Agenda

Audit Committee

Date:	Thursday, 25 September 2014 at 6:15 pm
Venue:	Town Hall, St Annes, FY8 1LW
Committee members:	Councillor John Singleton JP (Chairman) Councillor Brenda Ackers (Vice-Chairman) Councillors Ben Aitken, Christine Akeroyd, Leonard Davies, Howard Henshaw, Ken Hopwood, Linda Nulty, Louis Rigby

Contact: Katharine McDonnell – Telephone: (01253) 658423 – Email:
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The code of conduct for members can be found in the council's constitution at
www.fylde.gov.uk/council-and-democracy/constitution

This document/publication is also available on our website at www.fylde.gov.uk

Any enquiries regarding this document/publication should be sent to us at the Town Hall, St Annes Road West, St Annes FY8 1LW, or to listening@fylde.gov.uk.

Minutes

Audit Committee

Date:	Thursday, 26 June 2014
Venue:	Town Hall, St Annes
Committee members:	Councillor John Singleton JP (Chairman) Councillors Christine Akeroyd, Leonard Davies, Ken Hopwood, Linda Nulty, Louis Rigby and Richard Redcliffe
Officers:	Ian Curtis, Paul Swindells, Savile Sykes, Andrew Wilsdon and Katharine McDonnell

1. Declarations of interest

Members were reminded that any disclosable pecuniary interests should be declared as required by the Localism Act 2011 and any personal or prejudicial interests should be declared as required by the Council's Code of Conduct for Members. There were none on this occasion.

2. Confirmation of minutes

RESOLVED: To approve the minutes of the Audit Committee meeting held on 20 March 2014 as a correct record for signature by the Chairman.

3. Substitute members

The following substitution was reported under Council procedure rule 23(c):

Councillor Richard Redcliffe for Councillor Ben Aitken.

4. Planning Code

Ian Curtis (Head of Governance) presented a revised member/officer protocol for planning. He explained that the revisions took into account changes made by the Localism Act 2011, revisions to the Ethical Framework and good practice recommendations from the Peer Planning Review.

Mr Curtis advised that the proposed revised protocol had previously been before the committee for consideration in April 2013, but had been deferred to allow it to be considered by the Development Management Committee. He advised the revised code provided clearer advice on the duties of members and officers, and introduced a 'pause for thought' to allow Development Management committee members to take advice before making a decision contrary to officer recommendation.

Some members of the committee expressed concern regarding the level of compliance with the code. The Chairman suggested that in recommending the code to Council, the committee could stress the importance of adhering to the code.

It was RESOLVED that

(1) the revised Planning Code be recommended to Council for approval; and

(2) the committee asks Council to stress to political groups and individual councillors the importance of adherence with the code in maintaining public confidence in the council.

5. Regulation of Investigatory Powers Act 2000: Authorisations

Ian Curtis (Head of Governance) presented the quarterly report on the Regulation of Investigatory Powers Act 2000: Authorisations. It was noted that for the quarter to March-June 2014, there were no authorised operations.

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

6. Annual Governance Statement

Ian Curtis (Head of Governance) presented the Annual Governance Statement. He explained that preparation and publication of an annual governance statement was necessary to comply with Regulation 4(3) of the Accounts and Audit Regulations Act 2011, forming part of the Annual Statement of Accounts. He further advised that the Council had adopted a code of corporate governance which was consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA)/Society of Local Authority Chief Executives (SOLACE) 'Delivering Good Governance' Framework, which was before the committee for information.

Mr Curtis explained that the Corporate Governance Group, having met to review the effectiveness of the Council's governance framework, had identified four areas of action for the forthcoming year. These four actions would be translated into an action plan and presented to a future meeting of the Audit Committee.

It was RESOLVED

(1) To approve the Annual Governance Statement for signature by the Leader of the Council and the Chief Executive, subject to the two minor amendments in regards to the actions identified for 2014/15, and that the word 'refresh' be deleted from actions (1) and (2) and replaced with the word 'review'; and

(2) That a report providing an overview of the effectiveness, and compliance with, the protocol for members on outside bodies, be brought to a future meeting of the Audit Committee.

7. Effectiveness of the Audit Committee

Savile Sykes (Head of Internal Audit) presented a report of the findings of a self-assessment exercise conducted by the Chairman and Vice Chairman, alongside the Head of Internal Audit, regarding the effectiveness of the Audit Committee.

The self-assessment compared the current arrangements and practices of the Audit Committee to the advice for exemplar arrangements published by Chartered Institute of Public Finance and Accountancy (CIPFA).

Mr Sykes reported two minor divergences from the standard, these were in regards to some committee members being Chair/Vice Chair of other committees which could compromised their independence. However he advised that having observed the work of members in Audit committee there was no evidence to suggest conflict of interest or fettering of their independence.

It was RESOVLED to agree the findings of the self-assessment.

8. Internal Audit Annual Report 2013-2014

Savile Sykes (Head of Internal Audit) introduced the Internal Audit Annual Report 2013/2014. In a comprehensive summary Savile explained the purpose of the report, the context and the internal audit opinion.

He advised that reliance could be placed on the Council's control environment, particularly in terms of the fundamental financial systems. However he further explained that the work of internal audit had identified 11 high priority findings, with improvements agreed to ICT disaster recovery and business continuity required to enhance the effectiveness of governance, risk management and internal control.

Mr Sykes referred the committee to the average and main system assurance scores, advising that the main financial systems were demonstrating sound systems of control for 2013/14. He also referred the committee to the identified 11 high priority findings, advising that four of the risks had already been addressed, the remaining seven actions had not yet reached their agreed dates for completion.

Mr Sykes drew the committee's attention to the overall implementation and high/medium implementation rates for agreed internal audit recommendations. He advised these had slipped back slightly from last year's figures.

Following discussion the committee RESOLVED

(1) To approve the annual report of the Head of Internal Audit;

(2) To confirm the report provided suitable assurance regarding the Council's control environment in terms of the overall adequacy and effectiveness of the controls and processes in place to achieve the objectives of the Council;

(3) To strongly encourage the Chief Executive and senior management to take appropriate steps to see the prompt implementation of all actions agreed by management arising from audit work; and

(4) To request that the Chief Executive, in his next staff communication, remind staff that the target for implementation of High/Medium corrective actions, agreed by the Audit Committee, is 95%.

9. Risk Management Annual Report

Andrew Wilsdon (Risk and Emergency Planning Officer) presented the Risk Management Annual Report. He explained that the report provided a summary of the 2013/14 Risk Register Action Plans and presented the Risk Register Action Plans for 2014/15.

Mr Wilsdon summarised the outstanding actions from the 2013/14 Risk Action Plans providing explanations for the non-compliance. He also explained that a minor amendment had been made to the Strategic Risk Management Group's terms of reference. He advised this was to reflect the group's new responsibilities in monitoring the Council's Emergency, Business Continuity and Disaster Recovery Plans along with Information Security/Risk and Data Protection.

In referring the committee to the Risk Management Action Plans for 2014/15, Mr Wilsdon advised that due to a number of decisions made in recent weeks and new data from the Office for National

Statistics, Risk Management Action Plan 2 regarding the Local Plan required substantial rewriting. He further advised that the revised Action Plan would be presented to a future meeting of the committee for their approval.

Following discussion it was RESOLVED

(1) To note the year-end report and progress on the 2013/14 Risk Action Plans;

(2) To approve the Strategic Risk Register 2014/15; and

(3) To approve the amended Strategic Risk Management Strategy

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REPORT

REPORT OF	MEETING	DATE
CHIEF FINANCIAL OFFICER	AUDIT COMMITTEE	25 SEPTEMBER 2014

ANNUAL STATEMENT OF ACCOUNTS 2013/14

PUBLIC ITEM

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

SUMMARY

1. 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 United Kingdom (the Code), 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 2014.

2. The statutory Annual Accounts and supporting financial statements are prepared in accordance with applicable laws and regulations and in line with the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (The Code).

3. The Audit Committee has the authority to approve the Council's after-audit Annual Statement of Accounts, and is recommended to do so.

RECOMMENDATIONS

1. Audit Committee is recommended to approve the Statement of Accounts for 2013/14.

CABINET PORTFOLIO

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

Finance and Resources : Councillor Karen Buckley

SUMMARY OF PREVIOUS DECISIONS

There are no previous decisions relating to the Statement of Accounts for 2013/14.

REPORT

INFORMATION

1.1 The Accounts and Audit Regulations 2011 require the Council's responsible financial officer (Section 151 Officer) to prepare and certify that the Statement of Accounts "present a true and fair view of the financial position" of the Council for the 2013/14 financial year by 30th June 2014. The Council is then formally required to approve and publish the Statement of Accounts no later than 30th September 2014.

1.2 The Council has delegated to Audit Committee the requirement to approve the Statement of Accounts for 2013/14 by 30th September 2014, in line with the Accounts and Audit Regulation 2011.

1.3 The Council prepares its statutory Annual Accounts and supporting financial statements in accordance with applicable laws and regulations and in line with the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (The Code).

1.4 The Council's external auditors audit the draft accounts prepared by the Council and give an opinion on them. KPMG base their opinion on the Annual Accounts as to whether they "present a true and fair view of the financial position" of the Council in accordance with the requirements set out above.

1.5 For the 2013/14 the Code introduced the following changes:

- Extensive revisions to reflect the changes to the introduced by the amendments to IAS 19, Post-employment benefits.
- Guidance on the accounting requirements for the localisation of business rates in England.

Further details on these changes are included in the notes to the Accounts and are set out in the Accounting Policies section of the Statement of Accounts.

1.6 Once the Audit Opinion has been given and accounts approved they must be signed and dated by the Member presiding the meeting (the Chair) at which approval is given and re-certified by the Section 151 Officer. The Statement of Accounts can then be published as a public document.

EXTERNAL AUDIT

1.7 One of the duties of External Audit is to examine the form and regularity of the accounts, the main purpose being to ensure they are not materially mis-stated.

1.8 If the Auditors identify any material changes to the Accounts, these will be reported to Members in their independent audit findings report.

CONCLUSION

1.9 The deadline for the internal production and external audit of the Statement of Accounts for 2013/14 has been achieved.

IMPLICATIONS	
Finance	The financial implications are contained within the body of this report
Legal	The Council (delegated to Audit Committee) is required to approve the Statement of Accounts for 2013/14 by 30th September 2014 in line with the Accounts and Audit Regulations 2011.
Community Safety	None arising from this report
Human Rights and Equalities	None arising from this report
Sustainability and Environmental Impact	None arising from this report
Health & Safety and Risk Management	None arising from this report

REPORT AUTHOR	TEL	DATE	DOC ID
Paul O'Donoghue Section 151 Officer	01253 658566	September 2014	

LIST OF BACKGROUND PAPERS		
Name of document	Date	Where available for inspection

Attached documents

1. Annual Statement of Accounts 2013/14

STATEMENT OF ACCOUNTS

FOR THE YEAR ENDED

31ST MARCH 2014

CONTENTS

INDEPENDENT AUDITORS REPORT

Independent auditors' report to the Members of Fylde Borough Council

We have audited the financial statements of Fylde Borough Council for the year ended 31 March 2014 on pages 22 to 84. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

This report is made solely to the members of the Authority, 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 the members of the Authority, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view.

Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Explanatory Foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2014 and of the Authority's expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

INDEPENDENT AUDITORS REPORT

Matters on which we are required to report by exception

The Code of Audit Practice 2010 for Local Government Bodies requires us to report to you if:

- the annual governance statement set out on pages 85 to 90 does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- the information given in the explanatory foreword for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- any matters have been reported in the public interest under section 8 of Audit Commission Act 1998 in the course of, or at the conclusion of, the audit; or
- any recommendations have been made under section 11 of the Audit Commission Act 1998; or
- any other special powers of the auditor have been exercised under the Audit Commission Act 1998.

We have nothing to report in respect of these matters

INDEPENDENT AUDITORS REPORT

Conclusion on Fylde Borough Council's 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 to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements 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 relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. 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.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, we are satisfied that, in all significant respects, Fylde Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

Certificate

We certify that we have completed the audit of the financial statements of Fylde Borough Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice 2010 for Local Government Bodies issued by the Audit Commission.

Tim Cutler
for and on behalf of KPMG LLP, Appointed Auditor
Chartered Accountants
St James' Square
Manchester
M2 6DS

September 2014

EXPLANATORY FOREWORD BY CHIEF FINANCIAL OFFICER

1. INTRODUCTION

The Council is statutorily required to produce annual accounts, and this document sets out the Council's Statement of Accounts for the financial year ending 31st March 2014. The Accounts and Audit Regulations 2011 require me, as the Council's responsible financial officer, to certify that they 'present a true and fair view of the financial position' for the 2013/14 financial year by 30th June 2014. The Council is then formally required to approve and publish the Statement of Accounts no later than 30th September 2014. This function is delegated at Fylde to the Audit Committee. Following approval, the Statement of Accounts must be signed and dated by the member presiding at the meeting at which approval is given.

The accounts are audited by the Council's External Auditors, KPMG, who also review whether the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources and issue a conclusion on this, as part of their report to those charged with governance, to the Council's Audit Committee at the conclusion of the audit.

In my role as Chief Financial Officer and the Council's statutory Section 151 Officer, I am required to prepare an explanatory foreword to accompany the Statement of Accounts. The foreword is prepared in a style to enable readers to understand and interpret the accounting statements. By producing this report, I aim to give electors, local residents, Council Members, partners, stakeholders and other interested parties confidence that public money which has been received and spent, has been properly accounted for and that the financial standing of the Council is secure.

Capitalising on the good practice now established in closing the accounts, the style and format of the accounts that has been used for 2013/14 is similar to that used last year. The purpose of this foreword is to assist the readers' interpretation of the accounts and to provide an overall summary of the Council's financial performance for 2013/14, to explain the Council's financial position as at 31st March 2014, and to give a summary insight into what the financial future holds for the Council.

The format of the Statement of Accounts is heavily prescribed and follows the requirements as set out by the Chartered Institute of Public Finance and Accountancy (CIPFA), Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the Code), and the Service Reporting Code of Practice for Local Authorities 2012/13 (SeRCOP), supported by International Financial Reporting Standards (IFRS).

2. MEDIUM TERM FINANCIAL STRATEGY

The Council has established and embedded sound and improving financial management practices, the cornerstone of which is a Medium Term Financial Strategy (MTFS). The strategy is updated and reported to Members on a regular basis, with the latest update being approved at the Council's meeting of 3rd March 2014. In that report I concluded, having taken account of the major items of expenditure and income and their sensitivity to change, together with the risks detailed in the report, that the finances of the Council are robust.

The purpose of the MTFS is set out in detail in that document, together with details of: the Vision for the Borough; the Council's Strategic Planning and Performance Management Framework; the Council's Capital Strategy and Asset Management Plan; Savings and Growth proposals; Reserves and Balances provision; details of the Council's Capital Programme; key areas of financial risk facing the Council; and a five year financial forecast for the Council. One aim of the MTFS is to ensure that the resources available to the Council are aligned with the priorities set out within the Council's approved Corporate Plan. Both the MTFS and the Corporate Plan are available at www.fylde.gov.uk.

3. CHANGES INTRODUCED BY THE CODE OF PRACTICE ON LOCAL AUTHORITY ACCOUNTING 2013/14 (THE CODE)

For 2013/14 'The Code' has introduced the following key accounting changes that affect the Authority:

- Extensive revisions to reflect the changes to the introduced by the amendments to IAS 19, Post-employment benefits.
- Guidance on the accounting requirements for the localisation of business rates in England.

Further details on these changes are included in the notes to the Accounts and are set out in the Accounting Policies.

4. THE STATEMENTS

To assist in the interpretation and understanding of the Statement of Accounts, I set out below the purpose of each of the core financial statements contained within this document.

The Core Financial Statements include: -

- *Movement in Reserves Statement* – this is a summary of the movement in year on the different reserves held by the Authority analysed into 'usable reserves' (those which can be applied to fund expenditure) and un-usable reserves (those which cannot be used to fund expenditure).
- *Comprehensive Income and Expenditure Statement* – this consists of two sections: the first section showing entries for income and expenditure arising from day to day operational services and the second section showing the increase or decrease to net worth as a movement in fair value of assets.
- *Balance Sheet* – this sets out the Council's assets and liabilities as at 31st March 2014 and how these are funded (by reserves, borrowing, provisions and other balances).
- *Cash Flow Statement* – this summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.
- *Notes to the Core Financial Statements* – these assist in the interpretation of the accounts by comprising a summary of significant accounting policies and other explanatory information.

Additional statements accompanying the accounts:

- *Statement of Responsibilities for the Statement of Accounts* – this identifies the officer who is responsible for the proper administration of the Council's financial affairs.
- *Risk Management Policy Statement* - this outlines the Council's approach to the management of risk.
- *Collection Fund* - this was established to maintain a separate fund for the collection and distribution of amounts due in respect of council tax and non-domestic rates, as a requirement for all billing authorities under the Local Government Finance Act 1988.
- *Glossary* – an explanation of some of the key technical terms used in these accounts.

In line with the Code of Practice on Local Authority Accounting 2013/14 the Annual Governance Statement is included within the Statement of Accounts.

5. THE COUNCIL'S SPENDING

The Council effectively has two types of expenditure:

- **Revenue expenditure** – this is essentially the day to day costs incurred by the Council in providing services, including for example, employee costs, premises running costs, transport related costs and supplies and services.
- **Capital expenditure** – this is essentially one-off major items of expenditure relating to the purchase of new assets or expenditure which materially improves the working life of existing assets.

At the Annual Budget Setting Council meeting, the Council plans and approves how much it is going to spend in the coming year and reflects these spending plans as budgets. It calculates how much money needs to be raised from Council Tax having allowed for income and government grants, and determines how much it can raise from existing resources, contributions from outside sources or borrowing to fund its capital expenditure.

5.1 REVENUE EXPENDITURE

This part of the foreword deals with the revenue outturn position for the Council.

Net Budget Requirement

On the 3rd March 2014, Council approved a Revised Revenue Budget net requirement of £9.671m for 2013/14. Subsequently, Cabinet approved two items which affected this net requirement as follows:

(i) a re-phasing of an element of the accommodation project works had the effect of reducing the 2013/14 budget by £174k; and

(ii) a re-phasing of the delivery plan and associated budgets for the Local Plan had the effect of reducing the budget in 2013/14 by £21k.

