding value and assisting the organisation in achieving its objectives?	✓			Internal audit service is generally achieving the standards listed  Compliance with the Code evidenced by external audits review of internal audit  Adding value element is evidenced via consultancy projects and investigations undertaken at the request of management and client satisfaction surveys
11.3.5	Does the Head of Internal Audit report on the results of the performance management and quality assurance programme in the annual audit report?	✓			Performance results against a number of indicators are included in the Head of Internal Audit's annual report. An analysis of internal audit customer feedback is also provided
11.3.6	Does the Head of Internal Audit provide evidence from his or her review of the performance and quality of the internal audit service to the organisation for consideration as part of the annual review of the effectiveness of the system of internal audit?	✓			Report to Audit Committee

# REPORT



REPORT OF	MEETING	DATE	ITEM NO
INTERNAL AUDIT	AUDIT COMMITTEE	23 SEP 10	9

## INTERNAL AUDIT – TERMS OF REFERENCE

### Public Item

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

### Summary

A review and update of Internal Audit's Terms of Reference has been undertaken as part of the annual review of the effectiveness of the system of internal audit. The Terms of Reference sets out the nature, role, responsibility, status and authority of internal audit within the Council, and outlines the scope and conduct of internal audit work.

### Recommendation

1. The Committee approves the Terms of Reference attached as an Appendix to this report.

### Reasons for recommendation

The Terms of Reference are intended to establish the framework for the operation of the Council's Internal Audit Service in accordance with the standards in the Code of Practice for Internal Audit in Local Government in the UK and as a matter of good practice.

### Alternative options considered and rejected

No other course of action is advocated.

### Cabinet Portfolio

Finance & Resources

Councillor Karen Buckley

Continued....

## Report

1. An Internal Audit Charter, replaced in 2008 by the Terms of Reference, was originally adopted in September 2002. A revised version was approved by Performance Improvement Scrutiny Committee (pre-Audit Committee) in November 2005. Subsequent amendments have not been significant. However, to comply with best practice a revised and refreshed document should be approved by the Audit Committee periodically.
2. The revised Terms of Reference (see Appendix 1) has been prepared in accordance with the provisions set out within the "Code of Practice for Internal Audit in Local Government in the UK 2006". The Code of Practice states that "the purpose, authority and responsibility of internal audit should be formally defined by the organisation in terms of reference".
3. The revised Terms of Reference sets out the:
  - ♦ Definition of Internal Audit
  - ♦ Statutory Framework
  - ♦ Audit Standards and Objectives
  - ♦ Scope of Internal Audit
  - ♦ Role of the Head of Internal Audit
  - ♦ Internal Audit Responsibility
  - ♦ Role of Internal Audit in relation to Risk Management
  - ♦ Role of Internal Audit in relation to Fraud and Corruption
  - ♦ Independence of Internal Audit
  - ♦ Due Care in the delivery of the Service
  - ♦ Audit Training requirements
  - ♦ Audit Relationships
  - ♦ Audit Resources
  - ♦ Audit Reporting Lines
  - ♦ Audit Planning process
  - ♦ Audit Reporting arrangements
  - ♦ Responsibilities to Other Organisations
  - ♦ Quality Control arrangements

## Risk Assessment

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

Report Author	Tel	Date	Doc ID
Savile Sykes	(01253) 658413	23 Sep 2010	

List of Background Papers		
Name of document	Date	Where available for inspection



Code of Practice for Internal Audit in Local Government in the UK	2006	All background papers or copies can be obtained from Savile Sykes, Head of Internal Audit on 658413 or email <a href="mailto:saviles@fylde.gov.uk">saviles@fylde.gov.uk</a>
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### Attached documents

Appendix 1 – Internal Audit Terms of Reference

IMPLICATIONS	
Finance	The terms of reference seek to ensure the highest standards of internal audit service, thereby enhancing the internal financial control framework.
Legal	None arising directly from the report.
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 operation of an effective internal audit service enhances the risk profile of the authority.

### **1 Introduction**

- 1.1 The purpose of this document is to set out the nature, role, responsibility, status and authority of internal audit within Fylde Borough Council, and to outline the scope of internal audit work.

### **2 Definition**

- 2.1 Internal audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, internal control and governance by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

### **3 Statutory Framework**

- 3.1 Internal audit is a statutory function. The Accounts and Audit Regulations 2006 place the Council under a duty to maintain an adequate and effective system of internal audit of the Council's accounting records and internal control systems in accordance with the proper practices in relation to internal control.
- 3.2 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 Authority's wider risks as required by the Accounts and Audit Regulations.
- 3.3 The Council's Section 151 Officer is the designated officer with statutory responsibility for the proper administration of the Council's financial affairs (Section 151 - Local Government Act 1972). The Head of Internal Audit will have a direct line reporting arrangement to the responsible Section 151 Officer.
- 3.4 Internal audit is also governed by the policies, procedures, rules and regulations established by the Council. These include the constitution, financial regulations, conditions of service, codes of conduct and the anti-fraud and corruption strategies.

### **4 Audit Standards**

- 4.1 The Code of Practice for Internal Audit in Local Government 2006 published by the Chartered Institute of Public Finance and Accountancy will serve as the basis for all internal audit activities and arrangements.
- 4.2 Internal audit will comply with the standards set by the Code of Practice, and will also have regard to the standards and practice statements issued by the Institute of Internal Auditors. Internal Audit shall prepare, maintain and conduct periodic self-assessments for compliance with the Code of Practice.

### **5 Objectives**

- 5.1 The primary objective of Internal Audit is to give assurance to the Council on the adequacy of its governance arrangements. This is achieved by reviewing and evaluating:
- ♦ the completeness, reliability and integrity of financial and other management information
  - ♦ the systems established to ensure compliance with corporate and departmental policies & procedures and legislative requirements
  - ♦ the means of safeguarding assets
- 5.2 The other objectives of Internal Audit are:
- ♦ to provide advice and support to ensure an effective control environment is maintained

- ♦ to contribute to the achievement of corporate objectives by recommending improvements in control and performance
- ♦ to provide advice and guidance to ensure managers have developed effective arrangements to prevent and detect fraud and corruption including input in the key policies such as Financial Regulations and Anti-fraud and Corruption Policy

### **6 Scope of Internal Audit**

- 6.1 The scope of internal audit's remit includes the authority's entire control environment and encompasses all of the Council's activities, regardless of funding source. Internal Audit work will cover all of the operational and management controls within the Council. 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.
- 6.2 In determining where effort should be concentrated, the Head of Internal Audit should take account of existing assurance and monitoring mechanisms, including risk management arrangements, for achieving the Council's objectives.
- 6.3 The scope of internal audit allows for unrestricted coverage of the authority's activities and unrestricted access to all records, personnel, property and assets deemed necessary in the course of an audit. Such access shall be granted on demand and not subject to advance notice. There are no limitations placed upon the scope of internal audit work.
- 6.4 In addition, internal audit has the right of unrestricted access to:
- ♦ the Chief Executive
  - ♦ the Section 151 Officer
  - ♦ the Monitoring Officer
  - ♦ Chair of the Audit Committee
  - ♦ Chair of the Standards Committee
  - ♦ Members of the Council
  - ♦ individual Directors
  - ♦ all Council employees
- 6.5 Internal audit has the right to require and receive explanations from all employees or Council members concerning any matter under consideration.
- 6.6 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.
- 6.7 If the Head of Internal Audit 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.

### **7 Head of Internal Audit**

- 7.1 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.
- 7.2 The Head of Internal Audit is the most senior audit officer of the Council and should:
- ♦ 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 Internal Audit Responsibility**

8.1 The main areas of internal audit responsibility within the authority are to:

- a) 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 economy, efficiency and effectiveness in the 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
- b) Provide assurance that key risks are being managed effectively and that appropriate controls are in place.
- c) Conduct special projects that make a material contribution to the achievement of the Council's aims and objectives. The nature and scope of the work may include facilitation, process design, problem-solving, training, consultancy and advisory services, but this list is not exhaustive.
- d) Assist management in the investigation of fraud and irregularity, with the exception of housing and council tax benefit fraud and irregularity, which is routinely investigated by the benefit review unit.