These approvals have the following effect on the net requirement for 2013/14:

Table 1 – Updated Net Budget Requirement 2013/14

	Net Budget Requirement
	£'m
Net budget requirement approved at budget Council 3rd March 2014	9.671
Less: impact of accommodation project re-phasing of works	(0.174)
: impact of Local Plan re-phasing	(0.021)
Updated net budget requirement	**9.476**

Throughout 2013/14, in response to the uncertainty surrounding the nature and level of current and future income streams as a consequence of changes in national funding arrangements there has been close control of expenditure. Officers with budget holder responsibility were instructed to remain prudent and minimise expenditure commitments and maximise efficiencies and savings wherever possible. That instruction remains in place, and has resulted in the generation of in-year savings throughout the majority of 2013/14. In addition to this approach to budget management, a number of one-off items have contributed to a favourable outturn position including one-off income gains achieved during the year.

The outturn position for 2013/14 was a net budget requirement of £8.882m, resulting in a favourable variance (before financing and slippage) of £0.594m. The underlying underspend in relation to the net budget requirement, after accounting for both slippage and minor technical accounting adjustments during the year is reduced to £0.472m.

At its meeting on 25th June 2014 Cabinet approved the transfer of the sum of £0.472m to the Capital Investment Reserve. This is in addition to the budgeted transfer to the reserve of £0.455m approved by Budget Council on 3rd March 2014. The purpose of this reserve is to fund capital investment in the future and to minimise the need for additional borrowing. Following this additional transfer the balance on the reserve stands at £1.652m. The Council, at its meetings of 4th March 2013 and 3rd March 2014, has already approved commitments of £1.125m from this reserve spread between 2014/15 and 2017/18, leaving an uncommitted balance at the start of 2014/15 of £0.527m for further capital investment.

Financing

In relation to financing, the outturn position for 2013/14 was net financing received during the year of £10.735m compared to a budget of £10.126m, resulting in a favourable variance of £0.609m. Of this, £0.374m related to a grant received by the Council in 2013/14 in relation to the Business Rate Retention Scheme. Specifically the grant recompenses authorities for their individual reduction in non-domestic rating income associated with the increase in Small Business Rate Relief in 2013/14.

Under the new accounting arrangement for non-domestic rates (NDR) the total deficit on the NDR Collection Fund at the end of 2013/14 was £1.039m. The most significant factor in this deficit is the reduced NDR income received as a direct result of the increase in Small Business Rate Relief in 2013/14. The deficit is split between the Government, LCC, the Fire Authority, and the Council, with the Council's share being £0.416m. The collection fund accounting processes mean that there are significant timing differences between when a deficit or surplus on the collection fund occurs and when the relevant payments or receipts are made to or from the relevant parties to the collection fund. Cabinet, at its meeting on 25th June 2014, approved a contribution to a new earmarked Collection Fund Deficit Reserve in the sum of £0.416m in order to meet the Council's share of the collection fund deficit when the payment is due to be made.

The remaining favourable financing variance, after technical accounting adjustments amounted to £0.221m. This related largely to additional NDR income received in year when compared to the budgeted safety net level, together with a one-off redistributed capitalisation grant from central government and a further grant in relation to Community Right to Challenge funding. Cabinet, at its meeting on 25th June 2014, approved a contribution to a new earmarked Funding Volatility Reserve in the sum of £0.221m to provide a degree of protection to the Council's finances against future volatility in central government funding allocations.

A Summary of the outturn position and the transfers to reserves described above are shown in Table 2 below:

Table 2 – General Fund Revenue Outturn Position and Transfers to Reserves 2013/14

	Budget	Actual	Variance	
	£m	£m	£m	
Net expenditure for the year	9.476	8.882	(0.594)	(Fav)
Financing for the year	(10.126)	(10.735)	(0.609)	(Fav)
Surplus of resources for the year	**(0.650)**	**(1.853)**	**(1.203)**	(Fav)
Less budgeted transfer to Capital investment Reserve	0.455	0.455	-	
Re-phasing of budgets approved by Cabinet:				
• Accommodation Project	0.174	0.174	-	
• Local Plan	0.021	0.021	-	
Recommended transfers to reserves	-	**(1.203)**	**(1.203)**	(Fav)
Analysis of transfers to reserves:				
- to General Fund revenue balances re slippage	-	(0.094)	(0.094)	(Fav)
- to Collection Fund Deficit Reserve	-	(0.416)	(0.416)	(Fav)
- to Funding Volatility Reserve	-	(0.221)	(0.221)	(Fav)
- to Capital investment Reserve	-	(0.472)	(0.472)	(Fav)
Total transfer to reserves	-	**(1.203)**	**(1.203)**	(Fav)

Full details and further analysis of expenditure, income and budget variances are set out in the Medium Term Financial Strategy (MTFS) Outturn Report reported to Cabinet on 25th June 2014. A copy of the report can be found at the Council's website at www.fylde.gov.uk.

The 2013/14 Gross Cost of General Fund Services is analysed by service area in Table 3 below:

Table 3 – Gross Cost of General Fund Services 2013/14

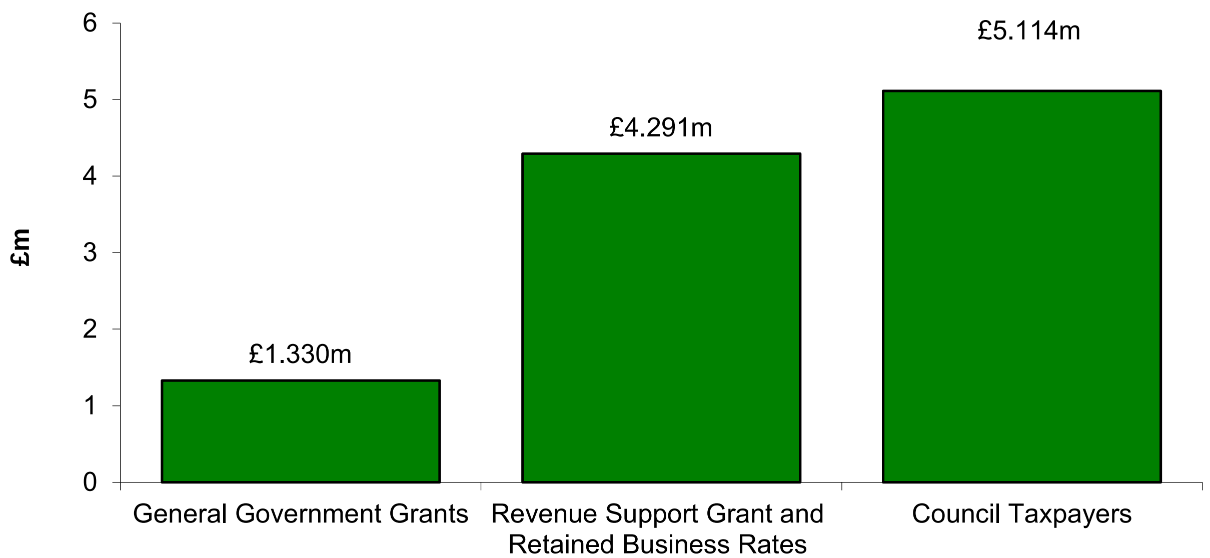
	Outturn
	£'m
Service:	
Refuse Collection	2.558
Street Cleaning	0.958
Other Environmental Health	0.949
Development Control, Building Control and Local Plans	1.595
Tourism and Leisure	2.740
Housing	0.853
Housing Benefits	21.360
Local Tax Collection	0.726
Economic Development and Regeneration	0.164
Other	5.543
Gross Expenditure Totals	***37.446***
Income and Grants:	
Other Government Grants (incl Housing Benefit Subsidy Grant)	(20.548)
Other Grants and Contributions	(2.036)
Other Income, Fees and Charges etc.	(5.980)
Income and Grants Totals	***(28.564)***
Net Expenditure for the Year	**8.882**

(as per Table 2)

5.2 INCOME

The Council finances its net operating expenditure from Council Tax, General Government Grants and Revenue Support Grant and, under new arrangements from 2013/14, the local share of Business Rates. The contribution made by each is shown in the following graph:–

Table 4 - General Fund Net Revenue Funding Sources 2013/14



Council Tax

For 2013/14 the charge for Fylde Borough Council Tax decreased by an average of 0.2%. Individual increases within the Borough varied due to the impact of changes in special expenditure. The actual in-year rate of collection in 2013/14 was 97.8%. The collection rates for 2012/13 and 2011/12 were 98.0% and 98.2% respectively. Ultimately the Council collects in the region of 99% of Council Tax. In 2013/14 the Council retained £5.114m of Council Tax income.

General Government Grants and Non Domestic Rates

Income from central government in respect of Revenue Support Grant together with the Council's share of local business rate income for 2013/14 totalled £4.291m. Other Government Grants received in 2013/14 include New Homes Bonus of £907k with a further £423k in government grants relating to grants in respect of NDR Small Business Relief compensation (as described above), capitalisation grant unused and consequently redistributed to local authorities by central government, and the Community Right to Bid and the Community Right to Challenge initiatives.

5.3 CAPITAL

In 2013/14 total capital expenditure was £2.177m as compared to a revised total programme of £2.189m (after adjusting for slippage of £110k).

An analysis of how the money was spent, and financed, is shown in Table 5 below.

Table 5 – Capital Expenditure and Sources of Financing 2013/14

Expenditure by Scheme:	£'000	£'000
Replacement Vehicles	112	
Disabled Facilities Programme	552	
Accommodation Project	259	
Lansdowne Road Play Area	58	
Fylde Community Growing Project	6	
Promenade Garden Play Area Project	50	
St Annes Pool – Changing Facilities Improvement	656	
Lytham Park Cemetery – Infant Memorial Garden	30	
Cemetery and Crematorium – Infrastructure Works	80	
St Annes 2012	2	
Car Park Improvements	38	
Town Centre Regeneration - Ansdell	227	
Promenade Footways	62	
Contribution to Kirkham Public Realm Improvement Scheme	35	
Fylde Headlands Preliminary Work	10	
Total Expenditure		**2,177**
Financing:	**£'000**	**£'000**
Grants & Contributions	1,289	
Capital Receipts	288	
Borrowing	407	
Revenue Contribution	193	
Total Financing		**2,177**

6. TREASURY MANAGEMENT

The security of investments is the Council's main investment objective. This is achieved by adhering to the Treasury Management Strategy, as approved by Council on 4th March 2013 and subsequently revised and approved again by Council on 2nd December 2013. The investment activity during the year conformed to the approved strategy and the Council had no liquidity difficulties. No additional external borrowing was undertaken during 2013/14, leaving the level of external debt unchanged at £3.8m throughout the period.

At the start of the financial year, international markets were concerned about the lack of growth in the Eurozone, the UK and Japan. Concerns about the UK economy included fears of a triple-dip recession, falling wages, and low business investment.

However, as the year progressed UK economic growth exceeded earlier expectations with much of the improvement being due to the strength of the service sector and to an increase in household consumption driven by higher consumer confidence, greater availability of consumer credit and strengthening house prices. The service sector, manufacturing and construction all registered some growth in the final quarter of 2013/14 which indicates that a balanced recovery may be developing. CPI (Consumer Price Index) inflation fell to 1.6% in March 2014 largely due to the easing of petrol prices and to the effect of discounting by retailers.

The Monetary Policy Committee (MPC) maintained the Base Rate at 0.5% throughout 2013/14 and the Bank of England has indicated that it expects any future increases to the bank rate to be gradual in nature.

Despite these encouraging signs of improvement in the general economic conditions the challenging investment environment of previous years has continued throughout 2013/14, typified by low investment returns and continuing increased levels of counterparty risk. As a consequence of the on-going uncertainties in financial markets I acted to minimise the counterparty risk by continuing to operate the additional investment restrictions (i.e. over and above those contained within the approved Treasury Management Strategy) which I had previously put in place. These additional treasury restrictions are applied during periods of financial or banking instability.

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 2013/14 to 2016/17 have been agreed by the Council. Performance is monitored and reported during the year. For 2013/14 the Council has complied with all agreed internal procedures and the Prudential Indicators set for borrowing have been managed within the limits set.

A key Prudential Indicator for every Council is the Capital Financing Requirement (CFR). The CFR is the amount that the Council needs to borrow in order to fund its capital expenditure requirements: it is in effect the Council's underlying need to borrow. The CFR for Fylde Borough Council for the year ended 31st March 2014 was £7.2m. The Council is able to borrow money from either the Public Works Loans Board (PWLB) (an agency of HM Treasury), from banks, building societies, or from other public bodies. The Council's borrowing need as at 31st March 2014 was met by a combination of PWLB borrowing of £3.8m and internal cash balances. These amounts are analysed in the notes to the Balance Sheet. No additional external borrowing was undertaken during 2013/14. The interest paid in respect of the Council's external debt in 2013/14 was £109k.

During the year, cash sums managed internally by the Council have been invested for periods of up to two weeks with approved banks, money market funds, and Lancashire County Council. The Council held an average cash balance of £11m of internally managed funds. The overall performance was a gross return of 0.44% compared with a benchmark return of 0.41%, and interest earned was £48k compared to a revised budget of £46k.

The Authorised Limit for External Debt is a further key Prudential Indicator that controls the overall level of borrowing and is a statutory limit set by the Council that must not be breached. The Council's authorised limit for external debt for 2013/14 was £9.9m. The Council's actual total debt at 31st March 2014 was £3.8m which was significantly below the Authorised Limit as a result of the use of internal borrowing (cash balances used to meet the CFR in place of external borrowing).

Pension Fund

The pension fund deficit as at 31st March 2014 was £20.311m. This has a substantial impact on the net worth of the authority as recorded in the Balance Sheet. Statutory arrangements for funding the deficit mean that the deficit on the pension fund will be made good by increased contributions over the remaining working life of employees as assessed periodically by the pension fund actuary. The Local Government Pension scheme nationally is also being remodelled following the Hutton Review, with a revised scheme designed to reduce local fund deficits due to be implemented with effect from 1st April 2014.

7. REVIEW OF THE COUNCIL'S FINANCIAL POSITION

Over a number of years the Council has adopted a planned and systematic approach to financial management and corporate governance, safeguarding public monies and ensuring accountability whilst delivering quality services. In 2013 KPMG audited the Council and gave an "unqualified opinion", which indicated that they were satisfied with the Council's financial and governance arrangements.

The Emergency Budget and the Comprehensive Spending Review of 2010 resulted in a great deal of uncertainty for the Council and the beginning of a period of substantial financial constraint. The Local Government finance settlement for 2013/14 onwards marked the start of a new era in the way Local Government is funded.

The outturn position for the net budget requirement for 2013/14, after accounting for both slippage and minor technical accounting adjustments, was a favourable variance of £0.472m, which was added to the Capital Investment Reserve. This is a helpful addition to the reserve and will provide an increased resource for additions to the Capital Programme whilst reducing the requirement for external borrowing.

The introduction of Business Rates (or National Non-domestic Rates, NDR) Retention from April 2013 has had a significant effect on councils, as changes to the Business Rates yield now directly impact on council funding levels, with both the risks and rewards of Business Rate growth being shared between Central Government, Precepting Authorities and Billing Authorities. The uncertainty in the levels of income receivable resulting from the new arrangements has led to significant changes in income assumptions for 2013/14 during the course of the year. The late announcement of a specific general fund grant from central government (to reimburse local authorities for the effect of the continued doubling of small business rate relief) changed the earlier assumptions that were contained within financial forecast updates during the year. The grant compensated the Council for the outturn deficit on the NDR collection fund. The position is complicated by timing delays in the payment of the Council's share of that deficit. The total deficit on the NDR Collection Fund at the end of 2013/14 was £1.039m of which the Council's share was £0.416m. To provide for this, at outturn 2013/14 a new earmarked Collection Fund Deficit Reserve was created in the sum of £0.416m.

The other favourable financing outturn variance of £0.221m related largely to additional NDR income received in-year as compared to the budgeted safety net level, together with a one-off redistributed capitalisation grant from central government and a further grant in relation to Community Right to Challenge funding. This favourable variance of £0.221m was set aside in a new earmarked Funding Volatility Reserve to provide a degree of protection to the Council's finances against future volatility in central government funding allocations.

The Council has delivered a significant savings programme since 2007 and has continued to significantly reduce senior management costs and other overheads. Ongoing modernisation work and business improvement must continue to make Council services more efficient, save money and maintain frontline services to customers. This work has yielded ongoing savings to help improve the Council's overall financial position. However the Council's Medium Term Financial Strategy continues to show a budgeted call on reserves in the latter years, indicating that this work will need to continue. Recruitment was frozen throughout 2011/12 and an authority wide senior management restructure was completed and implemented during 2013/14. Furthermore instructions to all spending officers have remained in place to minimise expenditure commitments, to remain prudent and continue to maximise efficiencies in service delivery.

These actions, together with some one-off income gains, have again delivered a favourable outturn in 2013/14 with minimal significant short term impact on service delivery.

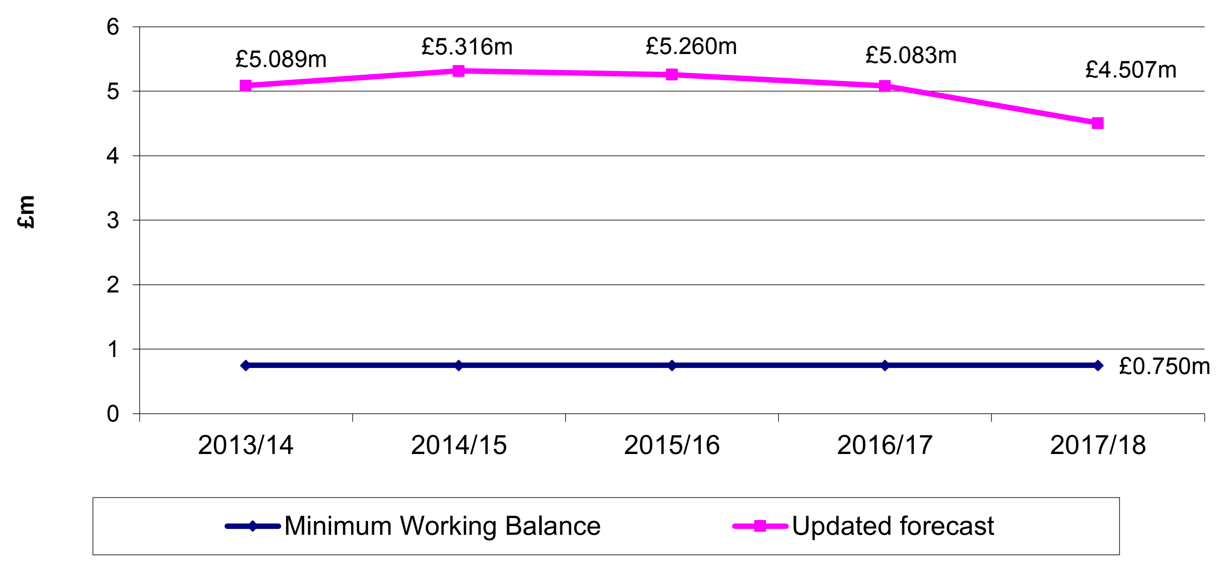
The Council began a budget rightsizing programme during the summer of 2012 in preparation for the ongoing Government funding reductions anticipated in future years. This initiative was repeated during 2013 and will continue year-on-year in order to reduce the required net expenditure and contribute to addressing the ongoing financial challenges faced by the Council. Members and Management Team have carried out work to address the challenge posed by the reduction in Government grant funding, and work continues to investigate shared service options and the implementation of modernisation and business process improvement that will make Council services more cost effective. This programme will yield efficiency improvements to help improve the Council's overall financial position.

The speed with which the national deficit reduction programme has been applied to local government means that the Council will need to continually identify further efficiencies, maximise income and look to create more capacity in order to deliver a balanced and sustainable budget in the medium term. Such an approach may lead to a review of service provision in some areas and a more measured achievement of improvement in priority areas. The financial pressures facing the Council in the future, as reported in detail in the MTFS considered at Budget Council in March this year, still remain.

Priorities and plans will be reviewed again during 2014. There is no doubt that anticipated further reductions in central government funding, along with the need to find future savings in later years based on this Medium Term Financial Strategy, will have a financial impact for the Council. Despite concerns that budget challenges might limit the Council's ability to deliver against our priorities, good progress has been made with many corporate initiatives.

After reflecting the impact of the favourable outturn position for 2013/14, revenue balances at the 31st March 2014 were £5.089m, which is higher than the recommended minimum balance of £750k. The chart below shows the forecast levels of non-earmarked General Fund Reserves for the next five years as reported in the March 2014 Medium Term Financial Strategy, updated to reflect the impact of outturn for 2013/14.

Table 6 - Non-earmarked General Fund Reserves - Forecast Levels



The current Capital Programme as updated is fully funded. The consequence of Cabinet's proposals to limit capital scheme growth is a reduced overall requirement to borrow. This will generate ongoing revenue savings against previously assumed revenue costs in relation to borrowing for approved capital schemes.

Due to the ongoing risks faced by the Council, the Capital Programme will continue to be closely monitored and reviewed on a regular basis.

In order to provide a resource for additions to the Capital Programme whilst reducing the requirement for external borrowing, the budget Council on 4th March 2013 approved the creation of a Capital Investment Reserve. Following the favourable outturn position for 2013/14 and the transfer of an additional £472k into the reserve (in addition to the budgeted transfer to the reserve of £455k approved by Budget Council on 3rd March 2014) the balance on the reserve stood at £1.652m at the start of 2014/15. The Council, at its meetings of 4th March 2013 and 3rd March 2014, has already approved commitments of £1.125m from this reserve spread between 2014/15 and 2017/18, leaving an uncommitted balance of £527k at the start of the year which is available for further capital investment.

8. OUTLOOK FOR THE FUTURE

External pressures outside the Council's control are impacting on all local authorities. The Council continues to face a turbulent future in respect of its finances, with a great degree of uncertainty regarding the impact of the changes to Central Government Grant Funding, the localisation of Business Rates and the localising of support for Council Tax together with the increasing significance to the Council's finances of New Homes Bonus and the lack of clarity regarding the longer-term availability of this funding source.

That said, over the last few years the Council has delivered significant efficiencies and savings which have seen general fund reserves grow to a level which allows the Council to deal with future challenges and pressures in a planned and effective way. However, the Council continues to face a number of uncertainties in the future in respect of its finances.

The 2013/14 financial outturn represents a further improvement in the Council's General Fund Revenue forecast balances position compared with previous budget forecasts. However the forecast call on reserves in the later part of the financial forecast indicates that ongoing modernisation and business improvement programmes need to continue.

The improved outturn position leaves the Council well placed to face these uncertainties and ensure that any future savings requirements can be planned and phased over a longer period than would otherwise be the case.

Looking forward, the key financial risks to the Council are listed below. In the context of the Council's financial forecast a risk can be defined as a change with an unknown or uncertain impact on the financial position of the Council that can be favourable or adverse. In assessing each risk the following has been taken into account:-

High Level Financial Impact Risk
- Potentially a significant sum, with the potential for impact over a number of years
- Relatively little mitigation available to spread or defer the impact
- The possibility of a significant financial impact on the Council if the risk materialises
- Probable need for change to the forecast if it materialises

Medium Level Financial Impact Risk
- Potentially a large sum, with the potential for impact over a number of years
- Some mitigation may be possible to spread or defer the impact
- The possibility of a sizeable financial impact on the Council if the risk materialises
- Possible need for change to the forecast if it materialises

Low Level Financial Impact Risk
- Potentially a less significant sum
- Some mitigation may be possible to spread or defer the impact
- Impact should be capable of being absorbed without major forecast changes

KEY REVENUE RISKS:

The following are all regarded as 'High Level Financial impact Risks'. A full analysis of identified financial risks is contained within the latest Medium Term Financial Strategy (MTFS) which was approved by Council on 3rd March 2014 and which is available at www.fylde.gov.uk.

New Homes Bonus

New Homes Bonus represents an increasingly important element of the Council's overall funding as other forms of funding (e.g. Revenue Support Grant) are forecast to reduce in future years.

In July 2013 the government launched a consultation on proposals to 'top-slice' individual councils' allocations of NHB from 2015/16 onwards (at either a 19% or a 35% level in order to provide funding at a national level for the Local Enterprise Partnerships) was completely unanticipated and would have had a serious detrimental effect upon the Council's financial position.

Fortunately as part of the 2013 Autumn Statement it was announced that this proposal was being withdrawn for local authorities outside London. Any future proposals to reduce the level of previously-notified New Homes Bonus funding, or fundamental changes to the scheme (as was considered by the Government in 2013/14) would have a serious impact upon the Council's financial position.

Consequently the Council's reliance upon New Homes Bonus to support ongoing revenue expenditure of the Council is one of the most significant financial risks facing the Council.

Government Grant Support (RSG)

The Government has made it clear that it continues to be committed to a national deficit reduction programme with the aim of significantly accelerating the reduction in the structural deficit of the country over the course of this Parliament, with the main burden of deficit reduction being borne by reduced spending rather than increased taxes.

The Government have provided provisional RSG allocations in respect of 2015/16 but have given no indication of the level of grant receivable thereafter. Future year's forecasts are based upon annual reductions of 31% per annum from 2016/17 onwards in line with the trajectory of grant reductions over the last few years. If future years grant reductions are greater than this assumed level this may have a significant impact upon the forecast.

Waste Recycling Cost Sharing Arrangements with Lancashire County Council (LCC)

Lancashire County Council is the Waste Disposal Authority (WDA) for Lancashire and Fylde Borough Council is a Waste Collection Authority (WCA) as defined by the Environmental Protection Act 1990 (EPA). Under current arrangements with LCC (which run until March 2018), provided that the required waste recycling measures are in place, LCC pay a discretionary index-linked payment to each participating district council. The value of this to Fylde Council is significant, estimated at around £750k per annum from 2018/19 onwards.

In January 2014, the Council were informed by LCC that a new 'Policy for Making Recycling Payments (Recycling Credits) to Waste Collection Authorities' had been approved by LCC which would have the effect of ending the existing payment arrangements with effect from 2018/19.

This therefore represents a significant risk to Fylde Council's future financial position from 2018/19 onwards. Officers will be working with LCC to fully understand the implications and options available. The resultant financial implications of this development and any new arrangements will be reflected in the future updates to the financial forecast as they become clear.

KEY CAPITAL RISKS INCLUDE:

The key areas of financial risk to the Council of a capital nature include the following:

Medium Level Financial Impact Risks

Disabled Facilities Grants

As the local housing authority, the Council has a statutory duty to provide disabled adaptations within the borough. The Capital Programme includes annual provision for Disabled Facilities Grants (DFG's) in line with the current grant received by the Council from the Department for Communities and Local Government (DCLG) to provide this statutory obligation. This accords with the Council decision to limit expenditure to the level of the Central Government grant received annually. In order to monitor the effect of this, the length of time and the number of applications on the various categories of waiting lists for DFG's are being closely monitored and will be reported to Members. The grant settlement for 2014/15 has recently been confirmed but from 2015/16 onwards the figures in the programme are estimates and will only be confirmed in the year they are due. For as long as the disabled facilities work remains a statutory obligation the grant is unlikely to be withdrawn by the Government but could be reduced.

As part of the 2013 Spending Round announced in June last year, the Government has established the Better Care Fund, with the intention of *"providing an opportunity to transform local services so that people are provided with better integrated care and support"*. With effect from 2015/16 onwards DFG funding will move from the DCLG to the Department of Health and will be paid via the Better Care Fund. In Lancashire the fund will be administered by Lancashire County Council as the upper-tier authority. However, the statutory duty on local housing authorities to provide DFG to those who qualify for it will remain. Therefore each area will have to allocate this funding to their respective housing authorities (district councils in two-tier areas) from the pooled budget to enable them to continue to meet their statutory duty to provide adaptations to the homes of disabled people, including in relation to young people aged 17 and under.

Special conditions will be added to the DFG Conditions of Grant Usage (under Section 31 of the Local Government Act 2003) which stipulate that, where relevant, upper-tier local authorities or Clinical Commissioning Groups must ensure they cascade the DFG allocation to district council level in a timely manner such that it can be spent within year.

Any future reduction in DFG received by the Council will have a direct impact on the level of adaptation work that can be undertaken. There is also a direct revenue implication on DFG fees which would also have to be adjusted.

Accommodation Project

The accommodation project is currently included in the capital programme with the scheme being self-financing from capital receipts from the sale of 3 sites (St David's Road Depot, Derby Road, Wesham and the Public Offices). If either the estimated cost of the refurbishment, the capital receipts achieved or the phasing of this scheme changes, there could be revenue implications which would be reported to Members and reflected in future revenue budget forecasts accordingly. Actual asset sales and receipts are dependent on market conditions and cannot be predicted with certainty. St David's Road depot was sold in 2012/13, and Derby Road, Wesham was sold in 2013/14. The Public Offices has been re-marketed during 2013 and the Accommodation Working Group have reviewed a number of further expressions of interest. It is possible, however, that it may be some time before the site is sold. Disposals of this nature where external agencies, planning decisions, external legal specialists and property developers are involved often take many months to conclude. This results in an inherent risk in the forecast level of programmed. The cross-party Accommodation Working Group continues to monitor and manage this project and regular update reports on the project will continue to be provided to members.

A full analysis of identified financial risks of a capital nature is contained within the latest Medium Term Financial Strategy (MTFS) which was approved by Council on 3rd March 2014 and which is available at www.fylde.gov.uk.

KEY TREASURY MANAGEMENT RISKS INCLUDE:

(i) Unexpected movements in cash flow;
(ii) Differences between the actual interest rate and rates used in the forecast; and,
(iii) The security of monies invested with counterparties.

CONCLUSION

In conclusion, the Council's finances, although under constant pressure, remain robust. Monitoring systems and procedures are in place to react to any significant changes. In addition the Council has a track record of making savings as dictated by resource availability. I am therefore confident that the Council will continue to maintain a balanced budget position in the medium term.

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

P. O'Donoghue, ACMA, CGMA
Chief Financial Officer, Section 151 Officer

Date: September 2014

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Authority's Responsibilities

The Authority 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 Chief Financial Officer.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

The Chief Financial Officer's Responsibilities

The Chief Financial Officer is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA (Chartered Institute of Public Finance & Accountancy)/LASAAC (Local Authority (Scotland) Accounts Advisory Committee) Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

In preparing this Statement of Accounts, the Chief Financial Officer has:

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

The Chief Financial 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 Chief Financial Officer's Certification

I certify that the Statement of Accounts present a true and fair view of the financial position of the Authority at the reporting date and its income and expenditure for the year ended 31st March 2014.

P. O'Donoghue, ACMA, CGMA
Chief Financial Officer, Section 151 Officer

Date: September 2014

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.

CORE FINANCIAL STATEMENTS

INTRODUCTION TO THE CORE FINANCIAL STATEMENTS

Introduction to the Core Financial Statements

Set out below is a brief explanation of the Core Financial Statements which are presented on the following pages:

- **The Comprehensive Income and Expenditure Statement (Page 22)**

  The Comprehensive Income and Expenditure Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

- **The Movement in Reserves Statement (Page 23)**

  This statement shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the council.

- **The Balance Sheet (Page 24)**

  The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories. The first category of reserves are unusable reserves, i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example, the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example, the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line '*Adjustments between accounting basis and funding basis under regulations*'.

- **The Cash Flow Statement (Page 25)**

  The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the authority.

- **The Collection Fund (Page 82)**

  The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2012/13 (Restated)						2013/14		
Gross Expend-iture	Gross Income	Net Expend-iture			Notes	Gross Expend-iture	Gross Income	Net Expend-iture
£'000	£'000	£'000				£'000	£'000	£'000
1,550	(565)	985		Central Services to the Public		1,329	(462)	867
3,301	(1,266)	2,035		Cultural and Related Services		3,505	(1,259)	2,246
5,906	(2,833)	3,073		Environmental and Regulatory Services		5,749	(2,885)	2,864
1,654	(537)	1,117	*	Planning Services		2,194	(718)	1,476
464	(583)	(119)		Highways and Transport Services		465	(635)	(170)
27,115	(26,491)	624		Housing Services		22,212	(21,667)	545
1,689	(97)	1,592	*	Corporate and Democratic Core		1,859	(26)	1,833
218	-	218		Non distributed costs		133	-	133
41,897	**(32,372)**	**9,525**	*	**Cost of Services**		**37,446**	**(27,652)**	**9,794**
1,217	(718)	499	*	Other Operating Expenditure	8	1,148	(907)	241
1,238	(310)	928	*	Financing and Investment Income and Expenditure	9	1,330	(460)	870
-	(11,384)	(11,384)		Taxation and Non-Specific Grant Income and Expenditure	10	-	(11,705)	(11,705)
		(432)	*	**(Surplus)/Deficit on Provision of Services**				**(800)**
		(61)		(Surplus)/Deficit on Revaluation of Property, Plant and Equipment	11			(345)
		758		Impairment losses on non-current assets charged to the Revaluation Reserve	12			-
		7		(Surplus)/Deficit on Revaluation of available for sale financial assets	17			606
		3,125	*	Actuarial (Gains)/Losses on Pension Assets/Liabilities	39			(5,182)
		3,829	*	**Other Comprehensive Income and Expenditure**				**(4,921)**
		3,397		**Total Comprehensive Income and Expenditure**				**(5,721)**

* Note: 2012/13 figures have been restated due to prior year changes in accounting policy – see Note 43 (pages 79-81) for details.

MOVEMENT IN RESERVES STATEMENT

	Note	General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves (Note 23)	Unusable Reserves (Note 24)	Total Authority Reserves
		£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 01/04/12		**3,730**	**1,608**	**32**	**-**	**5,370**	**(362)**	**5,008**
Movement in Reserves during 2012/13 (Restated)								
Surplus/(Deficit) on the Provision of Services		432	-	-	-	432	-	432
Other Comprehensive Income and Expenditure		-	-	-	-	-	(3,829)	(3,829)
Total Comprehensive Income and Expenditure		**432**	**-**	**-**	**-**	**432**	**(3,829)**	**(3,397)**
Adjustments between accounting basis and Funding under Regulations	6	841	-	239	185	1,265	(1,265)	-
Net Increase/(Decrease) before transfers to Earmarked Reserves		**1,273**	**-**	**239**	**185**	**1,697**	**(5,094)**	**(3,397)**
Transfers to/from Earmarked Reserves	7	(203)	203	-	-	-	-	-
Increase/(Decrease) Movement in 2012/13		**1,070**	**203**	**239**	**185**	**1,697**	**(5,094)**	**(3,397)**
Balance at 31st March 2013 carried forward		**4,800**	**1,811**	**271**	**185**	**7,067**	**(5,456)**	**1,611**
Movement in Reserves during 2013/14								
Surplus/(Deficit) on the Provision of Services		800	-	-	-	800	-	800
Other Comprehensive Income and Expenditure		-	-	-	-	-	4,921	4,921
Total Comprehensive Income and Expenditure		**800**	**-**	**-**	**-**	**800**	**4,921**	**5,721**
Adjustments between accounting basis and Funding under Regulations	6	829	-	627	(100)	1,356	(1,356)	-
Net Increase/(Decrease) before transfers to Earmarked Reserves		**1,629**	**-**	**627**	**(100)**	**2,156**	**3,565**	**5,721**
Transfers to/from Earmarked Reserves	7	(1,340)	1,340	-	-	-	-	-
Increase/(Decrease) Movement in 2013/14		**289**	**1,340**	**627**	**(100)**	**2,156**	**3,565**	**5,721**
Balance at 31st March 2014 carried forward		**5,089**	**3,151**	**898**	**85**	**9,223**	**(1,891)**	**7,332**

Note: 2012/13 figures have been restated due to prior year changes in accounting policy – see Note 43 (pages 79-81) for details.

BALANCE SHEET

Balance As at 31st March 2013 £'000		Notes	Balance As at 31st March 2014 £'000
17,867	Property, Plant and Equipment	**11**	18,532
3,870	Heritage Assets	**12**	3,870
2,807	Investment Properties	**13**	2,943
82	Intangible assets	**14**	19
21	Long Term Debtors	**16**	16
24,647	**Long Term Assets**		**25,380**
1,900	Assets held for sale	**17**	750
107	Inventories	**18**	118
3,190	Short Term Debtors	**19**	2,369
6,036	Cash and Cash equivalents	**20**	8,993
11,233	**Current Assets**		**12,230**
(35)	Short Term Borrowing	**15**	(1,535)
(3,509)	Short Term Creditors	**21**	(2,327)
(15)	Provisions	**42**	(486)
(41)	Provision for Accumulated Absences	**24**	(33)
(1)	Leases (repayable within one year)	**37**	-
(3,601)	**Current Liabilities**		**(4,381)**
-	Leases (repayable after more than one year)	**37**	-
(2,422)	Long Term Creditors	**22**	(3,286)
(3,800)	Long Term Borrowing	**15**	(2,300)
(24,446)	Other Long Term Liabilities	**24**	(20,311)
(30,668)	**Long Term Liabilities**		**(25,897)**
1,611	**NET ASSETS**		**7,332**
7,067	Usable Reserves	**23**	9,223
(5,456)	Unusable Reserves	**24**	(1,891)
1,611	**TOTAL RESERVES**		**7,332**

CASH FLOW STATEMENT

2012/13 (Restated) £'000		Notes	2013/14 £'000
432	Net Surplus / (Deficit) on the Provision of Services		800
2,102	Adjustments for non-cash movements	**25**	3,121
(348)	Adjust for movements relating to investing and financing activities	**25**	(638)
2,186	**Net Cash Flows from Operating Activities**		**3,283**
(1,450)	Investing Activities	**26**	175
(201)	Financing Activities	**27**	(501)
535	**Net Increase or (Decrease) in Cash and Cash Equivalents**		**2,957**
5,501	Cash and Cash Equivalents at the beginning of the reporting period		6,036
6,036	**Cash and Cash Equivalents at the end of the reporting period**	**20**	**8,993**

Note: 2012/13 figures have been restated due to prior year changes in accounting policy – see Note 43 (pages 79-81) for details.