8.2 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.

8.3 Responsibility for the response to Internal Audit advice and recommendations lies with management, which either accepts and implements the advice or formally rejects it. Internal Audit advice and recommendations are given without prejudice to the right of Internal Audit to review the relevant policies, procedures and operations at a later stage.

### **9 Internal Audit and Risk Management**

9.1 Directors are responsible for the day-to-day management of business risks. This will be underpinned by the Council's Strategic Risk Register, which will be aligned to the Corporate Plan and business planning processes.

9.2 As an independent appraisal function, internal audit's role is to assist managers in this process by evaluating risk in the areas under review, providing assurance wherever possible and making recommendations to optimise levels of control.

### **10 Fraud and Corruption**

## INTERNAL AUDIT TERMS OF REFERENCE

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- 10.1 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.
- 10.2 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.
- 10.3 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 assists management in the investigation of such reported instances.
- 10.4 The Head of Internal Audit is responsible for the annual review and refresh of the following counter fraud policies for approval by the Audit Committee:
- ♦ Anti-fraud and Corruption Policy
  - ♦ Anti-fraud and Corruption Strategy
  - ♦ Whistleblowing Policy
  - ♦ Anti-Money Laundering Policy
  - ♦ Sanction and Prosecution Policy
- 10.5 The Head of Internal Audit is a named contact for the Council's Whistleblowing Policy.

### **11 Independence of Internal Audit**

- 11.1 Internal audit should be independent of the activities that it audits to enable auditors to perform their duties in a way that allows them to make impartial and effective professional judgements and recommendations.
- 11.2 The status of internal audit should enable it to function effectively. The support of the organisation is essential and recognition of the independence of internal audit is fundamental to its effectiveness.
- 11.3 To ensure this, internal audit will operate within a framework that allows:
- ♦ unrestricted access to senior management
  - ♦ freedom to report in its own name without fear or favour to all officers and members, particularly to those charged with governance
  - ♦ segregation from operational responsibilities.
- 11.4 Every effort will be made to preserve objectivity by ensuring that all audit members of staff are free from any conflicts of interest and do not have any executive or operational responsibilities. Consequently Internal Audit has no executive responsibility for the operations of the Council, other than the Internal Audit function itself.
- 11.5 The Head of Internal Audit has indirect managerial responsibility for the Insurance and Risk Management function and also acts as liaison officer for the Benefit Fraud shared service. It is considered that by the nature of these functions there is no adverse impact on the independence of Internal Audit
- 11.6 Individual auditors will make an annual declaration of outside interests in accordance with the Code of Ethics and the Head of Internal Audit will review such declarations and take appropriate action to minimise the risk of conflict.

### **12 Due Care**

- 12.1 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.
- 12.2 In performing their duties internal auditors must act with integrity and fulfil their responsibilities with honesty, fairness and truthfulness. They must also safeguard information they receive in performing their duties. To ensure this, a Code of Ethics has been developed for internal audit. The Head of Internal Audit will ensure that audit personnel are regularly reminded of their ethical responsibilities under the code and also ensure that declarations of interest are maintained and updated where appropriate.

### **13 Audit Training**

- 13.1 The Head of Internal Audit will carry out a review of the development and training needs of all audit personnel principally through the staff appraisal and development process. Training provision will be targeted to individual training needs and reflect the changing audit environment.

### **14 Audit Relationships**

- 14.1 The Head of Internal Audit must develop and sustain a wide range of good working relationships with management and staff, external auditors, members, inspectorates, neighbouring local authority auditors, and other external bodies or partners.
- 14.2 The basis and nature of the main relationships are:
- ♦ management - a privileged co-operative relationship based on mutual trust and support within the context of internal audit independence and the code of ethics
  - ♦ staff – a constructive working relationship comprising ongoing dialogue between auditor and auditee throughout the audit process
  - ♦ external auditor – a co-operative relationship founded on mutual recognition and respect designed to ensure that scarce resources are used as effectively as possible and address the areas of highest risk
  - ♦ members – a working relationship intended to provide members with the opportunity to contribute to the process for maintaining effective internal control, principally through the Audit Committee
  - ♦ Audit Committee – the Head of Internal Audit has the right to meet privately with the audit committee
  - ♦ inspectorates – a relationship for the exchange of dialogue and information, sufficient to allow audit to comment where proposals may affect internal control
  - ♦ neighbouring internal auditors – a professional relationship for networking and sharing best practice, through the forum of the Lancashire Districts Audit Group
  - ♦ internal auditors of partner organisations – a professional and co-operative relationship based on mutual respect that seeks to add maximum value and service improvement by joint working where appropriate

### **15 Audit Resources**

- 15.1 The Council has a duty to provide sufficient resources to allow an adequate and effective Internal Audit service to be provided.
- 15.2 As a minimum resourcing will ensure that the Service is able to comply with the requirements of the Code of Practice for Internal Audit in Local Government in the UK, for the audits of all key financial systems (defined in conjunction with the external auditor) to be performed in year, and for

all high-priority audits (determined by Internal Audit's risk assessment) to be undertaken during the year.

- 15.3 Where it is felt that the resources are inadequate to meet the objectives of Internal Audit, the Head of Internal Audit in conjunction with the Section 151 Officer will formally report this to the Chief Executive and the Audit Committee where relevant.
- 15.4 The staffing structure of Internal Audit will reflect the high calibre of staff required and comprise a mix of professional, technician and trainee posts in order to provide a wide knowledge and skills base.
- 15.5 Members of the internal audit team will be expected to contribute to the general management and conduct of business through membership of working groups and participation in ad hoc exercises, so long as this does not impair the delivery of the core audit service.

### **16 Audit Reporting Lines**

- 16.1 Internal Audit is located within the Governance and Partnerships Directorate. For day to day purposes the Head of Internal Audit reports to the Head of Governance who in turn reports to the Director of Governance and Partnerships. However, alternative reporting lines are available to the Head of Internal Audit where these are deemed necessary.
- 16.2 The Head of Internal Audit has, when required, direct and unrestricted access to the Chief Executive, the Section 151 Officer, the Monitoring Officer, the Chair of the Audit Committee and the Chair of the Standards Committee.

### **17 Audit Planning**

- 17.1 The Head of Internal Audit will be required to manage the provision of a complete audit service to the authority. In discharge of this duty the Head of Internal Audit will:
- ♦ seek to direct audit resources to areas presenting the highest risk to the authority by reference principally to the corporate risk register
  - ♦ establish effective communication and co-ordination with the Audit Commission and take account of their comments and findings in planning audit work
  - ♦ ensure that all financial and other significant systems and processes are taken into account when determining where to direct audit work
  - ♦ maintain a strategic plan to take account of the whole range of activities undertaken by the authority that would be suitable for audit review on a cyclical basis
  - ♦ prepare an annual plan combining high risk areas with the strategic plan elements and present it for endorsement by the Section 151 Officer and the management team
  - ♦ bring the annual plan to the attention of the Audit Committee for comment and ratification

### **18 Assignment Reporting**

- 18.1 All audit assignments and studies will be the subject of formal reports. Draft reports will be sent to the managers responsible for the area under review for agreement to the findings and the proposed action plan. Auditees must respond promptly to audit reports within a reasonable timescale determined by management team. Auditee comments may be used to amend the draft report if appropriate.
- 18.2 Following the closure meeting managers shall specify agreement with each of the audit findings and recommendations or supply reasons for disagreement. They must provide a reasonable timetable for implementing solutions to identified problems.
- 18.3 After agreement, the reports will be issued to the manager of the service under review with a copy sent to the appropriate Director, the Section 151 Officer and made available to the authority's external auditors. A copy of each report will also be placed in the member's arena via the Council's Intranet, with the exception of fraud investigation reports.

- 18.4 The Head of Internal Audit also has authority to ensure that, where the report's findings have a wider impact, they may be reported to the Chief Executive or other senior managers and that the Council's risk registers may be updated.
- 18.5 The Council's management is expected to implement all agreed actions within a reasonable timescale, determined by management and agreed with Internal Audit at the end of the audit assignment. Each audit will be followed up to assess the extent to which this has happened. Summary information will be reported to the Audit Committee on a half-yearly basis, outlining the number of recommendations made, the number of recommendations agreed, and the number of recommendations reported to have been implemented at the time of review.