EXPLANATORY NOTES TO THE CORE FINANCIAL STATEMENTS

INDEX TO EXPLANATORY NOTES TO THE ACCOUNTS

EXPLANATORY NOTES TO THE CORE FINANCIAL STATEMENTS

INTRODUCTION

The Financial Statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the Code) and the accounting policies set out at Note 1. The notes that follow set out supplementary information to assist readers of the accounts.

1 ACCOUNTING POLICIES

a) General Principles

The Statement of Accounts summarises the Authority's transactions for the 2013/14 financial year and its position at the year-end of 31st March 2014. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2011, which those Regulations require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the Code) and the Service Reporting Code of Practice 2013/14 (SeRCOP), supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

b) Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings are accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

c) Acquisitions and Discontinued Operations

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

d) Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

e) Exceptional Items

Material items of income and expense are disclosed separately either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the overall financial performance of the Authority.

f) Prior Year Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

g) Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding Non-Current Assets during the year:

- Depreciation attributable to the assets used by the relevant service;
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off;
- Amortisation of intangible assets attributable to the service.

The Authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement (equal to either an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance). Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the Minimum Revenue Provision (MRP) contribution, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

h) Employee Benefits

(i) **Benefits Payable During Employment**
Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in which the holiday absence occurs.

(ii) **Termination Benefits**
Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the Non Distributed Costs line in the

Comprehensive Income and Expenditure Statement at the earlier of when the Authority can no longer withdraw the offer of those benefits or when the Authority recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at year-end.

(iii) **Post-employment 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 worked for the Council.

The Local Government Pension Scheme
The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Lancashire County Council scheme attributable to the Authority 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 4.4% (based on the indicative rate of return on an AA corporate bonds).
- The assets of the pension fund attributable to the Council are included in the Balance Sheet at their fair value.
    - Quoted securities – current bid price
    - Unquoted securities – professional estimate
    - Unitised securities – current bid price
    - Property – market value
- The change in the net pensions liability is analysed into the following components:

    Service cost comprising:
    - Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
    - Past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus of Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
    - Net interest on the net defined benefit liability (asset), i.e. net interest expense for the Authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

    Remeasurements comprising:
    - The return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
    - Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

    Contributions made to the Lancashire County Council Pension Fund:
    - cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits earned by employees.

Discretionary Benefits
The Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

i) <u>Events after the Reporting Period</u>

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of event can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

j) <u>Financial Instruments</u>

(i) **<u>Financial Liabilities</u>**

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

(ii) **<u>Financial Assets</u>**

Financial assets are classified into two types:

- ***<u>Loans and Receivables</u>*** – assets that have fixed or determinable payments but are not quoted in an active market.

  Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

- ***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 recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Authority.

  Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

  - instruments with quoted market prices – the market price
  - other instruments with fixed and determinable payments – discounted cash flow analysis
  - equity shares with no quoted market prices – independent appraisal of company valuations.

  Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

  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 (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

  Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

  Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

k) Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

- The Authority will comply with the conditions attached to the payments, and
- The grants or contributions will be received

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

l) Heritage Assets

Heritage assets are defined as assets which have historical, artistic or cultural qualities and that are held and maintained principally for their contribution to knowledge and culture.

The introduction of FRS 30 Heritage Assets has resulted in the requirement for this standard to be included within the council's accounting policies from 2011/12. Prior to 2011/12 the Code did not require heritage assets to be reported separately. These will have previously been reported as part of Community Assets in the balance sheet.

There is no IFRS that deals with tangible heritage assets. Authorities are therefore required to account for tangible heritage assets in accordance with FRS 30 Heritage Assets.

Accounting for Heritage Assets in 2013/14

Heritage assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Authority's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below. The accounting policies in relation to heritage assets are presented below.

Heritage assets should normally be included in the balance sheet at their current value. Where it is not practical to obtain a valuation at a reasonable cost heritage assets should be valued at cost.

Where the Council has information on the cost or value of a heritage asset that value has been used in compilation of the 2013/14 balance sheet. Where this information is not available and the historical cost information cannot easily be obtained the asset can be excluded from the balance sheet.

Valuations may be made by any method that is appropriate. There is no requirement for valuations to be carried out or certified by external valuers nor is there any prescribed minimum period between valuations. However where heritage assets are valued at their current value that value has to be reviewed with sufficient frequency to ensure the valuation is up to date.

Depreciation is not required on heritage assets with indefinite lives. However where there is evidence of physical deterioration to a heritage asset or doubts arise to its authenticity the value of the asset has to be reviewed.

The Authority's collections of heritage assets are as follows.

- ***Art Collection***
  - The art collection comprises approximately 200 paintings of a wide range of subjects most of which have been donated or bequeathed to the Council and a number of which are by local artists and depict scenes from around the local area. Prominent amongst the collection is a painting by Johann Henreich Fuseli, R.A. entitled 'Vision of Catherine of Aragon'. This work is of significant merit and is periodically loaned to public galleries in order that it may be widely viewed.
  - The collection was professionally valued during 2012/13 in the sum of £3.2M.
  - The valuation will be regularly reviewed with a professional revaluation of the collection being obtained at intervals of not more than 5 years.
  - Public access to the collection is afforded by exhibition in a local gallery space and the loan of the more significant components to local, national and international galleries.
  - Donations are recognised at valuation with valuations provided by the external valuers.

- ***Memorials & Monuments***
  - The Council owns a range of memorials and monuments situated within the borough including a number of war memorials.
  - The Authority does not consider that reliable cost or valuation information can be obtained for all except one of the items within this category of heritage assets. This is because of the unique nature of the assets held and lack of comparable market values. Consequently the Authority recognises these assets on the balance sheet at a nominal value. The single item for which a value in included in the balance sheet is a memorial sculpture which is valued for insurance purposes in the sum of £80,000, the estimated replacement cost. This insurance valuation will be regularly reviewed and the value updated as necessary.
  - The Authority does not intend to extend the range of this class of assets.
  - Public access is afforded by the location of the items in prominent and accessible locations within the borough.
- ***Sculptures / Ivories***
  - The Council owns a range of sculptures including a collection of Japanese ivory figurines all of which have been donated or bequeathed.
  - The collection was professionally valued during 2012/13 in the sum of £136,000.
  - These valuations will be regularly reviewed with a professional revaluation of the collection being obtained at intervals of not more than 5 years.
  - Public access to the collection is afforded by exhibition in a local gallery space and loan of the more significant components to local galleries upon request.
  - Donations are recognised at valuation with valuations provided by the external Valuers.
- ***Trophies & Other Items***
  - The Council owns a number of trophies of a sporting heritage and other miscellaneous items of a ceremonial nature. These were professionally valued during 2012/13 in the sum of £52,000.
  - These valuations will be regularly reviewed with a professional revaluation of the collection being obtained at intervals of not more than 5 years.
  - Public access to these items is limited to the display of the items at civic events.
- ***Civic Regalia***
  - The Council owns a variety of chains, pendants and badges which together with the ceremonial mace comprise the civic regalia. These were professionally valued during 2012/13 in the sum of £376,000.
  - These valuations will be regularly reviewed with a professional revaluation of the collection being obtained at intervals of not more than 5 years.
  - Public access to these items is limited to the display of the items at civic events and occasionally as components of an exhibition.

Heritage Assets – General

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Authority's general policies on impairment – see accounting policy on page 37.

m) Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Authority as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Authority.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Authority will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Authority's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Authority can be determined by reference to an active market. In practice, no intangible asset held by the Authority meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

n) Interests in Companies and Other Entities

The Authority has no material interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities that require it to prepare group accounts.

o) Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the FIFO costing formula.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

p) Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used for the delivery of the Council's services or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

q) Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Authority as Lessee

Finance Leases
Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Premiums paid on entry into a lease are applied to writing down the lease liability.

Operating Leases
Rentals paid under operating leases are treated as revenue transactions and are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments.

r) Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2013/14 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Authority's status as a multi-functional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement.

s) Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

(i) **Recognition**

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority; that the cost of the item can be measured reliably; and that the cost exceeds the 'de minimis' threshold of £10,000. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

(ii) **Measurement**

Non-Current 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). Non-Current 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.

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".*

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.

Heritage Assets
Valuation methodologies in respect of heritage assets are outlined in note I) on Heritage Assets above.

Revaluations of Non-Current Assets included in the balance sheet at current value are planned at intervals of not more than five years. Investment properties are reviewed every year to consider that the value of the assets are fairly reflected in the Balance Sheet. In addition material changes in asset values are recorded as they occur.

(iii) **Impairment**

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

(iv) Depreciation

Depreciation is provided for on all Property, Plant and Equipment with a finite useful life. Useful life is estimated at the time of acquisition or revaluation. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Deprecation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer
- vehicles, plant, furniture and equipment – straight-line allocation over the useful life of the asset
- infrastructure – straight-line allocation as advised by a suitable qualified officer

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Newly acquired assets are depreciated fully in the year of acquisition, although assets in the course of construction are not depreciated until they are brought into use, thereafter an equal charge to revenue is made over the useful life of all assets.

Depreciation is not required on heritage assets with indefinite lives. However where there is evidence of physical deterioration to a heritage asset or doubts arise to its authenticity the value of the asset has to be reviewed.

(v) Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale.

Assets Held for Sale, are where the:

- Asset is immediately available for sale
- Sale is highly probable
- Asset is actively marketed
- Sale is expected to be completed within 12 months

The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment [or set aside to reduce the Authority's underlying need to borrow (the capital financing requirement)]. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

t) Provisions, Contingent Liabilities and Contingent Assets

Provisions
Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the authority becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the authority settles the obligation.

Contingent Liabilities
A contingent liability arises where an event has taken place that gives the authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets
A contingent asset arises where an event has taken place that gives the authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

u) Reserves

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Authority – these reserves are explained in the relevant policies.

The Council operates a number of different reserves, the purpose of each is laid out in note 7 on pages 45 and 46.

v) Revenue Expenditure Funded by Capital Under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

w) Value Added Tax (VAT)

VAT payable is included as an expense only to that the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

2 ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

The Code of Practice on Local Council Accounting in the United Kingdom 2014/15 (the Code) has introduced several changes in accounting policies which will be required from 1st April 2014, If these had been adopted for the financial year 2013/14 there would be no material changes within the financial statements.

The changes include:

- **IFRS 10 Consolidated Financial Statements**
  This standard introduces a new definition of control, which is used to determine which entities are consolidated for the purposes of group accounts. The Council does not currently have any subsidiaries or associates that would require the implementation of this standard and consequently no adjustments are necessary.

- **IFRS 11 Joint Arrangements**
  This standard addresses the accounting for a 'joint arrangement', which is defined as a contractual arrangement over which two or more parties have joint control. These are classified as either a joint venture or a joint operation. In addition proportionate consolidation can no longer be used for jointly controlled entities.

- **IFRS 12 Disclosure of Interest in Other Entities**
  This is a consolidated disclosure standard requiring a range of disclosures about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated 'structured entities'. The Council has no arrangements with other entities requiring further disclosure.

- **IAS 27 Separate Financial Statements**
  This standard applies to accounting for investments in subsidiaries, joint ventures, and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements. As the Council has not entered into any such arrangement there is no further disclosure required.

- **IAS 28 Investments in Associates and Joint Ventures**
  This standard outlines how to apply, with certain limited exceptions, the equity method to investments in associates and joint ventures. The standard also defines an associate by reference to the concept of "significant influence", which requires power to participate in financial and operating policy decisions of an investee (but not joint control or control of those polices). As the Council has not entered into any such arrangement there is no further disclosure required.

- **IAS 32 Financial Instruments: Presentation**
  The Code refers to amended application guidance when offsetting a financial asset and a financial liability. As the Council does not set off financial instruments no further disclosure is required.

- **IAS 1 Presentation of Financial Statements**
  The changes clarify the disclosure requirements in respect of comparative information of the preceding period. The Statement of Accounts fully discloses comparative information for the preceding period therefore these changes will not have a material impact on the Statement of Accounts.

3 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 1 (pages 28 to 40), the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future event. The critical judgements made in the Statement of Accounts are:

- The Authority continues to face significant financial uncertainty in future years and in turn the Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.

4 ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

There are two items in the Authority’s Balance Sheet for which there is a significant risk of material adjustment in the forthcoming financial year, namely the liability related to the defined benefit Pension Scheme and the valuation of the Council’s Heritage Assets.

Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rate used, the rate at which salaries and pensions are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.

The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.1% per annum increase in the discount rate assumption would result in a decrease in the pension liability of £1.135m. Also, a one year addition to the members life expectancy would result in an increase in the pension liability of £1.347m.

The Council’s heritage assets were revalued during 2012/13. This led to a considerable reduction in the overall value of this class of asset, particularly in regard to the art collection for which the valuation reduced from £4.4m at 31st March 2012 to £3.2m at 31st March 2013. The Council seeks expert advice on the valuation of specialised classes of assets such as these. However valuations vary according to many external factors and there is a possibility that future valuations may again vary to a significant degree.

5 EVENTS AFTER THE BALANCE SHEET DATE

The Statement of Accounts was authorised for issue by the Chief Financial Officer on 30th June 2014. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31st March 2014, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

6 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note details the adjustments that are made to the total Comprehensive Income and Expenditure Statement recognised by the Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure.

The following sets out a description of the reserves that the adjustments are made against.

General Fund Balance
The General Fund is the statutory fund into which all the receipts of an Authority are required to be paid and out of which all liabilities of the Authority are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year.

Capital Receipts Reserve
The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

Capital Grants Unapplied
The Capital Grants Unapplied Reserve holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

2013/14	Usable Reserves: General Fund Balance	Usable Reserves: Capital Receipts Reserve	Usable Reserves: Capital Grants Unapplied	Movement in Unusable Reserves
	£'000	**£'000**	**£'000**	**£'000**
Adjustments primarily involving the Capital Adjustment Account				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement				
Charges for depreciation and impairment of non-current assets	1,164	-	-	(1,164)
Amortisation of intangible assets	64			(64)
Movements in the fair value of Investment Properties	(141)	-	-	141
De-Minimis Capital Expenditure	18	-	-	(18)
Capital Grants and Contributions Applied	(552)	-	-	552
Revenue Expenditure funded from Capital under Statute	852	-	-	(852)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	371	-	-	(371)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement				
Statutory provision for the financing of capital investment (MRP)	(668)	-	-	668
Capital Expenditure charged against the General Fund balance	(193)	-	-	193
Adjustments primarily involving the Capital Grants Unapplied Account				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(636)	-	636	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	(736)	736
Adjustments primarily involving the Capital Receipts Reserve				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(915)	915	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	(288)	-	288
Adjustments primarily involving the Pensions Reserve				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	1,047	-	-	(1,047)
Adjustments primarily involving the Collection Fund Adjustment Account				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income collected for the year in accordance with statutory requirements	426	-	-	(426)
Adjustments primarily involving the Accumulated Absences Account				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accrual basis is different from remuneration chargeable in year in accordance with statutory requirements	(8)	-	-	8
Total Adjustments	**829**	**627**	**(100)**	**(1,356)**

Comparatives for 2012/13 (Restated):

2012/13	Usable Reserves: General Fund Balance	Usable Reserves: Capital Receipts Reserve	Usable Reserves: Capital Grants Unapplied	Movement in Unusable Reserves
	£'000	**£'000**	**£'000**	**£'000**
Adjustments primarily involving the Capital Adjustment Account				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement				
Charges for depreciation and impairment of non-current assets	840	-	-	(840)
Amortisation of intangible assets	64			(64)
Movements in the fair value of Investment Properties	(65)	-	-	65
De-Minimis Capital Expenditure	19	-	-	(19)
Capital Grants and Contributions Applied	(351)	-	-	351
Revenue Expenditure funded from Capital under Statute	622	-	-	(622)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	459	-	-	(459)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement				
Statutory provision for the financing of capital investment (MRP)	(472)	-	-	472
Capital Expenditure charged against the General Fund balance	(166)	-	-	166
Adjustments primarily involving the Capital Grants Unapplied Account				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(348)	-	348	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	(163)	163
Adjustments primarily involving the Capital Receipts Reserve				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(719)	719	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	(480)	-	480
Adjustments primarily involving the Pensions Reserve				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	857	-	-	(857)
Adjustments primarily involving the Collection Fund Adjustment Account				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income collected for the year in accordance with statutory requirements	91	-	-	(91)
Adjustments primarily involving the Accumulated Absences Account				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accrual basis is different from remuneration chargeable in year in accordance with statutory requirements	10	-	-	(10)
Total Adjustments	**841**	**239**	**185**	**(1,265)**

7 TRANSFERS TO/FROM EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2013/14.

Name of Reserve	Balance at 1st April 2012	Transfer In 2012/13	Transfer Out 2012/13	Balance at 31st March 2013	Transfer In 2013/14	Transfer Out 2013/14	Balance at 31st March 2014
	£'000	£'000	£'000	**£'000**	£'000	£'000	**£'000**
Ansdell Bus Monies Reserve	**22**	-	-	**22**	-	(22)	**-**
IT Reserve	**157**	-	-	**157**	-	-	**157**
Vehicle Maintenance Reserve	**127**	-	-	**127**	-	-	**127**
Parks/Open Spaces Reserve	**39**	-	(39)	**-**	-	-	**-**
Business Improvement Grant (NDR) Reserve	**34**	-	(34)	**-**	-	-	**-**
Economic Promotion and Recovery Reserve	**66**	30	(96)	**-**	-	-	**-**
Comprehensive Spending Review Reserve	**521**	-	(521)	**-**	-	-	**-**
Performance Reward Grant Reserve	**236**	-	(115)	**121**	-	(77)	**44**
Vehicle Replacement Financing Reserve	**212**	-	-	**212**	-	-	**212**
Land Charges New Burdens Reserve	**89**	39	-	**128**	-	-	**128**
MMI Insurance Reserve	**105**		(15)	**90**	-	-	**90**
High Street Innovation Fund Reserve	**-**	100	-	**100**	-	(27)	**73**
Capital Investment Reserve	**-**	841	-	**841**	927	(115)	**1,653**
Community Right to Bid/Challenge Reserve	**-**	13	-	**13**	17	-	**30**
Collection Fund Deficit Reserve	**-**	-	-	**-**	416	-	**416**
Funding Volatility Reserve	**-**	-	-	**-**	221	-	**221**
Total Earmarked Reserves	**1,608**	**1,023**	**(820)**	**1,811**	**1,581**	**(241)**	**3,151**

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 has been expended in Ansdell on approved capital schemes during 2013/14.