### **19 Reporting to Audit Committee**

- 19.1 In accordance with the Council's constitution the Head of internal Audit will report periodically to the Audit Committee under its terms of reference. On an annual basis the Head of Internal Audit is required to consider the results of Internal Audit work performed during the year and to prepare an annual audit opinion. This opinion will be presented to and considered by the Audit Committee as part of their consideration of the effectiveness of the Council's internal control environment
- 19.2 To facilitate the work of the committee the Head of Internal Audit should:
- ♦ attend its meetings and contribute to the agenda
  - ♦ participate in the committee's review of its own remit and effectiveness
  - ♦ ensure that it receives and understands documents that describe how internal audit will fulfil its objectives
  - ♦ report the outcomes of internal audit work in sufficient detail to allow the committee to understand what assurance it can take from the work and what unresolved issues it needs to address
  - ♦ establish if anything arising from the work of the committee requires consideration of changes to the audit plan
  - ♦ present an annual internal audit report including an overall opinion on the control environment, the extent to which the plan has been achieved and a summary of any unresolved issues

### **20 Responsibilities in Other Organisations**

- 20.1 Where key systems are being operated or services provided by another organisation on behalf of the Council or by the Council for another organisation, the Head of Internal Audit will determine whether to conduct assurance work directly, work co-operatively with the auditors of the organisation, or rely on the opinions of other auditors.
- 20.2 The Head of Internal Audit will advise as necessary on the provision of relevant access rights in the drafting of relevant contracts and service level agreements. Directors must ensure that such rights of access are written into the appropriate agreements with partner organisations.

### **21 Quality Control**

- 21.1 Internal Audit in conjunction with its stakeholders will adopt and keep under review a suite of performance measures as part of the service planning processes and report thereon to management and the Audit Committee. Performance and benchmarking comparisons will also be made where possible. Challenge and learning will be provided through External Audit, peer reviews and visits to other external organisations as appropriate.
- 21.2 External Audit will review the adequacy of Internal Audit as part of their annual audit of the Council's governance arrangements. Internal Audit will co-operate with the reviews and include the results in the Internal Audit Annual Report.



## INTERNAL AUDIT TERMS OF REFERENCE

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- 21.3 Internal Audit staff are expected to operate in accordance with the Code of Practice for Internal Audit in Local Government in the UK and the professional and ethical Standards issued by the Chartered Institute of Public Finance and Accountancy. Internal Audit shall prepare, maintain and conduct periodic self-assessments for compliance with the Code and Standards.
- 21.4 Each individual audit assignment will be subject to a quality review, by the Head of Internal Audit or the Senior Auditor, aimed at ensuring that work has been undertaken to the required level in order to form a clear opinion, in compliance with the audit manual and in accordance with relevant professional standards.
- 21.5 As part of Internal Audit's quality monitoring and continuous improvement process, satisfaction surveys will be issued following each agreed audit report to enable the manager and senior staff to provide feedback on the audit assignment. Other surveys of audit clients generally will be conducted periodically to enhance overall understanding of customer needs and opinions. The Head of Internal Audit will review the responses to both satisfaction and audit client surveys, and take appropriate action where necessary. Results of such surveys will be reported to the Audit Committee.
- 21.6 As required by the Accounts and Audit Regulations, there will be an annual assessment of the "effectiveness of Internal Audit". This assessment will be coordinated by the Corporate Governance Group and results submitted to the Audit Committee for information and comment.

# REPORT



REPORT OF	MEETING	DATE	ITEM NO
HEAD OF AUDIT	AUDIT COMMITTEE	23 SEP 2010	10

## INTERNAL AUDIT STRATEGY

### Public Item

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

### Summary

The terms of reference for the Audit Committee include approving but not directing internal audit's strategy. This report outlines the proposed Internal Audit Strategy.

### Recommendation

1. The Audit Committee approves the Internal Audit Strategy attached as an Appendix to this report.

### Reasons for recommendation

The Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government requires that Internal Audit should have a strategy and that the Audit Committee should approve but not direct it.

### Alternative options considered and rejected

No other course of action is advocated at this time.

## Cabinet Portfolio

Finance & Resources

Councillor Karen Buckley

### Report

1. The CIPFA Code of Practice for Internal Audit in Local Government requires the Internal Audit Service to have a Strategy, which is intended to be a high level statement of how the internal audit service will be delivered in accordance with its Terms of Reference. It should also communicate the contribution that Internal Audit makes to the Council.

2. It is important to keep the strategy under review and up to date. This proposed strategy replaces the previous document and reflects the requirements of the Code.

3. Specifically the Strategy includes the following sections:

- ♦ Strategy Statement
- ♦ Definition and Objectives
- ♦ Corporate Strategic Aims
- ♦ Criteria for Determining the Audit Opinion
- ♦ Delivery of the Audit Service
- ♦ Independence
- ♦ Addressing Local and National Risks
- ♦ Method of Service Provision
- ♦ Resources and Skills Required
- ♦ Strategic Objectives and Outcomes
- ♦ Review of Internal Audit Effectiveness

4. The Internal Audit Strategy is attached as an appendix.

### Risk Assessment

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

Report Author	Tel	Date	Doc ID
Savile Sykes	(01253) 658413	23 Sep 2010	

List of Background Papers		
Name of document	Date	Where available for inspection
Internal Audit Strategy		All background papers or copies can be obtained from Savile Sykes, Head of Internal Audit on 658413 or email <a href="mailto:saviles@fylde.gov.uk">saviles@fylde.gov.uk</a>

## Attached documents

### 1. Internal Audit Strategy

IMPLICATIONS	
Finance	The Internal Audit Strategy provides the basis for the delivery of an effective audit workplan, thereby enhancing the internal financial control framework
Legal	None arising directly from the report.
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 operation of an effective internal audit service enhances the risk profile of the authority

# INTERNAL AUDIT STRATEGY

## Strategy Statement

1. The overall strategy of Internal Audit is to deliver a risk based audit plan in a professional, independent manner in order to provide the authority with an opinion on the level of assurance it can place upon the internal control environment and to make recommendations to improve it.

## Definition and Objectives

2. As an independent appraisal function within the authority, the primary objective of Internal Audit is to review, appraise and report upon the adequacy of the internal control environment as a contribution to the proper, economic, efficient and effective use of resources, including value for money. In addition, the other objectives of the function are to:

- ♦ deliver an audit service which meets the requirements of the CIPFA Code of Internal Audit Practice in Local Government in the UK (2006) and other relevant professional standards;
- ♦ provide assurance and an annual internal audit opinion to the Chief Executive and Audit Committee. The provision of assurance will be in compliance with professional guidelines and in accordance with the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit Regulations (Amendment)(England) 2006;
- ♦ support the Section 151 Officer in fulfilling the statutory responsibilities for ensuring proper administration of the Council's financial affairs under the 1972 Local Government Act;
- ♦ encourage good corporate governance by raising awareness of best practice in respect of performance management, data quality, risk management and partnership;
- ♦ promote fraud awareness and a robust counter fraud culture in accordance with the principles expressed in Council policies and processes such as the Financial Regulations, Anti-Fraud and Corruption Policy and Strategy, Contract Procedure Rules, and Whistleblowing Policy;
- ♦ advance the provision of and promote the need for sound financial systems
- ♦ support the Audit Committee in fulfilling their governance responsibilities as detailed in the Council's Constitution, and the Committee's Terms of Reference;
- ♦ examine critically the Council's risk management, control and governance processes through periodic audit reviews in a way which affords suitable priority to the Council's objectives and risks;
- ♦ co-operate effectively with the external auditor and other relevant review bodies;

- ♦ provide both assurance and consultancy services by Internal Audit to Council management

### **Corporate Strategic Aims**

3. Through the work it undertakes Internal Audit supports the Council in its stated vision which sets out the Council's focus over the coming years. That vision is for the Council working with partners '*To provide and maintain a welcoming, inclusive place with flourishing communities*'.