- **IT Reserve (formerly Replacement Systems Reserve)** – This is a voluntary set-aside established for the funding of new IT initiatives and the development of IT systems.

- **Vehicle Maintenance Reserve** – This is a voluntary set-aside established in 2008/09 to contribute towards the cost of vehicle maintenance repairs.

- **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 (NDR) 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.

- **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.

- **Vehicle Replacement Financing Reserve** – Created in 2010/11, this is a voluntary set-aside established to meet the cost of future debt repayments in respect of the replacement and purchase of vehicles.

- **Land Charges New Burdens Reserve** – Created in 2010/11, this is a voluntary set-aside towards potential third party claims in relation to historic Land Charge enquiries.

- **MMI Insurance Reserve** – Created in 2011/12, this is a voluntary set-aside to cover the Council's maximum exposure in relation to the potential clawback of previously paid claims under the scheme of arrangement with the Council's previous Insurer, Municipal Mutual Insurance.

- **High Street Innovation Fund Reserve** – Created in 2012/13, this is a voluntary set-aside of funds to finance expenditure linked to the award of High Street Innovation Fund grant received by the Council during 2012/13. The Council has established a Town Centre Forum to oversee the allocation of these funds to support high streets in the Borough.

- **Capital Investment Reserve** – Created in 2012/13, this is a voluntary set-aside of funds to help finance future capital expenditure.

- **Community Right to Bid/Challenge Reserve** – Created in 2012/13, this is a voluntary set-aside of funds to finance expenditure linked to the award of Community Right to Bid and Community Right to Challenge grant received by the Council during 2012/13 and 2013/14.

- **Collection Fund Deficit Reserve** – Created in 2013/14, this is a voluntary set-aside of funds to meet the Council's share of the collection fund deficit, which was created as a result of the doubling of Small Business Rate Relief.

- **Funding Volatility Reserve** – Created in 2013/14, this is a voluntary set-aside established to provide a degree of protection to the Council's finances against future volatility in central government funding allocations.

8 OTHER OPERATING EXPENDITURE

	2012/13	2013/14
	£'000	£'000
Parish Council Precepts	739	758
IAS19 Administration Expenses	19	19
(Gains)/Losses on the disposal of non-current assets	(259)	(536)
Total	**499**	**241**

9 FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2012/13	2013/14
	£'000	£'000
Interest payable and similar charges	109	109
Net interest on the net defined benefit liability (asset)	971	1,002
Interest Receivable and similar Income	(64)	(49)
Income and expenditure in relation to investment properties and changes in their fair values (see note 13)	(88)	(192)
Total	**928**	**870**

10 TAXATION AND NON-SPECIFIC GRANT INCOME AND EXPENDITURE

	2012/13	2013/14
	£'000	£'000
Council Tax Income	(6,399)	(5,862)
Non-Domestic Rates income and expenditure	(3,682)	(1,351)
Non-Ringfenced Government Grants (see Note 34)	(955)	(3,854)
Capital Grants and Contributions	(348)	(638)
Total	**(11,384)**	**(11,705)**

11 PROPERTY, PLANT AND EQUIPMENT

Movements on Balances

2013/14	**Other Land and Buildings**	**Vehicles, Plant & Equipment**	**Community**	**Infra-Structure**	**Surplus Assets**	**Total**
	£'000	£'000	£'000	£'000	£'000	**£'000**
Cost or Valuation						
at 1st April 2013	11,805	6,705	4,841	-	-	**23,351**
Additions	915	220	171	-	-	**1,306**
Revaluations	31	-	-	-	-	**31**
Derecognition - disposals	-	(38)	-	-	-	**(38)**
Other movements in cost or valuation	-	-	(10)	-	-	**(10)**
At 31st March 2014	**12,751**	**6,887**	**5,002**	**-**	**-**	**24,640**
Accumulated Depreciation and Impairment						
at 1st April 2013	(1,380)	(3,686)	(418)			**(5,484)**
Depreciation Charge	(302)	(626)	-	-	-	**(928)**
Depreciation written out to the Revaluation Reserve	314	38	-	-	-	**352**
Impairment (losses) / reversals	(48)	-	-	-	-	**(48)**
At 31st March 2014	**(1,416)**	**(4,274)**	**(418)**	**-**	**-**	**(6,108)**
Net Book Value of Assets						
At 31st March 2014	11,335	2,613	4,584	-	-	**18,532**
At 31st March 2013	10,425	3,019	4,423	-	-	**17,867**

Comparatives for 2012/13	**Other Land and Buildings**	**Vehicles, Plant & Equipment**	**Community**	**Infra-Structure**	**Surplus Assets**	**Total**
	£'000	£'000	£'000	£'000	£'000	**£'000**
Cost or Valuation						
at 1st April 2012	11,462	5,119	4,615	-	-	**21,196**
Additions	270	1,703	236	-	-	**2,209**
Revaluations	71	-	(10)	-	-	**61**
Derecognition - disposals	-	(117)	-	-	-	**(117)**
Other movements in cost or valuation	2	-	-	-	-	**2**
At 31st March 2013	**11,805**	**6,705**	**4,841**	**-**	**-**	**23,351**
Accumulated Depreciation and Impairment						
at 1st April 2012	(1,169)	(3,172)	(421)			**(4,762)**
Depreciation Charge	(186)	(631)	-	-	-	**(817)**
Depreciation written out to the Revaluation Reserve	-	117	-	-	-	**117**
Impairment (losses) / reversals	(25)	-	3	-	-	**(22)**
At 31st March 2013	**(1,380)**	**(3,686)**	**(418)**	**-**	**-**	**(5,484)**
Net Book Value of Assets						
At 31st March 2013	10,425	3,019	4,423	-	-	**17,867**
At 31st March 2012	10,293	1,947	4,194	-	-	**16,434**

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.

Depreciation is not required on heritage assets with indefinite lives. However where there is evidence of physical deterioration to a heritage asset or doubts arise to its authenticity the value of the asset has to be reviewed.

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

Capital Commitments

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 2014 to be paid from 2014/15 onwards is £nil (2013/14 £nil).

Asset Valuation

The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. All valuations were carried out internally. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant, furniture and equipment are based on depreciated historic cost. The following statement shows the progress of the Authority's rolling programme for the revaluation of Property, Plant and Equipment including additions and disposals.

Valuation methodologies in respect of heritage assets are outlined in note 12 on Heritage Assets.

	Other Land and Buildings	Vehicles, Plant & Equipment	Community	Infra-Structure	Surplus Assets	**Total**
	£'000	£'000	£'000	£'000	£'000	**£'000**
Carried at Historical Cost	15,552	2,262	71	-	-	**17,885**
Valued at fair value as at:						
31st March 2014	910	(406)	161			**665**
31st March 2013	(361)	(2,090)	(192)	-	-	**(2,643)**
31st March 2012	(2,213)	189	420	-	-	**(1,604)**
31st March 2011	6,138	1,624	648	-	-	**8,410**
31st March 2010	127	21	1,902	-	-	**2,050**
31st March 2009	(9,390)	114	182	-	-	**(9,094)**
31st March 2008	225	362	390	-	-	**977**
31st March 2007	(1,153)	(20)	996	-	-	**(177)**
31st March 2006	1,500	557	6	-	-	**2,063**
Total Cost or Valuation	**11,335**	**2,613**	**4,584**	**-**	**-**	**18,532**

12 HERITAGE ASSETS

Reconciliation of the Carrying Value of Heritage Assets held by the Authority:

	Art Collection	Memorials & Monuments	Sculptures / Ivories	Trophies & Other Items	Civic Regalia	Total
	£'000	£'000	£'000	£'000	£'000	**£'000**
Cost or Valuation						
at 1st April 2012	4,406	40	88	25	69	**4,628**
Additions	-	-	-	-	-	**-**
Revaluations	(1,180)	40	48	27	307	**(758)**
Impairment losses / (reversals) recognised in the Surplus/Deficit on the Provision of Services	-	-	-	-	-	**-**
Net Book Value of Assets at 31st March 2013	**3,226**	**80**	**136**	**52**	**376**	**3,870**
Cost or Valuation						
at 1st April 2013	3,226	80	136	52	376	**3,870**
Additions	-	-	-	-	-	**-**
Revaluations	-	-	-	-	-	**-**
Impairment losses / (reversals) recognised in the Surplus/Deficit on the Provision of Services	-	-	-	-	-	**-**
Net Book Value of Assets at 31st March 2014	**3,226**	**80**	**136**	**52**	**376**	**3,870**

Information on the Council's collection of heritage assets and the accounting policies adopted in respect of heritage assets is shown in note I of the Accounting Policies section of this Statement of Accounts on page 33.

13 INVESTMENT PROPERTIES

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

	2012/13	2013/14
	£'000	£'000
Rental Income from Investment Property	(247)	(270)
Direct operating expenses arising from investment	224	219
	(23)	(51)
Changes in Fair Value of Investment Properties	(65)	(141)
Net (Gain) / Loss	**(88)**	**(192)**

There are no restrictions on the Authority's ability to realise the value inherent in its investment property or on the Authority's right to the remittance of income and the proceeds of disposal. The Authority has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of investment properties over the year.

	2012/13	2013/14
	£'000	£'000
Balance at start of year	2,761	2,807
Additions	-	-
Disposals	(17)	-
Net gains /(losses) from fair value adjustments	65	141
Impairment losses / (reversals)	-	(15)
Transfers:		
• (To) / from Property, Plant and Equipment	(2)	10
• (To) / from Assets Held for Sale	-	-
Balance at end of year	**2,807**	**2,943**

14 INTANGIBLE ASSETS

Intangible assets comprise the software licences for the main Authority systems, and other new e-government systems. The policy adopted is to depreciate over a 3 to 5 year useful life.

	2012/13	2013/14
	£'000	£'000
Balance at start of year		
• Gross carrying amounts	547	547
• Accumulated amortisation	(401)	(465)
Net carrying amount at 1st April	146	82
Additions:		
• Purchases	-	-
• Amortisation for the period	(64)	(63)
Net carrying amount at 31st March	**82**	**19**
Comprising:		
• Gross carrying amounts	547	547
• Accumulated amortisation	(465)	(528)
	82	**19**

15 FINANCIAL INSTRUMENTS

Categories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet:

	Long Term		Current	
	31/03/13	31/03/14	31/03/13	31/03/14
	£'000	£'000	£'000	£'000
Financial Assets				
Investments				
Loans and Receivables	-	-	6,036	8,993
Total Investments	**-**	**-**	**6,036**	**8,993**
Debtors				
Loans and Receivables	21	16	-	-
Financial Assets carried at contract amounts *	-	-	1,175	702
Total included in Debtors	**21**	**16**	**1,175**	**702**
Financial Liabilities				
Borrowings				
Financial liabilities (principal amount) **	(3,800)	(2,300)	-	(1,500)
Add Accrued Interest	-	-	(35)	(35)
Total included in Borrowings	**(3,800)**	**(2,300)**	**(35)**	**(1,535)**
Other Long-term Liabilities				
Finance lease liabilities	-	-	(1)	-
Total Other long-term liabilities	**-**	**-**	**(1)**	**-**
Creditors				
Financial liabilities at amortised cost ***	(2,422)	(3,286)	(2,870)	(1,908)
Total Creditors	**(2,422)**	**(3,286)**	**(2,870)**	**(1,908)**

* The Debtors line in the Balance Sheet include £1.667m short-term debtors that do not meet the definition of a financial asset.

** A PWLB loans for £1.500m is due for repayment in December 2014 and has been re-classified as a current liability.

*** The creditor line on the Balance Sheet includes £0.419m short-term creditors that do not meet the definition of financial liability.

Income, Expense, Gains and Losses

	2013/14				
	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
Income					
Interest income	-	49	-	-	49
Total income in Surplus or Deficit on the Provision of Services	**-**	**49**	**-**	**-**	**49**
Expense					
Interest expense	(109)	-	-	-	(109)
Total expense in Surplus or Deficit on the Provision of Services	**(109)**	**-**	**-**	**-**	**(109)**

	Comparatives for 2012/13				
	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
Income					
Interest income	-	64	-	-	64
Total income in Surplus or Deficit on the Provision of Services	**-**	**64**	**-**	**-**	**64**
Expense					
Interest expense	(109)	-	-	-	(109)
Total expense in Surplus or Deficit on the Provision of Services	**(109)**	**-**	**-**	**-**	**(109)**

Fair Value of Assets and Liabilities

Financial liabilities, financial assets represented by loans and receivables and long-term debtors and creditors are carried in 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. The fair values for Borrowings repayable within 12 months and finance leases has also been calculated using the same procedures and interest rates and this provides a sound approximation for fair value for these instruments.
- 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:

Financial Liabilities

	31st March 2013		31st March 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
	£'000	£'000	£'000	£'000
PWLB Debt Repayable greater than 12 months	3,800	4,141	2,300	2,450
Total borrowings	3,800	4,141	2,300	2,450
Creditors repayable greater than 12 months	2,422	2,422	3,286	3,286
Creditors repayable within 12 months	2,870	2,870	1,908	1,908
Finance Leases repayable within 12 months	1	1	-	-
Borrowing repayable within 12 months	35	35	1,535	1,561
Total financial liabilities	**9,128**	**9,469**	**9,029**	**9,205**

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 current rates available for similar loans at the balance sheet date.

Financial Assets

	31st March 2013		31st March 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
	£'000	£'000	£'000	£'000
Cash and Cash Equivalents	6,036	6,036	8,993	8,993
Long Term Debtors	21	21	16	16
Debtors	1,175	1,175	702	702
Total Loans and receivables	**7,232**	**7,232**	**9,711**	**9,711**

Short term debtors and creditors are carried at cost as this is a fair approximation of their value.

16 LONG TERM DEBTORS

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

	2012/13	2013/14
	£'000	£'000
Parish Council Interest Free Loan	12	11
Employee Car Loans	9	5
Total	**21**	**16**

17 ASSETS HELD FOR SALE

All assets held for sale are anticipated to be disposed of in a period of less than one year.

	2012/13	2013/14
	£'000	£'000
Balance outstanding at start of year	2,350	1,900
Revaluations of Assets Held for Sale	-	-
	2,350	1,900
Assets newly classified as held for sale		
Property, Plant & Equipment	-	-
Investment Properties	-	-
Revaluations	-	-
Revaluation losses	(7)	(606)
Impairment losses	-	(173)
Assets Sold	(443)	(371)
Balance outstanding at year end	**1,900**	**750**

18 INVENTORIES

The Council only holds an inventory of consumable materials, no other types of inventories are held.

	2012/13	2013/14
	£'000	£'000
Balance at start of the year	105	107
Purchases	325	314
Recognised as an expense in the year	(320)	(310)
Written off/(on) balances	(3)	7
Reversal of write-offs in previous years	-	-
Balance outstanding at year end	**107**	**118**

19 SHORT-TERM DEBTORS

	2012/13	2013/14
	£'000	£'000
Central Government Bodies	1,032	335
Other Local Authorities	1,095	967
NHS Bodies	4	-
Public Corporations and Trading Funds	-	3
Other entities and individuals	1,059	1,064
Total	**3,190**	**2,369**

20 CASH AND CASH EQUIVALENTS

	2012/13	2013/14
	£'000	£'000
Cash held by the Authority	1	1
Bank Current Accounts	6,035	8,992
Total	**6,036**	**8,993**

21 SHORT-TERM CREDITORS

	2012/13	2013/14
	£'000	£'000
Central Government Bodies	724	268
Other Local Authorities	549	395
NHS Bodies	-	-
Public Corporations and Trading Funds	-	37
Other entities and individuals	2,236	1,627
Total	**3,509**	**2,327**

22 LONG-TERM CREDITORS

	2012/13	2013/14
	£'000	£'000
Section 106 Agreements	2,422	3,286
Total	**2,422**	**3,286**

Section 106 Agreements are for the fulfilment of obligations under certain Planning Application Approvals. The amounts held under Long-Term Creditors represents the expenditure commitments that are expected to be incurred against these Agreements after more than 12 months from the Balance Sheet date.

23 USABLE RESERVES

Movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement on page 23.

	2012/13	2013/14
	£'000	£'000
General Fund Balance	4,800	5,089
Earmarked General Fund Reserves	1,811	3,151
Capital Receipts Reserve	271	898
Capital Grants Unapplied	185	85
Total Usable Reserves	**7,067**	**9,223**

24 UNUSABLE RESERVES

Movements in the Authority's unusable reserves are detailed in the Movement in Reserves Statement on page 23.

	2012/13	2013/14
	£'000	£'000
Revaluation Reserve	11,134	11,014
Capital Adjustment Account	7,892	7,860
Pensions Reserve	(24,446)	(20,311)
Collection Fund Adjustment Account	5	(421)
Accumulated Absences Account	(41)	(33)
Total Unusable Reserves	**(5,456)**	**(1,891)**

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised

The Reserve contains only revaluation gains accumulated since 1st April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated to the balance on the Capital Adjustment Account.

	2012/13	2013/14
	£'000	£'000
Balance at 1st April	**11,773**	**11,134**
Upward Revaluation of assets	645	503
Downward Revaluation of assets and impairment losses not charged to the Surplus/(Deficit) on the Provision of Services	(1,284)	(17)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus/(Deficit) on the Provision of Services	(639)	486
Difference between fair value depreciation and historic cost depreciation	-	-
Accumulated gains on assets sold or scrapped	-	(606)
Amounts written off to the Capital Adjustment Account	-	(606)
Balance as at 31st March	**11,134**	**11,014**

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1st April 2007, the date that the Revaluation Reserve was created to hold such gains.