4. To deliver this vision, the Council has four key objectives as follows:

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

- ♦ The promotion and enhancement the natural and built environment
- ♦ The promotion of cohesive communities
- ♦ The promotion of a thriving economy
- ♦ Meeting the expectations of our customers

5. The corporate plan goes on to outline the priority tasks required to deliver the corporate objectives:

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

6. In order to support the Council in its vision, to achieve its mission and to support the preparation of the Annual Governance Statement and the annual audit opinion, Internal Audit will form and evidence an opinion on the organisation's risk management, control environment and governance in pursuance of the priority tasks identified.

7. Internal Audit will provide the Director of Governance & Partnerships, the Section 151 Officer and the Audit Committee with reports and analysis of the adequacy and effectiveness of internal control within each Council system or area of activity under review. Reviews will be undertaken professionally with effective recommendations made aimed at improving systems that support the Council's organisational aims.

8. The Head of Internal Audit will provide an annual report to the Audit Committee that gives an opinion of the overall adequacy and effectiveness of the Council's internal control environment and compliance with the Council's Code of Corporate Governance to underpin effective delivery of the Council's priority tasks and thereby its key objectives.

### **Criteria for determining the Audit Opinion**

9. The main objective of the Internal Audit Service is to provide assurance by forming and evidencing an opinion on the organisation's risk management, internal control environment and governance. To ensure the opinion formed is adequately supported the

Internal Audit Service will aim to achieve a minimum of 90% of the Annual Audit Plan as revised.

10. To determine the Audit Opinion the Internal Audit Service will review, appraise and report upon:

- ♦ the adequacy of risk identification, assessment and mitigation;
- ♦ the adequacy and application of internal controls;
- ♦ the extent of compliance with relevant legislation, organisational policies, plans and procedures;
- ♦ the extent to which the organisation's assets and interests are accounted for and safeguarded from loss of all kinds including fraud, waste, inefficient administration and poor value for money;
- ♦ the quality and integrity of financial and other management information utilised within the organisation.

11. In forming an opinion the Head of Internal Audit will give due regard to the results of work undertaken by the Internal Audit Team in the relevant year including planned work, ad hoc projects and investigations. Reliance will also be placed on the work of external auditors and inspectors.

12. When presenting the Internal Audit Opinion the Head of Internal Audit will:

- ♦ disclose any qualification to that opinion, together with the reasons for the qualification;
- ♦ present a summary of the audit work undertaken from which the opinion is derived, including reliance placed on the work of others;
- ♦ draw attention to any issues considered particularly relevant to the preparation of the Annual Governance Statement;
- ♦ outline proactive counter fraud activity undertaken and summarise any fraud or suspected fraud investigated
- ♦ compare the work actually undertaken to the work that was planned and assess the performance of the Internal Audit Service;
- ♦ comment on compliance with the CIPFA Code of Practice for Internal Audit, as a measure of internal audit effectiveness

13. Assurance is required by all participants including the local community. However to fulfil statutory responsibilities, formal assurance should be provided to management and 'those charged with governance', which within Fylde Borough Council will be through the Audit Committee.

### **Delivery of the Audit Service**

14. The Head of Internal Audit is responsible for delivering the audit service. To ensure that this can be achieved there are appropriate arrangements for audit planning and ensuring that the plan is adequately resourced with the necessary level of skilled and experienced staff.

15. Audit planning will be risk based and demonstrate a link to strategic and operational risk assessments as far as possible. However, although a risk based approach to

planning has been adopted there remain auditable areas where a cyclical approach continues to be appropriate.

16. The service will be delivered on the basis of a risk based audit plan compiled by the Head of Internal Audit, using a risk assessment model which allocates a risk factor of high, medium or low to all the areas for audit review to be undertaken. This will be approved annually by the Council's Management Team and Audit Committee.

17. The annual audit plan will be reviewed and updated on an ongoing basis to address emerging risks and any significant amendments will be agreed with the Audit Committee.

18. The annual audit plan sets out the number of days required for Internal Audit to adequately review the areas involved and indicates the priority level for each planned audit assignment. The overriding objective of this approach is to ensure that Internal Audit is able to present an opinion on the control environment by directing adequate resources based on the relative risks of operations, resources and services involved.

19. The audit plan balances the following requirements:

- ♦ The need to ensure the plan is completed in line with the agreed performance targets
- ♦ The need to ensure the core financial systems are adequately reviewed to provide assurance that management has in place proper arrangements for financial control
- ♦ The need to appropriately review both strategic risk and operational risk areas
- ♦ The need to have a sufficient contingency element to deal with unplanned issues and investigations that arise during the year
- ♦ To enable positive, timely input to assist corporate and service developments

20. In the delivery of each assignment, Internal Audit will seek to make practical recommendations based on the findings of the review completed. These will be discussed with managers with the agreed actions being detailed in an implementation plan attached to the report which will be distributed to managers in accordance with the agreed distribution list and made available to members via the Council's intranet.

## **Independence**

21. Internal Audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a manner which facilitates impartial and effective professional judgements. Internal auditors have no direct operational responsibilities.

## **Addressing Local and National Risks**

22. As indicated above, the adequacy and outcomes of the Council's risk management framework will be assessed annually. Previous assessments have shown that the framework can be relied upon to identify the significant local and national risks faced by the Council. The strategic and directorate risk registers will therefore be used to inform and guide the Internal Audit plan, to identify where assurance on control activity can be usefully provided.



23. This work will be supplemented by discussions throughout the year with senior managers who may identify urgent issues and emerging risks that will require audit attention. Depending on the timing of when these are identified they will either be included in the annual plan or added in during the year.

### **Method of Service Provision**

24. The Council currently has an in-house provision of the service. The Team is line managed by the Head of Internal Audit and formally reports to the Audit Committee. In addition to the Head of Internal Audit It consists of one Senior Auditor, an Auditor and a part time Audit Assistant. The Team is also supplemented, when necessary, by external contractors to meet technical ICT audit requirements.

25. Internal Audit will seek opportunities for more effective and efficient ways of working with local partners in the public sector, particularly if this avoids duplication and minimises overall costs.

### **Resources and Skills Required**

26. In order to deliver the Internal Audit Strategy and the Annual Audit Plan, the appropriate resources and skills will be made available as required. The required competencies will include general audit skills in respect of reviews of internal control, risk and governance arrangements, and appropriate coverage in specialist areas such as computer and contract audit and the investigation of frauds and irregularities.

27. Where audits require access to specialist expertise and knowledge that is not available within the audit team, advice and input will be sought from specialists drawn from outside sources.

28. The Council's staff appraisal scheme and Personal Development Programme will be utilised to ensure the identification of training and development needs and suitable means of addressing these. This will ensure that team members are able to deliver a professional service in line with current best practice.

### **Strategic Objectives and Outcomes**

29. The main strategic objectives and outcomes for the Internal Audit Service are:

Strategic Objectives	Required Outcome	Completion Date
To complete delivery of the Internal Audit Plan	Achievement of the Audit Plan in accordance with the agreed performance indicators	Each year by 31 March
	Results to be report to CMT and Audit Committee	Each year – June*
To provide an opinion on the overall adequacy and effectiveness of the Council's internal control	Completion of evidence-based opinion on the overall adequacy and effectiveness of the internal control environment	Each year – May

environment, including any qualification(s) deemed necessary	Results to be report to CMT and Audit Committee	Each year – June*
To develop a risk-based Internal Audit Plan designed to implement the internal audit strategy	Internal Audit Plan developed  Plan ratified by CMT and Audit Committee	Each year - February  Each year - March
To review compliance with Code of Practice for Internal Audit in Local Government in the UK (2006)	Co-operation with External Auditor's periodic review of compliance with the Code and provide evidence as necessary  Completion of annual review of compliance with the Code of Corporate Governance with the adoption of enhanced arrangements as required  Triennial participation in peer review of compliance with the Code with neighbouring authority  Results of effectiveness review reported to CMT and Audit Committee	Ongoing  Each year – September  Every third year - September  Each year – December (when not reported by External Audit)
To meet the performance indicator targets developed for internal audit with stakeholders	Achievement of performance indicator targets  Results to be report to CMT and Audit Committee	Each year by 31 March  Each year – June*
To provide assurance that there is a robust anti-fraud framework and effective anti-fraud strategy in place	To carry out targeted anti-fraud work in accordance with the annual plan  To carry out an annual assessment of the effectiveness of the anti-fraud strategy with reports to CMT and Audit Committee  To review the suite counter fraud policies to ensure they reflect best practice and are up-to-date	Ongoing  Each year - March  Each year - March