	2012/13	2013/14
	£'000	£'000
Balance at 1st April	**8,264**	**7,892**
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement		
• Charges for depreciation and impairment of non-current assets	(840)	(1,164)
• Revaluation losses on Property, Plant and Equipment	-	-
• Amortisation of Intangible Assets	(64)	(64)
• Revenue expenditure funded from capital under statute	(622)	(852)
• Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(459)	(371)
• De-minimis Capital Expenditure	(19)	(18)
	(2,004)	(2,469)
Adjusting amounts written out of the Revaluation Reserve	-	-
Net written out amount of the cost of non-current assets consumed in the year	(2,004)	(2,469)
Capital Financing applied in the year		
• Use of the Capital Receipts Reserve to finance new capital expenditure	480	280
• De-minimis Capital Receipts	-	8
• Capital Grants and Contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	351	552
• Application of grants to capital financing from the Capital Grants Unapplied Account	163	736
• Statutory provision for the financing of capital investment charged against the General Fund	472	668
• Capital expenditure charged against the General Fund	166	193
	1,632	2,437
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	-	-
Balance as at 31st March	**7,892**	**7,860**

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2012/13	2013/14
	£'000	£'000
Balance at 1st April	(20,464)	(24,446)
Remeasurements of the net defined benefit liability/asset	(3,125)	5,182
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(857)	(1,047)
Balance as at 31st March	**(24,446)**	**(20,311)**

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

	2012/13	2013/14
	£'000	£'000
Balance at 1st April	96	5
Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements	(91)	(426)
Balance as at 31st March	**5**	**(421)**

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31st March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

	2012/13	2013/14
	£'000	£'000
Balance at 1st April	**(31)**	**(41)**
Settlement or cancellation of accrual made at the end of the preceding year	31	41
Amounts accrued at the end of the current year	(41)	(33)
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(10)	8
Balance as at 31st March	**(41)**	**(33)**

25 CASH FLOW STATEMENT – OPERATING ACTIVITIES

The cash flows for operating activities include the following items

	2012/13	2013/14
	£'000	£'000
Interest Received	(64)	(49)
Interest Paid	109	109

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

	2012/13	2013/14
	£'000	£'000
Depreciation	881	992
Impairment	22	236
Increase/(Decrease) in impairment for Bad Debts	58	733
Increase/(Decrease) in Creditors	(443)	(162)
(Increase)/Decrease in Debtors	763	652
(Increase)/Decrease in Inventories	(2)	(12)
Movement in Pension Liability	857	1,047
Other non-cash items charged to the net surplus or deficit on the provision of services	(34)	(365)
Total	**2,102**	**3,121**

The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:

	2012/13	2013/14
	£'000	£'000
Capital Grants included in the net surplus/deficit on the provision of services	(348)	(638)
Total	**(348)**	**(638)**

26 CASH FLOW STATEMENT – INVESTING ACTIVITIES

	2012/13	2013/14
	£'000	£'000
Purchase of property, plant and equipment, investment property and intangible assets	(2,868)	(1,929)
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	718	915
Other receipts from investing activities	700	1,189
Net cash flows from investing activities	**(1,450)**	**175**

27 CASH FLOW STATEMENT – FINANCING ACTIVITIES

	2012/13	2013/14
	£'000	£'000
Cash receipts of short-term and long-term borrowing	-	-
Other receipts from financing activities	(198)	(500)
Cash payments for the reduction of the outstanding liabilities relating to finance leases	(3)	(1)
Repayments of short-term and long-term borrowing	-	-
Net cash flows from financing activities	**(201)**	**(501)**

28 AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the *Service Reporting Code of Practice*. However, decisions about resource allocation are taken by the Authority's Cabinet on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year
- no charges are budgeted for in relation to the year-end accrual for Accumulated Absences (Annual and Flexi leave accrued but not yet claimed)

The income and expenditure of the Authority's directorates recorded in the budget reports for the year is as follows

Directorate Income and Expenditure 2013/14	Chief Executive	Community Services	Resources	Development Services	Total
	£'000	£'000	£'000	£'000	£'000
Directorate Income and Expenditure					
Fees, charges & other service income	(2,431)	-	(5,734)	(7,469)	(15,634)
Government Grants	-	-	(20,528)	(20)	(20,548)
Total Income	(2,431)	-	(26,262)	(7,489)	(36,182)
Employee Expenses	2,036	-	2,699	3,138	7,873
Other service Expenses	2,327	-	23,904	4,212	30,443
Support Service Recharges	763	-	3,461	3,385	7,609
Total Expenditure	5,126	-	30,064	10,735	45,925
Net Expenditure	**2,695**	**-**	**3,802**	**3,246**	**9,743**

Directorate Income and Expenditure 2012/13 Comparative figures	Chief Executive	Community Services	Resources	Development Services	Total
	£'000	£'000	£'000	£'000	£'000
Directorate Income and Expenditure					
Fees, charges and other service income	(466)	(5,263)	(4,575)	(4,715)	(15,019)
Government Grants	-	-	(25,473)	(24)	(25,497)
Total Income	(466)	(5,263)	(30,048)	(4,739)	(40,516)
Employee Expenses	155	3,363	2,110	2,097	7,725
Other service Expenses	255	4,097	28,837	1,902	35,091
Support Service Recharges	84	1,732	2,261	3,125	7,202
Total Expenditure	494	9,192	33,208	7,124	50,018
Net Expenditure	**28**	**3,929**	**3,160**	**2,385**	**9,502**

Reconciliation of Directorate Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

	2012/13	2013/14
	£'000	£'000
Net Expenditure in the directorate analysis	9,502	9,743
Net expenditure not included in the analysis:	23	51
Cost of Services in the Comprehensive Income and Expenditure Statement	**9,525**	**9,794**

Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

2013/14	Directorate Analysis	Services not in analysis	Cost of Services	Corporate Amounts	Total
	£'000	£'000	£'000	£'000	£'000
Fees, Charges and other service income	(15,634)	270	(15,364)	(908)	**(16,272)**
Interest and Investment Income	-	-	-	(49)	**(49)**
Income from Council Tax	-	-	-	(5,862)	**(5,862)**
Government Grants and Contributions	(20,548)	-	(20,548)	(5,205)	**(25,753)**
Total Income	(36,182)	270	(35,912)	(12,024)	**(47,936)**
Employee expenses	7,873	-	7,873	1,002	**8,875**
Other service expenses	30,443	(108)	30,335	(14)	**30,321**
Support service recharges	7,609	(111)	7,498	111	**7,609**
Interest payments	-	-	-	109	**109**
Precepts and Levies	-	-	-	758	**758**
Gain or Loss on disposal of Non-Current Asset	-	-	-	(536)	**(536)**
Total Expenditure	45,925	(219)	45,706	1,430	**47,136**
(Surplus) or Deficit on the provision of services	**9,743**	**51**	**9,794**	**(10,594)**	**(800)**

Comparative figures for 2012/13 (Restated)	Directorate Analysis	Services not in analysis	Cost of Services	Corporate Amounts	Total
	£'000	£'000	£'000	£'000	£'000
Fees, Charges and other service income	(15,019)	246	(14,773)	(594)	**(15,367)**
Interest and Investment Income	-	-	-	(64)	**(64)**
Income from Council Tax	-	-	-	(6,399)	**(6,399)**
Government Grants and Contributions	(25,497)	-	(25,497)	(4,637)	**(30,134)**
Total Income	(40,516)	246	(40,270)	(11,694)	**(51,964)**
Employee expenses	7,725	-	7,725	990	**8,715**
Other service expenses	35,091	(92)	34,999	27	**35,026**
Support service recharges	7,202	(131)	7,071	131	**7,202**
Interest payments	-	-	-	109	**109**
Precepts and Levies	-	-	-	739	**739**
Gain or Loss on disposal of Non-Current Asset	-	-	-	(259)	**(259)**
Total Expenditure	50,018	(223)	49,795	1,737	**51,532**
(Surplus) or Deficit on the provision of services	**9,502**	**23**	**9,525**	**(9,957)**	**(432)**

29 TRADING OPERATIONS

The Council operates one trading activity which is for Grounds Maintenance, providing services to external clients within and outside of the borough. The financial results are as follows:

	2012/13	2013/14
	£'000	£'000
Turnover	(789)	(682)
Expenditure	785	676
Net (Surplus) / Deficit on trading operations for the year	**(4)**	**(6)**

The Grounds Maintenance trading operations are incorporated into the Comprehensive Income and Expenditure Statement. In 2013/14, the Grounds Maintenance operations generated a surplus of £6,118 compared with a surplus of £4,085 in 2012/13. In addition to these surpluses shown above, these activities also benefit the Council by providing a positive contribution to corporate support service and service management costs.

30 AGENCY SERVICES

The Council acts as agent for Lancashire County Council in respect of Highways work in the urban core and also street lighting, gully cleansing and special maintenance.

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

	2012/13	2013/14
	£'000	£'000
Income (Penalty Charge Notice only)	(51)	(47)
Expenditure	74	71
(Surplus) Deficit	**23**	**24**

31 MEMBERS ALLOWANCES

The Authority paid the following amounts to members of the council during the year:

	2012/13	2013/14
	£'000	£'000
Allowances	237	239
Expenses	6	4
Total	**243**	**243**

32 OFFICERS REMUNERATION AND TERMINATION BENEFITS

The following table sets out the remuneration of Senior Officers whose salary was £50,000 or more (excluding employer's pension contributions) in 2013/14

Post-holder	Remuneration	Expense Allowances	Compensation for loss of office (Redundancy Payment)	Total Remuneration excl. pension contributions	Pension contributions (Incl. strain/ Augmented costs)	Total Remuneration incl. pension contributions
	£'000	£'000	£'000	£'000	£'000	£'000
Chief Executive	89	-	-	89	19	108
Director – Development Services	64	-	-	64	14	78
Director – Resources	68	-	-	68	14	82
Chief Financial Officer	60	-	-	60	13	73

The remuneration shown in the table above in respect of the Director of Resources includes payments in relation to responsibilities as the Acting Returning Officer (i.e. For elections and referenda) for the borough during the year. The Director for Community Services left the Council's employment during 2013/14.

For comparative purposes the equivalent figures for 2012/13 are shown in the table below:

Post-holder	Remuneration	Expense Allowances	Compensation for loss of office (Redundancy Payment)	Total Remuneration excl. pension contributions	Pension contributions (Incl. strain/ Augmented costs)	Total Remuneration incl. pension contributions
	£'000	£'000	£'000	£'000	£'000	£'000
Chief Executive	84	-	-	84	18	102
Director – Strategic Development	63	-	-	63	13	76
Director – Community Services	63	-	-	63	13	76
Director – Resources	65	-	-	65	13	78
Chief Financial Officer	60	-	-	60	13	73

In addition to the above Senior Officers, other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were as follows:

Remuneration Bands		2012/13	2013/14
		£'000	£'000
Main Bands:			
	£50,000 - £54,999	2	1

Exit Packages

The numbers of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

Exit Package Cost band (incl. special payments)	Number of Compulsory Redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages by each band	
	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14
	No.	No.	No.	No.	**No.**	**No.**	£'000	£'000
£0 – £20,000	2	1	2	3	**4**	**4**	**23 ***	**37**
£20,001 - £40,000	-	-	-	-	-	-	-	-
£40,001 - £60,000	-	-	-	-	-	-	-	-
£60,001 - £80,000	-	-	-	-	-	-	-	-
£80,001 - £100,000	-	-	-	-	-	-	-	-
£100,001 - £150,000	-	-	-	-	-	-	-	-
	2	1	2	3	**4**	**4**		
Total cost included in the Comprehensive Income and Expenditure Statement							**23 ***	**37**

The Authority terminated the contracts of 4 employees in 2013/14, incurring liabilities of £36,756 (£22,863 in 2012/13). The sum of £24,380 was payable in the form of compensation for loss of office and the sum of £12,376 was paid in respect of enhanced pension benefits.

* The 'Total cost of exit packages' figures for 2012/13 has been re-stated to reflect a late adjustment to the amount payable in respect of the enhanced pension benefits for one of the individuals in the sum of an additional £1,210.

33 EXTERNAL AUDIT COSTS

The Authority has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the Authority's external auditors:

	2012/13	2013/14
	£'000	£'000
Fees payable with regard to external audit services	63	63
Fees payable in respect of statutory inspection	-	-
Fees payable for the certification of grant claims and returns	9	11
Fees payable in respect of other services *	(6)	(9)
Total	**66**	**65**

* Fees repayable in respect of other services relates to a rebate received from the Audit Commission.

34 GRANT INCOME

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2013/14:

	2012/13	2013/14
	£'000	£'000
Credited to Taxation and Non Specific Grant Income		
Revenue Support Grant (net of LCTS adjustment)	(74)	(2,468)
New Homes Bonus	(585)	(908)
Small Business Rate Relief Grant	-	(374)
Council Tax Freeze Grant	(282)	(57)
New Burdens Grant	(13)	(16)
Other	-	(31)
Total	(954)	(3,854)
Credited to Services		
Housing & Council Tax Benefits	(25,361)	(20,386)
Department for Communities & Local Government	(112)	(111)
Revenue Expenditure funded from Capital under Statute	(348)	(552)
Other	(24)	(51)
	(25,845)	(21,100)
Total	**(26,799)**	**(24,954)**

35 RELATED PARTY TRANSACTIONS

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. Related parties include:

(a) Central Government

The UK 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 that the Council has with other parties.

(b) Members of the Council

Members of the Council have direct control over the Council's financial and operating policies. The total of Members' allowances paid in 2013/14 is shown in Note 31. 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. These declarations are also is accessible on the Council website.

There are no transactions to related parties to disclose in relation to 2013/14.

The Council makes a number of Member appointments to outside bodies each year. In relation to the 2013/14 financial year these are detailed in the Council reports of 25th March 2013 and 23rd September 2013 which are available on the Council's website.

The Council made a financial contribution to a number of partner organisations during 2013/14, most notably:

- Fylde Citizens Advice Bureau
- Age UK Lancashire
- Face to Face

(c) Senior Council Officers
Members of the Council's Management Team may exert influence control over the Council's financial and operating policies. In the furtherance of transparency each member of the Management Team has submitted information regarding outside bodies with which they have an association. All such associations are shown below:

- Chief Executive: Director of Blackpool Fylde and Wyre Economic Development Company Limited (Economic regeneration company)
- Director of Resources: Chairman of friends@thepark, a friends group for the Lansdowne Park in Ansdell; member of 'Tangent' (women's arm of the Round Table Association)
- Director of Development Services: Director of Blackpool Fylde and Wyre Economic Development Company Limited (Economic regeneration company)

(d) Partnership working
During 2013/14 the Council continued to work both formally and informally in partnership with neighbouring authorities. The main partnership operations were as follows :

Blackpool Council	• Payroll services • Human Resources • Health & Safety • Revenues & Benefits Services • Deputy Monitoring Officer • Coastal Programme Board
Wyre Council	• Coastal Programme Board
Preston City Council	• Financial Services • Benefit Fraud & Revenue Advice

(e) Other Public Bodies
Precepts were raised for Lancashire County Council, Lancashire Police and Crime Commissioner, Lancashire Combined Fire Authority, and local Town and Parish Councils within the Fylde area. Details of these are contained within the Collection Fund statements.

(f) Associated Companies and Joint Venture Partners
Fylde Council no longer has any associated companies or joint venture partners. The trading company FBC Solutions Ltd was wound up during 2011/12 and the Council's interest in Clifton (Lytham) Housing Association Ltd was disposed of in the same year.

(g) Lowther Trust
A Trust board was formed in 2009/10 consisting of 7 Trustees, one being an elected member of Fylde Council. The remaining Trustees were appointed from interested members of the public following an open application process. Prior to this the Council was the sole Trustee and provided all management and administration resources. From April 2012 a new arrangement between the Council and the Trust saw the transfer of responsibility for all day-to-day management to the Trust with the Council meeting an agreed level of deficit funding over the subsequent five-year period.

36 CAPITAL EXPENDITURE AND CAPITAL FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed.

The CFR is analysed in the second part of this note.

Capital Financing Requirement	2012/13	2013/14
	£'000	£'000
Opening Capital Financing Requirement	6,296	7,506
Capital Investment		
Property, Plant and Equipment	2,228	1,325
Investment Properties	-	-
Intangible Assets	-	-
Revenue Expenditure Funded from Capital Under Statute	622	852
Sources of Finance		
Capital Receipts	(480)	(288)
Government Grants and Other Contributions	(522)	(1,289)
Sums set aside from Revenue	-	-
Direct Revenue Contributions	(166)	(193)
MRP/Loans Fund Principal	(472)	(668)
Closing Capital Financing Requirement	**7,506**	**7,245**
Explanation of Movements in Year		
Increase/(Decrease) in underlying need to borrowing (unsupported by government financial assistance)	1,210	(261)
Increase/Decrease in Capital Financing Requirement	**1,210**	**(261)**

37 LEASES

Authority as Lessee

Finance Leases

The Council has one vehicle which was acquired by way of a finance lease. The asset acquired under this lease is carried as Property, Plant and Equipment in the Balance Sheet at the following net amount:

	2012/13	2013/14
	£'000	£'000
Property, Plant and Equipment	4	-

The council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the vehicles acquired by the Council and finance costs that will be payable in future years while the liability remains outstanding. The minimum lease payments comprise the following amounts:

	31st March 2013	31st March 2014
	£'000	£'000
Finance Lease Liabilities (net present value of minimum lease payments)	1	-
Finance costs payable in future years	-	-
Minimum Lease Payments	1	-

The Council as at 31st March 2014 had no future commitments in relation to finance leases (13/14 £1,631). Previously, this related to one vehicle for which commitments were due within the following financial years:

	31st March 2013	31st March 2014
	£'000	£'000
Minimum Lease Payments:		
Not Later than one year	1	-
Later than one year but not later than 5 years	-	-
Later than 5 years	-	-
	1	**-**
Finance Lease Liabilities:		
Not Later than one year	1	-
Later than one year but not later than 5 years	-	-
Later than 5 years	-	-
	1	**-**

Operating Leases

The Authority was committed at 31st March 2014 to making future payments of £3,033 under operating leases (£67,951 at 31st March 2013). These commitments are due within the following financial years:

	31st March 2013	31st March 2014
	£'000	£'000
Vehicles, Plant and Equipment Leases		
Not Later than one year	65	3
Later than one year but not later than 5 years	3	-
Later than 5 years	-	-
	68	3
Land and Property Leases		
Not Later than one year	-	-
Later than one year but not later than 5 years	-	-
Later than 5 years	-	-
	-	**-**

Authority as Lessor

Operating 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:

	2012/13	2013/14
	£'000	£'000
Land and Property Leases	274	288

The capital value held within the balance sheet at 31st March 2014 in respect of land and property generating leasehold income is £2.943m (2013/14 £2.807m). The accumulated depreciation charge applicable to these assets reflected in the 2013/14 financial statements is nil.