To assist through membership of the Corporate Governance Group in compiling a fit for purpose Annual Governance Statement (AGS)	Production of the AGS in accordance within statutory deadlines, Accounts and Audit Regulations and CIPFA guidance.	Each year – May
To proactively work with the Section 151 Officer to secure robust internal financial controls by the delivery of an effective internal audit service	Robust internal financial control framework is embedded in the Authority  Quarterly meetings with Section 151 Officer to monitor progress and report on the delivery of the internal audit service	Ongoing  June, September, December & March
To review compliance with CIPFA standards for Local Authority Audit Committees	Completion of annual review of compliance with the CIPFA standards for LA Audit Committees in conjunction with the Chair and Vice Chair of the Committee  Full compliance with the specified CIPFA standards  Results of effectiveness review reported to CCG and Audit Committee	Each year - May  Ongoing  Each year - June

\* as part of the Internal Audit Annual Report

## Review of Internal Audit Effectiveness

30. In accordance with the Accounts and Audit Regulations a review of Internal Audit Effectiveness will be carried out on an annual basis. With regard to proper practices in relation to internal audit, DCLG guidance identifies the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom. This Code includes a checklist which is an essential tool for assessing the effectiveness of internal audit.

31. In addition, the Code defines various aspirational effectiveness criteria for internal audit. An assessment of the position of the Internal Audit team in respect of these criteria will also form part of the annual effectiveness review. The Code defines the attributes of an effective internal audit, as being one which should 'aspire to' the following:

- ♦ understand the whole organisation, its needs and objectives;
- ♦ understand its position in respect to the organisation's other sources of assurance and plan its work accordingly;
- ♦ be seen as a catalyst for change at the heart of the organisation;
- ♦ add value and assist the organisation in achieving its objectives;
- ♦ be forward looking – knowing where the organisation wishes to be;
- ♦ be innovative and challenging;
- ♦ help to shape the ethics and standards of the organisation;
- ♦ ensure the right resources are available;
- ♦ share best practice with other auditors;
- ♦ seek opportunities for joint working with other organisations' auditors

32. The review will be conducted by External Audit on a triennial basis but will be supplemented periodically by a reciprocal peer review from a neighbouring authority.

33. The findings of the annual review will be presented to the Audit Committee, as part of the wider consideration of the Council's system of internal control.

# REPORT



REPORT OF	MEETING	DATE	ITEM NO
GOVERNANCE & PARTNERSHIPS DIRECTORATE	AUDIT COMMITTEE	23 SEP 2010	11

## CORPORATE GOVERNANCE IMPROVEMENT PLAN 2010/11

### Public Item

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

### Summary

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

### Recommendation

The Committee notes the latest position with regard to each of the issues included on the Corporate Governance Improvement Plan 2010/11.

### Reasons for recommendation

The report indicates the current situation

### Alternative options considered and rejected

This report is for information and comment only

## Cabinet Portfolio

Finance & Resources

Councillor Karen Buckley

### Report

1. The Annual Governance Statement for the year ended 31 March 2010, together with its associated improvement actions, was adopted by the Committee at its meeting on 24 June 2010. The responsibility for keeping the Corporate Governance Improvement Plan under review falls to the Audit Committee.
2. This interim report reveals the progress made so far in implementing the various actions to achieve improved corporate governance during 2010/11 and indicates areas where agreed actions have yet to be completed.
3. The 2010/11 Improvement Plan included 9 actions to secure improved corporate governance. The present position as advised by responsible managers is as follows:

- One improvement has been completed in full – number 1

Of the remaining eight improvements:

- Six have seen progress being made towards the agreed improvement - numbers 2, 3, 5, 6, 8, and 9.
  - The remaining two actions have not yet commenced but remain achievable within their original target dates – numbers 4 and 7
4. Progress monitoring will continue and a follow up of the all the improvements included in the plan will be undertaken once the final implementation date has passed. A further report will be prepared to indicate the revised position.
  5. The Improvement Plan for 2010/11 is attached as an Appendix showing the responsible officers, target dates for completion and the current status.

### **Risk Assessment**

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

Report Author	Tel	Date	Doc ID
Savile Sykes	(01253) 658413	Date of report	23/09/10

List of Background Papers		
Name of document	Date	Where available for inspection

Delivering Good Governance in Local Government	2007	All background papers or documents can be obtained from Savile Sykes – Head of Internal Audit on 01253 658413 or e-mail <a href="mailto:saviles@fylde.gov.uk">saviles@fylde.gov.uk</a>
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### Attached documents

1. Corporate Governance Improvement Plan 2010/11.

IMPLICATIONS	
Finance	Good governance ensures development of the capacity and capability of the Council to be financially effective and efficient
Legal	No specific implications
Community Safety	No specific implications
Human Rights and Equalities	No specific implications
Sustainability and Environmental Impact	No specific implications
Health & Safety and Risk Management	Good governance encourages informed and transparent decisions which are subject to effective risk management

## Corporate Governance Improvement Plan 2010/11

SIGNIFICANT GOVERNANCE ISSUES		AGREED IMPROVEMENT PLAN			
Objective	Actions	Officer	Date	Status	Comment
AGS 1. An effective corporate framework for project management will be adopted and utilised in future for all major schemes and developments to secure the successful achievement of specified goals and objectives.	1. Develop a and implement an effective project management framework for use in connection with all major schemes and developments	JD/DW	Jul 10	Complete	An effective project management framework has been developed and approved by Management Team. Training has been provided for the Corporate Performance Management Group.
AGS 2. Within a context of rising financial pressures services will be prioritised strategically against reducing budgets available.	2. Undertake destination and scenario planning to achieve the strategic prioritisation of services and to inform the budget planning process	MT	Feb 11	In progress & on target	A Communication and Decision-Making timetable has been approved by Cabinet. Management Team / Heads of Service Workshop held and Service Planning Workshops undertaken
AGS 3. The development of corporate purchasing arrangements will be finalised with the roll out of the Civica purchasing module on an authority-wide basis.	3. Implement the upgrade to Civica Financials System version 10.0	POD	Nov 10	In progress	Implementation and roll-out of the purchasing module is reliant on the authority-wide upgrade of the 'Civica Financials' system
	4. Develop and deliver a prioritised schedule of staff training	POD	Jan 11	In progress	
	5. Civica Purchasing module to be rolled out across the Council.	POD	Mar 11	Pending	
AGS 4. Data Protection training and guidance will be provided for staff to refresh and embed knowledge concerning the individual's right to privacy with respect to the handling and processing of personal data.	6. Develop and deliver a targeted programme of data protection training to all relevant staff	IC	Mar 11	In progress	Training material now developed Training programme delivered to new Customer Services staff
	7. Review and refresh the Council's Data Protection Policy to reflect current best practice	IC	Dec 11	Pending	
AGS 5. Information governance arrangements will be reviewed and enhanced to ensure they support the Council's regulatory, legal, risk and operational requirements.	8. Develop and implement an action plan for the review and enhancement of information governance arrangements to ensure they adequately support the Council's regulatory, legal, risk and operational requirements	TS/IC	Mar 11	In progress	External assessment of information governance status undertaken  Detailed draft action plan now developed for approval of Management Team



# Corporate Governance Improvement Plan 2010/11

SIGNIFICANT GOVERNANCE ISSUES		AGREED IMPROVEMENT PLAN			
Objective	Actions	Officer	Date	Status	Comment
AGS 6. Procurement arrangements will be further enhanced to achieve best value and effective use of resources.	9. Review and upgrade the procurement strategy to achieve best value and effective use of resources	IC/AW	Mar 11	In progress	Adopted 'The Chest' e-procurement solution in partnership with Team Lancashire. Contract Standing Orders have been revised to require use of electronic purchasing system. Training delivered for senior managers on contract procurement and management in partnership with Team Lancashire.  Training sessions hosted by Lancashire Procurement Hub scheduled

# REPORT



REPORT OF	MEETING	DATE	ITEM NO
DIRECTOR OF STRATEGIC DEVELOPMENT SERVICES	AUDIT COMMITTEE	23 <sup>RD</sup> SEPTEMBER 2010	12

## OUTSTANDING STRATEGIC RISK ACTIONS FROM 2009/10

### Public Item

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

### Summary

The report provides the committee with details of outstanding actions from the 2009/10 Strategic Risk Action Plan.

### Recommendation

That the Committee notes that:

1. the Regeneration Framework has been completed and is being considered by Cabinet
2. the LDF evidence base is being compiled and that following the expected national planning statement in the autumn that Officers will be advising the LDF Steering Group on any implications which emerge.
3. once 2 above is known and considered that a revised risk action plan be produced covering progression and completion of the Core Strategy.

### Reasons for recommendation

To agree revised consideration of the outstanding actions

### Alternative options considered and rejected

To not agree a revised way forward and ignore consideration of any new risks in progression of the Core Strategy/LDF. This is rejected as the risk register needs to remain flexible and be regularly reviewed so as to mitigate against future new unknown risks.

## **Cabinet Portfolio**

The item falls within the following Cabinet portfolios:

Planning and Development: Councillor Dr Trevor Fiddler

## **Report**

1. At the June meeting members considered a report on matters associated with outstanding risk actions from the 2009/10 Risk Register relating to the LDF and Regeneration Framework.
2. The Committee resolved request an updated report on these matters to the September meeting of the Committee
3. The Regeneration Framework is on the agenda of Cabinet on 15<sup>th</sup> September. The report presents a strategic overview to public realm regeneration and proposes a list of schemes for approval by members. The framework also proposes how in the future additional schemes can be considered and included from time to time when it is reviewed. The framework provides a useful reference document as part of the Council's Development Plan process.
4. The Local Development Framework actions related to making adequate progress with the evidence base so as to move towards a draft Core Strategy. The attached document summarises which pieces of evidence have been gathered to date and what work remains to fill the gaps in evidence.
5. The key additional piece of work which has emerged during the summer is that since the revocation of the Regional Spatial Strategy by the Secretary of State Fylde Borough has decided to set its own housing growth figures. This places additional evidence requirements upon the process which must be properly founded and evidenced if they are to pass the tests of soundness by an Inspector.
6. There is expected to be national planning guidance issued by the Coalition government in the autumn which could further propose changes to the LDF process. The LDF Steering Group recognises these challenges and will be responding accordingly following advice from Officers. Once this has been considered a revised risk action plan will be prepared.

## **Financial Implications**

Funding for progression of the Core Strategy/LDF was agreed by Cabinet in September 2009.

## **Risk**

New risks emerging from a revised Core Strategy/LDF work plan will be assessed and agreed by the Strategic Risk Management Group.

IMPLICATIONS	
Finance	There are no implications
Legal	There are no implications
Community Safety	There are no implications
Human Rights and Equalities	There are no implications
Sustainability	There are no implications
Health & Safety and Risk Management	There are no implications

Report Author	Tel	Date	Doc ID
Paul Walker	(01253) 658431	14 <sup>th</sup> September 2010	

List of Background Papers		
Name of document	Date	Location

## Fylde Core Strategy Evidence Base

Project	Status	Comment
<b>Population/Housing</b>		
Strategic Housing Market Assessment (SHMA)	Complete	Carried out jointly with Blackpool and Wyre.
Housing Needs Survey	Complete	Original Completed 2005. Review Completed 2007.
Strategic Housing Land Availability Study (SHLAA)	Published	
Gypsy and Traveller Site Identification	Not commenced	Revocation of RSS will require Fylde to establish the number of pitches required in the Borough.
Viability Assessment	Not commenced	To assess potential of new residential development to contribute towards essential infrastructure. This will require a specialist consultant to be appointed.
<b>Economy</b>		
Employment Land Survey	Complete	Needs review to assess impact of economic downturn.
Fylde Coast Retail Assessment	Complete	Reviewed to address potential impact of Tithebarn Project and economic downturn.
Tourism Study	Complete	
<b>Environment</b>		
Strategic Flood Risk Assessment (SFRA) (Stage1)	Complete	Requires update as a result of changes to EA flood maps.
Sustainability Assessment Scoping Report	Complete Refresh underway	
Biodiversity Assessment	Not commenced	Potentially appoint County Ecologist to prepare based on existing survey work.
Landscape and Urban Character Assessment	Not commenced	Potential to build on existing landscape character assessment prepared as SPD to Joint Lancashire Structure Plan.
Health and Wellbeing Profile	Not commenced	
Previously Developed Land Potential	Not commenced	Targets for delivery of development on Previously Developed Land will need to be established locally following revocation of RSS.
<b>Infrastructure</b>		
Public Open Space Assessment (PPG17)	Complete	
Renewable Energy Potential	Scoping of document underway	Commitment set out in MAA.
Infrastructure Assessment	Commenced	Current central government guidance indicates this will be a key component of the evidence base.

<b>Community Engagement</b>		
Statement of Community Involvement (SCI)	Review commenced	Needs to take account of revised regulations and change in emphasis on public involvement by current government.

In addition to the above, a range of surveys, strategies and evidence bases have been prepared by external agencies and bodies. These will also contain vital information that will be considered as part of the evidence base.

### **Review of Plans and Strategies**

Revocation of Regional Spatial Strategy (RSS) will require consideration of policies that may now need to be incorporated into the Core Strategy.

Fylde Coast Multi Area Agreement (MAA).

Sustainable Communities Strategy (SCS).

Parish and Town Plans.

The Core Strategy will need to provide a clear framework for the preparation of future Development Plan Documents and Supplementary Planning Documents. As such careful consideration of future DPD/SPD will need to be given at this stage.

### **Review of Potential Development Plan Documents (DPD)**

Land Allocations/review of proposals (FBLP) map.

Development Management Policies.

### **Review of Potential Supplementary Planning Documents (SPD)**

Planning Obligations and Community Infrastructure Levy.

Design Criteria for New Development.

## Audit Committee



Date	Thursday, 24 June 2010
Venue	Town Hall, St. Annes
Committee members	Councillor Linda Nulty (Chairman) Councillor Keith Hyde( Vice- Chairman) Councillors Ben Aitken, Christine Akeroyd, Elizabeth Oades, Louis Rigby, Paul Rigby
Other Councillors	None
Officers	Tracy Scholes, Paul Walker, Ian Curtis, Savile Sykes, Andrew Wilsdon, Lyndsey Lacey
Other Attendees	None

### Vice- Chairman

Councillor Keith Hyde was appointed Vice-Chairman for the purposes of the meeting.

#### 1. Declarations of interest

Members were reminded that any personal/prejudicial interests should be declared as required by the Council's Code of Conduct adopted in accordance with the Local Government Act 2000.

#### 2. Confirmation of minutes

RESOLVED: To approve the minutes of the Audit Committee meeting held on 30 March 2010 as a correct record for signature by the Chairman.

#### 3. Substitute members

There were no substitutions.

#### 4. Code of Corporate Governance

Ian Curtis (Head of Governance) reported that the Council's Code of Corporate Governance needed to be amended to take account of changes to the Council's key objectives, changes in officer designations and to ensure that it was in line with its scheduled review.

The report made reference to various requirements set out in a publication produced by CIPFA and SOLACE entitled "Good Governance in Local Government: A Framework.

Mr Curtis indicated that the council adopted its local Code of Corporate Governance in 2008 to describe the arrangements that had been or were being established within the Council to comply with the requirements of the framework. He added that to comply with the requirements an annual review of the Code was required.

Essentially, a small number of minor changes to the local code were proposed. The suggested changes related to:

- Recently adopted revised key objectives to replace the ones set out in the present code.
- The recent management restructure resulting in changes to the designation of two officers with key roles in governance, which needed to be reflected in the code.
- Replacement of references to Comprehensive Performance Assessment by Corporate Assessment.