The future lease payments receivable under non-cancellable leases in future years are:

	31st March 2013	31st March 2014
	£'000	£'000
Not Later than one year	87	104
Later than one year but not later than 5 years	349	418
Later than 5 years	5,001	5,781
	5,437	**6,303**

38 IMPAIRMENT LOSSES

An impairment review during the course of the year identified reductions in the value of the following Council's Non-Current Assets. A summary of these impairments are shown below:

	31st March 2013	31st March 2014
	£'000	£'000
Public Conveniences	25	48
Public Offices	-	173
Ashton Gardens Cafe	-	15
Bowling Club, Station Road	(3)	-
	22	**236**

39 DEFINED BENEFIT PENSION SCHEMES

Participation in Pension Schemes

As part of the terms and conditions of employment of its officers, the authority makes contributions towards the cost of post-employment 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 that employees earn their future entitlement.

The authority participates in two post-employment schemes:

- The Local Government Pension Scheme, administered locally by Lancashire County Council – this is a funded defined benefit final salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- Arrangements for the award of discretionary post-retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.

Transactions relating to Post-employment Benefits

The cost of retirement benefits are recognised in the reported 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 of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

Local Government Pension Scheme	2012/13 (Restated)	2013/14
	£'000	£'000
Consolidated Income and Expenditure Statement		
Cost of Services:		
- Current Service Cost	955	1,171
- Past Service Cost	104	-
- Curtailments	60	3
Other Operating Expenditure		
- Administration expenses	19	19
Financing and Investment Income and Expenditure		
- Net interest expense	971	1,002
Total Post-employment Benefit Charged to the Surplus or Deficit on the Provision of Services	2,109	2,195
Other Post-employment Benefit Charged to the Comprehensive Income and Expenditure Statement		
- Return on plan assets (excluding the amount included in the net interest expense)	(4,367)	(592)
- Actuarial (gains) and losses arising on changes in demographic assumptions	672	289
- Actuarial (gains) and losses arising on changes in financial assumptions	6,820	(4,879)
Total Post-employment Benefit Charged to the Comprehensive Income and Expenditure Statement	3,125	(5,182)
Movement in Reserves Statement		
- Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefit in accordance with the Code	(857)	(1,047)
Actual amount charged against the General Fund Balance for pensions in the year:		
- Employers' contributions payable to scheme	1,252	1,148

Pensions Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the authority's obligation in respect of its defined benefit plan is as follows:

	2012/13	2013/14
	£'000	£'000
Present Value of the defined benefit obligation	(72,554)	(67,398)
Fair Value of plan assets	48,108	47,087
Net liability arising from defined benefit obligation	(24,446)	(20,311)

Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets

	2012/13 (Restated)	2013/14
	£'000	£'000
Opening fair value of scheme assets	43,001	48,108
Interest income	2,075	1,992
Remeasurement gain/(loss):		
- The return on plan assets, excluding the amount included in the net interest expense	4,367	(1,656)
Administration expenses	(19)	(19)
Contribution from employer	1,252	1,148
Contributions from employees into the scheme	306	298
Benefits paid	(2,874)	(2,784)
Closing fair value of scheme assets	**48,108**	**47,087**

Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

	2012/13 (Restated)	2013/14
	£'000	£'000
Opening Balance at 1st April	63,465	72,554
Current service cost	955	1,171
Interest cost	3,046	2,994
Contributions from scheme participants	306	298
Remeasurement gain/(loss):		
- Actuarial (gains) and losses arising on changes in demographic assumptions	672	289
- Actuarial (gains) and losses arising on changes in financial assumptions	6,820	(4,879)
- Other	-	(2,248)
Past service costs	104	-
Losses/(gains) on curtailment	60	3
Benefits paid	(2,874)	(2,784)
Closing Balance at 31st March	**72,554**	**67,398**

Scheme History

	2009/10	2010/11	2011/12	2012/13	2013/14
	£'000	£'000	£'000	£'000	£'000
Present Value of the defined benefit obligation	(67,085)	(59,450)	(63,465)	(72,554)	(67,398)
Fair Value of plan assets	42,153	43,384	43,001	48,108	47,087
Surplus/(Deficit) in the Scheme	**(24,932)**	**(16,066)**	**(20,464)**	**(24,446)**	(20,311)

Local Government Pension Scheme assets comprised:

Fair value of scheme assets	2012/13 (Restated)	2013/14
	£'000	£'000
Cash and cash equivalents	**1,680**	**818**
Equity instruments:		
By industry type		
• Consumer	5,869	6,056
• Manufacturing	2,811	3,747
• Energy and utilities	1,398	1,909
• Financial institutions	2,378	3,472
• Health and Care	1,882	2,123
• Information Technology	2,605	3,124
• Miscellaneous/Unclassified Total	-	128
Sub-total equity	**16,943**	**20,559**
Bonds:		
• Corporate	5,314	4,336
• Government	4,453	1,443
Sub-total bonds	**9,767**	**5,779**
Property:		
• Retail	1,869	1,770
• Commercial	2,342	2,080
• Residential	-	-
Sub-total property	**4,211**	**3,850**
Private Equity:		
• UK	1,168	1,183
• Overseas	1,051	1,293
Sub-total private equity	**2,219**	**2,476**
Other Investment Funds:		
• Infrastructure	1,495	2,562
• Credit Funds	3,990	6,683
• Emerging Markets ETF	2,093	-
• Indirect Property Funds	73	236
• UK Pooled Equity Funds	1,608	14
• Overseas Pooled Equity Funds	4,029	4,110
Sub-total other investment funds	**13,288**	**13,605**
Total Assets	**48,108**	**47,087**

The above table provides a detailed list of the Council's assets within the Pension Fund, in line with the requirements of the 2013/14 SoRP. Previously, this information was shown in percentage terms only and the 12/13 figures have been restated accordingly.

Basis for Estimating Assets and 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 Mercers Ltd, an independent firm of actuaries, estimates for the pension fund being based on the last valuation of the Scheme as at 31st March 2013.

The significant assumptions used by the actuary have been:

	31st March 2013	31st March 2014
	£'000	£'000
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	22.1 years	22.8 years
Women	24.8 years	25.3 years
Longevity at 65 for future pensioners (aged 65 in 20 years' time) :		
Men	23.9 years	25.0 years
Women	26.7 years	27.7 years
Rate of CPI inflation	2.40	2.40
Rate of increase in salaries	4.40	3.90 *
Rate of increase in pensions	2.40	2.40
Rate for discounting scheme liabilities	4.20	4.40

***** *An adjustment has been made for short term pay restraint in line with the most recent actuarial valuation.*

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

	Approximate increase (decrease) in Employee Liabilities
Changes in assumptions at 31st March 2014	£'000
0.1%p.a. increase in discount rate	(1,135)
0.1%p.a. increase in inflation	1,155
0.1%p.a. increase in pay growth	234
1 year increase in life expectancy	1,347

Impact on the Authority's Cash Flows

The objectives of the scheme are to keep employers contributions at as constant a rate as possible. The County Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100%. The maximum deficit recovery period for the Fund has been set at 19 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31st March 2016.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other main existing public service schemes may not provide benefits in relation to service after 31st March 2014 (or service after 31st March 2015 for other main existing public service pension schemes in England and Wales). The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

The authority anticipates paying £1.187m contributions to the scheme in 2014/15.

The weighted average duration of the defined benefit obligation for scheme members is 17 years, 2013/14 (14 years, 2012/13).

40 CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Contingent Liabilities:

- **Insurance Claims** – As at 31st March 2014, the Council has outstanding insurance claims against it with a reserve amount of £204,787. 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 £6,500 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 (now Progress Housing Group) in respect of the stock transfer of 2nd October 2000. The liability of the Council in this respect terminates on the fifteenth anniversary of the date of transfer, on 2nd October 2015. The Council has made duplicate warranties with Halifax PLC which terminate on the thirty sixth anniversary of the date of transfer, on 2nd 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.

- **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 used to support the provision of services and infrastructure such as highways, recreational facilities, education, health and affordable housing, which is necessary as part of the development or to mitigate its impact. 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.

- **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, which may also include the award of costs against the Council on occasion, 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.

- **Sand dunes** – the owner of a property within the borough is in dispute with the Council concerning the sand-dunes on the foreshore in front of his residence. At this stage no formal proceedings have commenced. If proceedings are commenced they will take some time to be determined, as much would depend on expert evidence.

- **Planning Enforcement** – there is also a planning enforcement case relating to a site at Hardhorn that may give rise to future costs depending on whether any decisions made by the Council are subsequently challenged.

- **NDR Appeals** - The Council has made a provision for NNDR Appeals based upon its best estimates of the actual liability as at the year-end in known appeals. It is not possible to quantify appeals that have not yet been lodged with the Valuation Office so there is a risk to the Council that national and local appeals may have a future impact on the accounts.

Contingent Assets:

- **Claims for recovery of overpaid VAT & interest**

  - **Trade Waste:** The Council has been charging VAT on the collection and disposal of trade waste. In February 2011 HM Revenue & Customs accepted that collection and disposal of trade waste by a local authority is not subject to VAT. Following advice from external advisors PriceWaterhouseCoopers the Council has submitted a retrospective VAT claim for the overpaid VAT. If the claim is successful the amount due to the Council for both the claim and accumulated interest could be significant. At the time of writing there is no certainty that the amount claimed will be received nor the timescale by which the outcome will be known as the claim has not yet been accepted as valid by HM Revenue & Customs.

  - **Leisure Services Income**: The Council has been accounting for VAT on income relating to certain leisure activities. Following advice from the Council's external VAT advisors PriceWaterhouseCoopers the Council has submitted a claim for the overpaid VAT. If the claim is successful the amount due to the Council for both the claim and accumulated interest could be significant. At the time of writing there is no certainty that the amount claimed will be received nor the timescale by which the outcome will be known as the claim has not yet been accepted as valid by HM Revenue & Customs.

  - **Compound interest:** The Council has submitted a claim for the payment of interest on an earlier claim (which was settled in favour of the Council) on a compound basis rather than a simple interest basis. If the claim is successful the amount due to the Council could be significant. At the time of writing there is no certainty that the amount claimed will be received nor the timescale by which the outcome will be known as the claim has not yet been accepted as valid by HM Revenue & Customs.

- **Housing Stock Transfer - Right to Buy (RTB) Sharing Arrangements** - Following the transfer of housing stock from the Council, New Fylde Housing (now Progress Housing Group) has agreed to share RTB receipts, calculated according to the formula as set out in the transfer agreement of 2nd October 2000. This arrangement will terminate at the end of the financial year 2029/30, on 31st March 2030. The amount the Council receives in any given year is dependent on prevailing market conditions. During 2013/14 the Council received capital receipts in respect of RTB sales in the sum of £11k.

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

41 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;
- 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 Code of Practice on Treasury Management in the Public Services 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 CIPFA Treasury Management Code of Practice;
- by the adoption of a Treasury Policy Statement and treasury management procedures within the constitution.
- 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), mid-year to Council and after year end to Cabinet.

The annual Treasury Management Strategy for 2013/14 which incorporates the prudential indicators was approved by Council on 4th March 2013. The strategy was revised and approved again by Council on 2nd December 2013. These reports are available on the Council's website.

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 periodically.

(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.

The key areas of the Investment Strategy are that the minimum criteria for investment counterparties include:

- Credit ratings of Short Term of F1+, Long Term AA-, Viability BB+ and Support 3
- UK or EU Member Banks domiciled in a country with a minimum sovereign rating of AA+
- UK part nationalised banks

The following analysis summarises the Authority's potential maximum exposure to credit risk from trade debtors based on local historical experience over the last three financial years:

	As at 31st March 2014 £'000	Historical experience of default %	Adjustment for market conditions at 31/03/14 %	Estimated maximum exposure to default £'000	Estimated maximum exposure At 31/03/13 £'000
	a	b	c	a * c	
Debtors	702	10.27%	10.27%	72	95

The Council does not generally allow credit for its trade debtors. Of the £0.702m (£1.175m 2012/13) outstanding for debtors, £0.569m (£0.671m 2012/13) is overdue. The past due amount can be analysed by age as follows:

	2012/13	2013/14
	£'000	£'000
Less than three months	440	441
Three months to one year	109	13
More than one year	122	115
	671	569

(iv) Liquidity risk

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed.

The Council has ready access to borrowings from the money markets to cover any day-to-day cash flow requirements, and access to the Public Works Loan Board and money markets for longer term funds. The Council is required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments.

The maturity analysis of financial liabilities is as follows:

	2012/13	2013/14
	£'000	£'000
Less than one year	2,905	3,443
Between one and two years	1,840	0
Between two and five years	1,600	1,374
Between five and ten years	2,231	3,131
More than ten years	551	1,081
	9,127	9,029

Amounts payable relating to statutory debts, e.g. council tax, non-domestic rates are not included in the analysis above as they are outside the scope of the Financial Instrument provisions.

The maturity analysis of financial assets is as follows:

	2012/13	2013/14
	£'000	£'000
Less than one year	7,211	9,695
Between one and two years	5	5
Between two and three years	5	3
More than three years	11	8
	7,232	9,711

(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 Comprehensive Income & Expenditure Statement. However, changes in interest receivable on investments will be posted to the Comprehensive Income and Expenditure Statement and affect the General Fund Balance.

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

	2012/13	2013/14
	£'000	£'000
Increase in interest payable on variable rate borrowings*	-	-
Increase in interest receivable on investments	108	111
Impact on Comprehensive Income and Expenditure Account	108	111
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 Comprehensive Income & Expenditure Account or Statement of Recognised Gains & Losses)	41	40

*The Council's long-term borrowing is all at fixed rates.

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.

42 PROVISIONS

	2012/13	2013/14
	£'000	£'000
NDR Appeals	-	486
MMI Scheme of Arrangement – clawback of previously paid claims	15	-
Total	**15**	**486**

NNDR Appeals Provision

Changes to the Business Rates system came into force with effect from 1st April 2013 under the Localism Act. Local Authorities now retain 50% of rates collected, and also assume responsibility for 50% of any losses due to appeals. The process for lodging and processing appeals is beyond the control of the Local Authority, and reductions can be backdated. The Business Rates provision is to cover the backdating of appeals lodged, but not yet heard.

MMI Scheme of Arrangement

In 1992 Municipal Mutual Insurance (MMI), the principal insurer of Local Government, avoided insolvency by entering a "Scheme of Arrangement". The "arrangement" with creditors enabled MMI to pay outstanding claims on the basis that should there be insufficient assets that participating creditors would be subject to "clawback" of previously paid claims. On the basis of a potential £30m share of surplus funds at the time the Council along with 728 other authorities participated in the "Scheme". Given an unfavourable legal ruling handed down by the Supreme Court during 2011/12, the Scheme of Arrangement was identified as being more likely to be triggered and the Council accordingly set aside an earmarked reserve in the sum of £105k to cover this potential future cost, this being the sum identified in the scheme papers as the Council's potential liability.

On 13th November 2012 the directors of MMI "triggered" the Scheme of Arrangement and Ernst and Young became responsible for MMI's business. Subsequently Ernst and Young wrote to the Council indicating an initial Levy payable in the sum of £15k. A sum of £15k was therefore transferred from the earmarked reserve during 2012/13 to meet this liability. A balance of £90k remains in the reserve which is sufficient to meet any further levy payable by the Council.

43 PRIOR YEAR ADJUSTMENTS, CHANGES IN ACCOUNTING POLICIES AND ESTIMATES AND ERRORS

Prior period adjustments have been made to the Council's 2012/13 published financial statements in relation to the following:

- **IAS19 Change to Accounting Standard**
  Revisions have been made to IAS 19 for reporting periods beginning on or after 1 January 2013. The introduction of the updated standard necessitates a restatement of prior year's figures in line with general accounting principles.

  Actuarial gains and losses, the effect of the asset ceiling and the actual return on plan assets ('remeasurements') are recognised in the balance sheet immediately, with a charge or credit to Other Comprehensive Income and Expenditure in the periods in which they occur. Interest expense or income will now be calculated by applying the discount rate to the net defined benefit liability (asset). This replaces the interest cost on the defined benefit obligation and the expected return on assets. For 2012/13 this has increased the charge to the Comprehensive Income and Expenditure Statement by £351k. A liability for a termination benefit will be recognised at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

- **Income and expenditure in relation to investment properties and changes in their fair values**
  The 2012/13 Accounts have been restated as 'Income and expenditure in relation to investment properties and changes in their fair values' (£23k) is now shown within the 'Financing and Investment Income and Expenditure' heading rather than 'Planning Services', where it had previously been included. This is to comply with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14. The 'Total Comprehensive Income and Expenditure' for the year remains unchanged. Note 9 to the Balance Sheet (page 47) has also been amended.