A copy of the Code of incorporating the amendments was circulated with the agenda.

It was RESOLVED to amend the Code of Corporate Governance by adopting the revised version attached to the report.

(The Chairman indicated that she was satisfied that the matter was not controversial and dealt with the matter by a show of hands rather than by taking a recorded vote on it).

## 5. Constitution and Petition Scheme

In accordance with Article 14 of the Council's constitution, Ian Curtis (Head of Governance) presented a report detailing proposed changes to be incorporated in the Constitution prior to the re- adopted version being submitted to Council on 26 July.

The committee was also invited to recommend the adoption of a scheme for dealing with petitions, as required by the Local Democracy, Economic Development and Construction Act 2009. Mr Curtis stated that the scheme would also be incorporated in the constitution.

Mr Curtis explained that the proposed changes this year mainly related to the new petition duty, which was described in the report. The only other changes were a very small number of typographical matters and the updating of references to "Head of Internal Audit" to read "Chief Internal Auditor".

The proposed revised version of the Constitution (showing the changes) was made available via the Council's website.

With regard to the proposed Petition Scheme, members of the committee were invited to consider the Government's model scheme and adapt accordingly to make it suitably localised. Mr Curtis included a commentary within the text of the model scheme where the council could chose to make a different provision than the model.

Mr Curtis further reported on specific provisions within the legislation for electronic or on-line petitions. He added that those provisions were likely to come in to force in December and that this would be the subject of a further report.

Various members of the committee sought clarification on a range of issues contained within the proposed petition scheme. These were addressed in full by Mr Curtis.

Following detailed consideration by the Committee it was RESOLVED:

1. To ask the Council to re-adopt the constitution as appended to the report, incorporating the changes highlighted in the report, and including a petition scheme as part E of appendix 5.

2. To make the following localised changes to the Petition Scheme:

- *That there be no threshold level for accepting petitions.*



- *That only the signatures of people who live, work or study in the council's area count towards the threshold.*
- *That delegated powers to decide whether a petition is vexatious, abusive or otherwise inappropriate be given to the Director of Governance and Partnerships.*
- *To devise a protocol to be included within the scheme, whereby the decision on how the council will respond to petitions is delegated to the Director of Governance and Partnerships in consultation with the leader of the council, the leader of the main opposition group and at least one chairman of a scrutiny committee before making her decision.*
- *The trigger limit for a mandatory full council debate to be 5% of the borough population for a matter of a borough wide concern and 5% of the relevant parish population for a matter of specific local concern with due provision made for remaining unparished areas.*
- *The threshold for requiring an officer to give evidence at an overview and scrutiny committee to be 5% of the borough wide population where the request relates to a matter of the borough wide concern and 5% of the relevant parish population.*
- *The relevant Portfolio Holder normally be required to attend meetings with an officer.*
- *To apply the provisions relating to officer evidence to the Chief Executive, the four directors, Chief Financial Officer (section 151 officer) and the Monitoring Officer.*

3. To present an updated report on the E-Petitions scheme to the December meeting of the Committee.

(The Chairman indicated that she was satisfied that the matter was not controversial and dealt with the matter by a show of hands rather than by taking a recorded vote on it.)

## 6. Risk Management Annual Report

Andrew Wilsdon (Insurance and Risk Management Officer) introduced a report which summarised the year end report on the 2009/2010 Risk Register Action Plans, the work undertaken by the Council's Insurance and Risk Management Officer in producing the Strategic Risk Register for 2009/2010 and the annual review of the Risk Management Strategy.

Paul Walker (Director of Strategic Development) also addressed the committee on matters associated with risk actions from the 2009/10 Risk Register relating to LDF and Regeneration Framework. In doing so, he made reference to recent government advice relating to the abolishment of Regional Spatial Strategies and proposed changes to the LDF obligations. He added that the LDF meeting in July would consider these issues. Mr Walker also made reference to the implications of the new Community Infrastructure Levy regulations in relation to the regeneration framework.

Councillor Oades commented on matters associated with the delivery of affordable housing within the Kirkham area and the failure to seek appropriate community benefits from some developers. Mr Walker responded to this point.

Following discussion the Committee RESOLVED:

1. To note the year end report of the progress made on the 2009-2010 Risk Action plans.

2. To approve the Strategic Risk Register for 2009-2010.
3. To approve the Risk Management Strategy
4. To present an updated report on the risk actions associated with the LDF and Regeneration Framework to the September meeting of the Committee.

(The Chairman indicated that she was satisfied that the matter was not controversial and dealt with the matter by a show of hands rather than by taking a recorded vote on it).

## 7. Annual Governance Statement

Tracy Scholes (Director of Governance and Partnerships) introduced a report on the Annual Governance Statement prepared under the CIPFA/SOLACE framework (the local code of corporate governance) for approval.

Members were advised that the statement explained how Fylde Borough Council had complied with the code and showed how the effectiveness of governance arrangements had been monitored during the year.

Mrs Scholes explained that the council's code adopted six core principles from the CIPFA/SOLACE guidance which underpin the council's system of governance. She added that under each core principle, the code identified a series of sub-principles, which in total provided a 63-point checklist. The Corporate Governance Group, comprising the Chief Executive, the Director of Governance and Partnerships, the Section 151 officer, the Head of Internal Audit and the Head of Governance, or the nominee of each such officer, had conducted a detailed self-assessment of the council's governance against this checklist.

A copy of the Annual Governance Statement was attached to the report for members' consideration.

In terms of significant governance issues, members were advised that building on 2009/10 improvements, the Council had identified the following areas where it wished to see improvements in 2010/11:

- An effective corporate framework for project management to be adopted and utilised in future for all major schemes and developments to secure the successful achievement of specified goals and objectives.
- Within a context of rising financial pressures, services to be prioritised strategically against reducing budgets available.
- The development of corporate purchasing arrangements tool be finalised with the roll out of the Civica purchasing module on an authority-wide basis
- Data Protection training and guidance to be provided for staff to refresh and embed knowledge concerning the individual's right to privacy with respect to the handling and processing of personal data.
- Information governance arrangements to be reviewed and enhanced to ensure they support the Council's regulatory, legal, risk and operational requirements.
- Procurement arrangements to be further enhanced to achieve best value and effective use of resources.

Mrs Scholes stated that the Corporate Governance Group would draw up an action plan for future approval by the committee to meet the issues identified in the governance statement.

Councillor Nulty enquired about the timescale the Council was working to implement the framework for project management. Mrs Scholes reported that work on this action was already in hand with officers (Jamie Dixon and Darius Ward) in that they were currently formulating proposals with respect to the development of a revised project management framework

Following detailed consideration it was RESOLVED to approve the Annual Governance Statement for signature by the Chairman.

(The Chairman indicated that she was satisfied that the matter was not controversial and dealt with the matter by a show of hands rather than by taking a recorded vote on it).

#### 8. Corporate Governance Improvement Plan

In accordance with the request of the Committee at its last meeting, Tracy Scholes (Director of Governance and Partnerships) presented an updated report on the progress made in fulfilling the Corporate Governance Action Plan.

Councillor Nulty asked for an update on arrangements to implement the CIVICA purchase ordering system. Mrs Scholes explained that this had successfully been piloted in the IT and finance teams and was now being rolled out across the council. This issue also featured as an item requiring resolution in the 2010/11 Corporate Governance Statement.

RESOLVED: To note the latest position on actions included within the 2009/10 Corporate Governance Improvement Action Plan 2009/10

(The Chairman indicated that she was satisfied that the matter was not controversial and dealt with the matter by a show of hands rather than by taking a recorded vote on it).

#### 9. Internal Audit Annual Report 2009 -10

Savile Sykes (Chief Internal Auditor) presented a comprehensive report which summarised the work undertaken by internal audit from April 2009 to March 2010 and performance information for the same period. It also included an opinion on the soundness of the Council's internal control environment in support of the Annual Governance Statement.

In brief, the report set out the context of audit activity, details of reports issued, assurance on internal control, follow-up work, special investigations and counter fraud work, speed of responses, stakeholder feedback, projects, consultancy and advice together with the internal audit assurance statement.

Mr Sykes stated that it had been rather an exceptional year for performance and was pleased to report that based on the work undertaken, for the 12 months ended 31 March 2010, the Council had adequate and effective risk management, governance and internal control processes to manage the achievement of the authority's objectives. Members were advised that the overall implementation rate for all reports followed up in 2009/10 was 92% compared to last year's 79%. Mr Sykes stated that this figure exceeded the previous best rate of 83% achieved in 2007/08.

Councillor Nulty enquired why the main accounting and treasury management categories had not achieved 100% implementation.

Mr Sykes responded by stating that the items had been carried forward with revised implementation dates and were not business critical. He added that the outcomes from both these reviews had resulted in substantial assurance indicating that robust financial

systems and processes were in place. In terms of the treasury management issue, this essentially related to where investments, although considered entirely secure, were made outside the treasury management policy. In terms of the main accounting issues, these related to journal transfers, written procedures and managerial checks.

Mr Sykes reported that the finance team had indicated they would endeavour to deliver on these medium risk areas during 2010/11.

Finally Mr Sykes referred to the feedback received from managers, which resulted in a 92% satisfaction rating, and the audit team's performance indicators established by the Audit Committee, which with the exception of one had all been achieved or exceeded.

Following discussion the Committee RESOLVED:

1. To approve the annual report of the Head of Internal Audit.
2. To convey the committee's thanks and appreciation to the audit team for the excellent work undertaken during the year.

(The Chairman indicated that she was satisfied that the matter was not controversial and dealt with the matter by a show of hands rather than by taking a recorded vote on it.)

#### 10. Effectiveness of the Audit Committee

Savile Sykes (Chief Internal Auditor) presented the findings of a self assessment exercise undertaken by the Chairman and Vice-Chairman of the Committee in relation to the effectiveness of the Audit Committee. The self assessment compared existing arrangements with those advocated by the Chartered Institute of Public Finance and Accountancy (CIPFA) in their published advice.

A copy of the Self Assessment checklist was circulated with the agenda. Mr Sykes indicated that essentially the areas for improvement centred on member training and made a number of recommendations for improvement as contained in the report.

Following discussion the Committee RESOLVED:

1. To agree with the findings of the Self Assessment of the effectiveness of the Audit Committee against the checklist provided by the CIPFA better governance forum in their publication 'A Toolkit for Local Authority Audit Committees' undertaken by the Chairman and Vice Chairman of the Committee.
2. To adopt the Training Programme set out in the report as a basis for enhancing the skills and experience of Audit Committee members.

(The Chairman indicated that she was satisfied that the matter was not controversial and dealt with the matter by a show of hands rather than by taking a recorded vote on it)

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## Audit Committee



Date	Tuesday, 29 June 2010
Venue	Town Hall, St. Annes
Committee members	Councillor John Singleton (Chairman) Councillor Linda Nulty (Vice-Chairman) Councillors Ben Aitken, Christine Akeroyd, Keith Hyde, Elizabeth Oades, Paul Rigby
Other Councillors	None
Officers	Phillip Woodward, Bernard Hayes, Paul O'Donoghue, Lyndsey Lacey
Other Attendees	Iain Leviston - KPMG

### 1. Declarations of interest

Members were reminded that any personal/prejudicial interests should be declared as required by the Council's Code of Conduct adopted in accordance with the Local Government Act 2000.

### 2. Substitute members

There were no substitutions.

### 3. International Financial Reporting Standards (IFRS) Project Progress Update

Paul O'Donoghue (Head of Finance) presented a further quarterly update on project progress made in relation to the introduction of the new (IFRS) financial reporting framework for the period up to end of May 2010.

In brief, the report summarised progress to date and the main focus of the work undertaken within the period. In addition, it detailed the list of project tasks outstanding/ongoing with projected target timescales, training undertaken/requirements together with details of further work to be undertaken to the end of 2011.

Mr O'Donoghue indicated that the project timescale had been extended by two months from 30 April to 30 June due to the fact that individual tasks on the project plan took longer than expected. He added that as a result of this, the Project Manager's post was extended to cover this period but that she was due to leave on 30 June. An exit plan had been prepared to ensure all outstanding items could be dealt with by the in-house team. The main areas of outstanding work were highlighted in the report circulated.

Councillor Nulty enquired why the project plan was behind schedule. Mr O'Donoghue stated that was essentially because the work was more extensive than originally anticipated in that the assets review and classification of all Fylde leases was on going

project. It was further compounded by the fact that the Project Manager's post was a fixed term contact. He added that as far as doing what we had to do, this was now complete.

Bernard Hayes further provided an assurance over the concerns raised. He stated that the work complied with the IFRS and suggested that Fylde was in a better position than other local authorities.

Councillor Nulty asked for the latest detailed project plan to be circulated to all members of the committee. Mr Hayes agreed to circulate the information at the earliest opportunity.

Councillor Akeroyd asked whether project training would be ongoing. Mr O'Donoghue confirmed that this would be the case.

Councillor Singleton commented on and enquired about the light touch review. Mr Hayes indicated that the council was still unclear about the expected date.

Following discussion the Committee RESOLVED:

1. To note the project progress on the implementation of the IFRS project
2. To present an update of the project plan to the next meeting of the committee
3. To provide members of the committee with a copy of the latest detailed project plan.

#### 4. Annual Statement of Accounts 2009/10

Bernard Hayes (Finance Director and Section 151 Officer) presented a comprehensive report on the Council's Annual Statement of Accounts. In doing so, he made reference to the necessary technical nature of the accounts as required by the Code of Practice.

Members were reminded that the Council prepared its Annual Accounts and supporting financial statements in accordance with applicable laws and regulations and in line with the Statement of Recommended Practice (SORP) on Local Authority accounting in the UK.

A copy of the Statement of Accounts had previously been circulated.

The Chairman commenced the debate by thanking Mr Hayes and his team for their hard work in completing the accounts in a timely and professional manner.

Mr Hayes provided the committee with an overview of the various parts of the accounts and statements. Members were invited to go through the document page by page.

Mr Hayes made reference to the report submitted to Cabinet on the MTFS which provided members with an overview of the Council's financial position and outlook. He stated that overall it had been a satisfactory year with a positive outturn position. He added that there were still a significant number of financial uncertainties facing local government which in turn affected the Council's Medium Term Financial Strategy.

With regard to the government grant support, Mr Hayes indicated that local authorities had been advised of a likely 25% cut over a 4 year period from 2011 but there were uncertainties as to how this would be phased in. Along with the proposed freeze on Council tax from 2011, this presented serious risk to the MTFS. With regard to the proposed reserve for concessionary fares, Mr Hayes indicated that this still remained the subject of a legal challenge and was pending the outcome of the hearing. He further advised that a consultation paper was expected at the end of July which, hopefully, would clarify the position further on the transfer of responsibilities for this function to the County Council.

Members were advised that on the whole, the Council is in a better position than originally anticipated at budget time.

Councillor Nulty commented on the Council's under spend and suggested that it would be helpful for audit committee members to have sight of the report on the MTFS prior to the meeting next year.

Councillor Oades asked about the Council's spending on projects and whether there had been any cuts in this area. Mr Hayes confirmed that no instructions were given to stop spending in respect of any projects or services at this stage.

Discussions also took place about the concessionary travel scheme, pensions review, trade debtors, council tax arrears, writing off bad debts and the annual costs/ percentage of assets that are leased / owned.

Councillor Aitken made reference to (B13) of the balance sheet relating to debtors and sought clarification on the costs involved.

Following detailed consideration, the Committee RESOLVED:

1. To approve the Statement of Accounts for 2009/10.
2. To ask the appropriate scrutiny committee to look at spending trends on projects taking into consideration the current surplus.
3. To ask the Director of Finance to provide a written note to members prior to the next meeting of the committee detailing:
  - Information relating to (B13) of the balance sheet relating to debtors
  - The annual costs/ percentage of assets that are leased/ owned
  - Details of Council Tax arrears
  - Details of collection of trade debts / writing off debts.

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