Effect on the Comprehensive Income and Expenditure Statement 2012/13 :

	2012/13 As reported	IAS 19 Pension Restate-ment	Investment Properties Restate-ment	Restated 2012/13
	£'000	£'000	£'000	£'000
Cost of Services	9,479	23	23	9,525
Other Operating Expenditure	480	19	-	499
Financing and Investment Income and Expenditure	642	309	(23)	928
Taxation and Non-Specific Grant Income	(11,384)	-	-	(11,384)
(Surplus) / Deficit on the Provision of Services	**(783)**	**351**	**-**	**(432)**
(Surplus) or Deficit on Revaluation of Property, Plant and Equipment Assets	(61)	-	-	(61)
Impairment losses on non-current assets charged to the Revaluation Reserve	758	-	-	758
(Surplus)/Deficit on Revaluation of available for sale financial assets	7	-	-	7
Actuarial (Gains)/Losses on Pension Assets/Liabilities	3,476	(351)	-	3,125
Other Comprehensive Income and Expenditure	**4,180**	**(351)**	**-**	**3,829**
Total Comprehensive Income and Expenditure	**3,397**	**-**	**-**	**3,397**

Effect on the Movement in Reserves Statement 2012/13 :

	2012/13 As reported	IAS 19 Pension Restatement	Investment Properties Restatement	Restated 2012/13
	£'000	£'000	£'000	£'000
Balance at 31st March 2012	3,730	-	-	3,730
(Surplus) or Deficit on the Provision of Services	783	(351)	-	432
Adjustments between accounting basis and Funding under Regulations	490	351	-	841
Transfers to/from Earmarked Reserves	(203)	-	-	(203)
Balance at 31st March 2013	**4,800**	**-**	**-**	**4,800**

Effect on the Cash Flow Statement 2012/13 :

	2012/13 As reported	IAS 19 Pension Restatement	Investment Properties Restatement	Restated 2012/13
	£'000	£'000	£'000	£'000
Net Surplus / (Deficit) on the Provision of Services	783	(351)	-	432
Adjustments for non-cash movements	1,751	351	-	2,102
Adjust for movements relating to investing and financing activities	(348)	-	-	(348)
Net Cash Flows from Operating Activities	**2,186**	**-**	**-**	**2,186**
Investing Activities	(1,450)	-	-	(1,450)
Financing Activities	(201)	-	-	(201)
Net Increase or (Decrease) in Cash and Cash Equivalents	**535**	**-**	**-**	**535**
Cash and Cash Equivalents at the beginning of the reporting period	5,501	-	-	5,501
Cash and Cash Equivalents at the end of the reporting period	**6,036**	**-**	**-**	**6,036**

COLLECTION FUND

2012/13		Notes	2013/14 Council Tax	2013/14 Business Rates	2013/14 Total
£'000			£'000	£'000	£'000
	INCOME:-				
(46,908)	Council Tax Receivable		(41,978)	-	(41,978)
(23,088)	Business Rates Receivable		-	(24,644)	(24,644)
-	Transitional Protection Payments receivable		-	(104)	(104)
-	Reconciliation Adjustments		-	-	-
(69,996)			**(41,978)**	**(24,748)**	**(66,726)**
	EXPENDITURE:-				
	Apportionment of Previous Years Surplus/(Deficit)				
-	Central Government		-	-	-
560	Lancashire County Council		87	-	87
74	Lancashire Police Authority		12	-	12
32	Lancashire Combined Fire Authority		5	-	5
104	Fylde Council		16	-	16
	Precepts, Demands and Shares				
-	Central Government		-	12,068	12,068
5,649	Fylde Council		5,097	9,654	14,751
33,609	Lancashire County Council		29,779	2,172	31,951
4,547	Police and Crime Commissioner for Lancashire		4,193	-	4,193
1,930	Lancashire Combined Fire Authority		1,745	241	1,986
739	Parish Councils	**3**	758	-	758
	Charges to Collection Fund				
300	Write offs of uncollectable amounts		281	126	407
45	Increase/(Decrease) in Bad Debt Provision		86	190	276
-	Increase/(Decrease) in Appeals Provision		-	1,216	1,216
112	Cost of Collection		-	111	111
-	Reconciliation Adjustments		-	9	9
22,976	Payments to National Pool		-	-	-
70,677			**42,059**	**25,787**	**67,846**
681	**(Surplus)/Deficit arising during the Year**		**81**	**1,039**	**1,120**
(718)	(Surplus)/Deficit brought forward at 1st April		(37)	-	(37)
(37)	**(Surplus)/Deficit carried forward at 31st March**	**1**	**44**	**1,039**	**1,083**

NOTES TO THE COLLECTION FUND

1) ALLOCATION OF COLLECTION FUND BALANCES

2012/13		2013/14		
		Council Tax	Business Rates	Total
£'000		£'000	£'000	£'000
	Allocation of Collection Fund Balances			
(5)	Fylde Council	5	416	421
-	Central Government	-	519	519
(27)	Lancashire County Council	32	94	126
(3)	Police and Crime Commissioner for Lancashire	5	-	5
(2)	Lancashire Combined Fire Authority	2	10	12
(37)		**44**	**1,039**	**1,083**

2) COUNCIL TAX BASE

The Council Tax base for 2013/14 was calculated as follows:-

Property Band	Chargeable Dwellings	Band Multiplier	Relevant Amount
Additional Band (Disabled)	19	5/9	11
Band A	3,432	6/9	2,288
Band B	4,082	7/9	3,175
Band C	6,790	8/9	6,036
Band D	5,712	9/9	5,712
Band E	3,940	11/9	4,816
Band F	2,167	13/9	3,130
Band G	1,391	15/9	2,318
Band H	79	18/9	158
Other Adjustments	78	-	78
Total Relevant Amount			27,722
Multiplied by: Estimated Collection Rate			98.25%
			27,237
Add: Other Adjustments			181
Council Tax Base			**27,418**

A Band D Council Tax was set at £1,447.58, split £1,086.13 for Lancashire County Council, £144.88 for Fylde Council, £152.92 for the Police and Crime Commissioner for Lancashire and £63.65 for Lancashire Combined Fire Authority. Council Tax-payers in St Annes and Lytham also paid a Special Expenses charge at Band D of £67.94 whilst Parish and Town Councils agreed additional Council Tax charges of between £15.66 and £77.23 at Band D level.

3) PARISH PRECEPTS

	2012/13	2013/14
	£	£
Bryning-with-Warton	49,725	70,540
Elswick	18,797	21,998
Freckleton	96,797	99,600
Greenhalgh-with-Thistleton	5,000	4,000
Kirkham	165,581	159,252
Little Eccleston-with-Larbreck	6,805	6,805
Medlar-with-Wesham	49,998	51,500
Newton-with-Clifton	49,969	49,969
Ribby-with-Wrea	48,200	46,613
Singleton	16,621	16,953
Staining	52,628	56,488
St.Annes	150,000	145,277
Treales, Roseacre and Wharles	6,636	6,619
Weeton-with-Preese	13,800	14,076
Westby-with-Plumptons	8,000	8,000
	738,557	757,690

4) NON-DOMESTIC RATE (NDR)

	2012/13	2013/14
NDR Rateable Value as at 31st March	£61,187,545	£61,464,159
NDR Multiplier	0.458	0.471
NDR Multiplier (Small Business)	0.450	0.462

ANNUAL GOVERNANCE STATEMENT

Scope of responsibility

Fylde 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 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, together with the addendum issued in 2012, and also meets the requirements of regulation 4 (3) of the Accounts and Audit Regulations 2011 in relation to the publication of a statement on internal control.

The purpose of the governance framework

The governance framework comprises 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 2014 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

CIPFA and SOLACE reviewed the Framework during 2012 to ensure it maintained 'fit for purpose' and issued the Guidance in late December 2012 with the key message for local authorities to review and report on the effectiveness of their governance arrangements and meet the government standard.

Other developments that impact on the Framework since its launch include:

- The Government's commitment to increasing transparency
- Localism Act 2011
- Revised guidance on the role of the Chief Finance Officer
- Revised guidance on the role of Head of Internal Audit
- Changes to Local Authority governance structures

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:

<u>Constitution</u>

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.

<u>Political structure</u>

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 questions to the Leader and his Cabinet.

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, except where personal or confidential matters may be disclosed. Public platform allows 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, which 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 Council's Standards Committee deals with all aspects of advice and guidance for Members on matters of conduct, ethics, propriety and declarations of interest. It also assesses, oversees and determines complaints made against Members under the Code of Conduct. The Council has access to a number of 'independent persons' who assist in upholding high standards.

The Standards 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.

During May 2014, there was a local referendum on governance which invited a public vote on whether the Council should change its governance arrangements to a committee system as opposed to the current executive arrangements. This was successful and as a result, the Council will change its governance arrangements in 2015 following the annual meeting in May.

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 Director of Resources as Monitoring Officer. The Monitoring Officer must ensure compliance with established policies, procedures, laws and regulations. She must report to the full Council or Cabinet as appropriate if she 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 Chief Financial Officer 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 2011.

Both statutory officers referred to above have unfettered access to information, to the Chief Executive and to Councillors so they can discharge their responsibilities effectively. The functions of these officers and their roles are clearly set out in the Council's Constitution. In particular, the role of the Chief Financial Officer accords with the principles set out in the CIPFA Statement on the Role of the Chief Financial Officer.

Three directors report to the Chief Executive and collectively form the Authority's Management Team together with the Chief Financial Officer who acts as a specialist advisor. 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 within the principles contained in the standards set out in the United Kingdom Public Sector Internal Audit Standards 2012.

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.

<u>Operational</u>

The Corporate Plan establishes Fylde 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 where appropriate, 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 on a regular basis to the Management Team, to Cabinet, and to full Council. Closer monitoring and appropriate action is taken where there is an 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 is invited to attend 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, service managers are required to incorporate a register of risks relevant to their service area within each Directorate'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.

In accordance with the Accounts and Audit Regulations, an annual assessment of the Council's systems of internal audit is carried out each year using the Public Sector Internal Audit Standards and the checklist provided in the Local Government Application Note published by CIPFA.

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.

Review of effectiveness

The Authority supplements the mandatory external audit judgements by assessing itself against the good practice elsewhere. 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 opinion on the effectiveness of the Authority's Audit Committee and the internal control function.

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 Chief Executive, Section 151 Officer, Monitoring Officer, Head of Governance 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 also receives assurance statements on an annual basis covering each of the Council's service areas. These assurance statements show the extent of compliance within the Directorate 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 and 'ISA 260 report to those charged with governance'.

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.

Governance Issues

As a result of the assessment of the effectiveness of governance within the Council, the Corporate Governance Group has identified four areas where it believes that focus should be given during 2014/15. These areas are related to business continuity, IT disaster recovery, project management and the governance framework in light of the May 2014 governance referendum. A further description is given below and these actions will be translated into an action plan which will be presented the next meeting of the Audit Committee with an expected timeframe for each issue.

1. Review business continuity arrangements
2. Review IT disaster recovery plan
3. Review approach to project management
4. Prepare for change in governance arrangements

Statement

On the basis of the work carried out, which has been reviewed by the Audit Committee, we are satisfied that the Governance Framework is generally effective. We propose over the coming year to address the above matters to further enhance our governance arrangements and to prepare for change. 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.

Councillor D Eaves	**Allan Oldfield**
Leader of the Council	**Chief Executive**

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.

- **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 Non-Current 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 1st 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 Non-Current 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 Non-Current 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 1st April to 31st March.

- **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.

- **Heritage Assets**
  Heritage assets are defined as assets which have historical, artistic or cultural qualities and that are held and maintained principally for their contribution to knowledge and culture.

- **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 Non-Current Asset below its carrying amount on the balance sheet.

- **Infrastructure Assets**
  Non-Current 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 Non-Current 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.

- **Inventories**
  The amount of unused or unconsumed stocks bought but not used at the end of the accounting period, held in expectation of future use. E.g. 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.

- **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.

- **Non Domestic Rates (NDR)**
  NDR 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 shared between major preceptors, central government, the Police and Crime Commissioner and the billing authority.

- **Net Book Value**
  The amount at which Non-Current 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-Current Assets**
  Assets that yield benefits to the Council and the services it provides for a period of more than one 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**
  Non-Current 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**
  Non-Current 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 (i.e. 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 1st 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.

- **Service Reporting Code of Practice (SeRCOP)**

  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.

- **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.

- **Statement of Recommended Practice – (SORP)**
  This is the Code of Practice on Local Authority Accounting in the United Kingdom.

- **Tangible Non-Current Assets**
  Assets which have a physical form e.g. 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 Non-Current Asset.

REPORT

REPORT OF	MEETING	DATE
RESOURCES	AUDIT COMMITTEE	25 SEPTEMBER 2014

REPORT TO THOSE CHARGED WITH GOVERNANCE (ISA 260) 2013/14

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 31st March 2014, 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, that the Council has secured economy, efficiency and effectiveness. It also provides an opinion to verify that the Council has complied with all legal and regulatory frameworks with respect to its accounting arrangements resulting in an unqualified opinion.

RECOMMENDATIONS

1. That the External Auditors Report to those charged with Governance for 2013/14, referred to as the ISA 260, be noted, and that KPMG be thanked for their work

2. That the Audit Committee notes the work undertaken by the Council over the course of the last year resulting in a positive audit opinion of the Council's effectiveness.

CABINET PORTFOLIO

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

Finance and Resources : Councillor Karen Buckley

SUMMARY OF PREVIOUS DECISIONS
There are no previous decisions relating to the Report to those Charged with Governance 2013/14.

REPORT

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

IMPLICATIONS	
Finance	The financial implications are contained within the body of this report and the report of the Council's external auditors, KPMG.
Legal	The legal implications are contained within the body of this report and the report of the Council's external auditors, KPMG.
Community Safety	None arising from this report
Human Rights and Equalities	None arising from this report
Sustainability and Environmental Impact	None arising from this report
Health & Safety and Risk Management	None arising from this report

REPORT AUTHOR	TEL	DATE	DOC ID
Paul O'Donoghue Section 151 Officer	01253 658566	September 2014	

LIST OF BACKGROUND PAPERS		
Name of document	Date	Where available for inspection

Attached documents

1. KPMG Report to those charged with Governance (ISA 260) 2013/14

cutting through complexity™

Report to those charged with governance (ISA 260) 2013/14

Fylde Borough Council

25 September 2014

Contents

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

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

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tim Cutler, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 0303 4448 330.

This document summarises:

- **the key issues identified during our audit of the financial statements for the year ended 31 March 2014 for the Authority; and**
- **our assessment of the Authority's arrangements to secure value for money.**

Scope of this report

This report summarises the key findings arising from:

- our audit work at Fylde Borough Council ('the Authority') in relation to the Authority's 2013/14 financial statements; and
- the work to support our 2013/14 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

Financial statements

Our *External Audit Plan 2013/14*, presented to you in January 2014, set out the four stages of our financial statements audit process.

This report focuses on the second and third stages of the process: control evaluation and substantive procedures. Our on site work for these took place during February 2014 (interim audit) and July 2014 (year end audit).

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

VFM conclusion

Our *External Audit Plan 2013/14* explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission. We have now completed our work to support our 2013/14 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion; and
- considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2013/14 financial statements.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior recommendations and this is detailed in Appendix 2.

Acknowledgements

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

Headlines

This table summarises the headline messages. Sections three and four of this report provide further details on each area.

Proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2014. We will also report that the wording of your Annual Governance Statement accords with our understanding.
Audit adjustments	We identified one material misstatement. This was due to the NNDR tariff (the tariff being the sum that the Authority pays over to Central Government from it's share of retained business rates) being shown gross on the face of the Comprehensive Income and Expenditure Statement, when it should be shown net. The effect of this misstatement was to overstate both income and expenditure by £7.9m, so the net impact on total comprehensive income and expenditure is nil. There were no unadjusted audit differences, and only one non-material adjusted difference was identified. There were a small number of disclosure and presentational issues identified during the audit that have also been adjusted by management. These are outlined in detail on page 5.
Key financial statements audit risks	We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed these issues appropriately.
Accounts production and audit process	We are pleased to note the overall good quality of the accounts and the supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. One area which required further discussions was the Authority's use of an expert to determine their NNDR appeals provision estimate. In similar situations in the future, officers should ensure that sufficient evidence is obtained from the expert to support the assumptions used and to enable us to understand the basis for the estimate. The Authority has implemented all of the recommendations in our *ISA 260 Report 2012/13* relating to the financial statements.
Control environment	The Authority's organisational control environment is effective overall, and we have not identified any significant weaknesses in controls over key financial systems.
Completion	At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas: ■ *Whole of government accounts* . Before we can issue our opinion we require a signed management representation letter. 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.

Headlines (continued)

This table summarises the headline messages.

Sections three and four of this report provide further details on each area.

VFM conclusion and risk areas	We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2014.

Proposed opinion and audit differences

We have identified one issue in the course of the audit that is considered to be material.

The net impact of this adjustment is nil.

Proposed audit opinion

We anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Audit Committee on 25 September.

Audit differences

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.

Our audit identified a total of one material audit difference, which we set out in Appendix 3. This has been adjusted in the final version of the financial statements. The difference is due to treating the NNDR tariff as gross on the face of the Comprehensive Income and Expenditure Statement, when it should be treated net of the matching NNDR income. This means that both taxation and non-specific grant income and expenditure are overstated by £7.9m, but the net effect of the adjustment is nil.

We identified a number of other issues that have been adjusted by management , including one audit difference that was adjusted by management, as although it did not exceed our materiality level, it was above our audit misstatement posting threshold.

The Authority's share of the NNDR appeals provision, £0.486m, had been incorrectly included within short term debtors rather than provisions. The effect of this adjustment is to:

- Increase short term debtors (current assets) by £0.486m*; and*
- Increase provisions (current liabilities) by £0.486m

There is no impact on the General Fund as a result of this audit adjustment

The tables on the right illustrate the impact of these audit differences on the Authority's movements on the General Fund for the year and balance sheet as at 31 March 2014.

Movements on the General Fund 2013/14

£000	Pre-audit	Adjustment	*Post - audit*
Surplus on the provision of services	800	0	*800*
Adjustments between accounting basis & funding basis under Regulations	829	0	*829*
Transfers to earmarked reserves	(1,340)	0	*(1,340)*
Increase in General Fund	**289**	**0**	**289**

Balance Sheet as at 31 March 2014

£000	Pre-audit	Adjustment	*Post - audit*
Property, plant and equipment	18,532	0	*18,532*
Other long term assets	6,848	0	*6,848*
Current assets	11,744	486	*12,230*
Current liabilities	(3,895)	(486)	*(4,381)*
Long term liabilities	(25,897)	(0)	*(25,897)*
Net worth	**7,332**	**0**	***7,332***
Usable reserves	(9,223)	(0)	*(9,223)*
Unusable reserves	1,891	(0)	*1,891*
Total reserves	**(7,332)**	**(0)**	***(7,332)***

Proposed opinion and audit differences (continued)

We anticipate issuing an unqualified audit opinion in relation to the Authority's financial statements by 30 September 2014.

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

The Authority have amended the contingent liabilities note 40 to include an additional disclosure related to NNDR appeals not yet received or assessed.

In addition, we identified a small number of other presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2013/14 ('the Code')*. We understand that the Authority will be addressing these where significant.

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; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

Explanatory Foreword

We have reviewed the Authority's explanatory foreword and can confirm it is not inconsistent with the financial information contained in the audited financial statements.

Key financial statements audit risks and areas for consideration

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

In our *External Audit Plan 2013/14*, presented to you in January 2014, we identified the key risks affecting the Authority's 2013/14 financial statements, and other areas we planned to consider. We have now completed our testing of these areas and set out our evaluation following our substantive work.

The table below sets out our detailed findings for each of the risks and areas for consideration that are specific to the Authority.

Additionally, we considered the risk of management override of controls, which is a standard risk for all organisations.

Our controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual, did not identify any issues.

Key audit risk	Issue	Findings
LGPS Triennial Valuation	During the year, the Local Government Pension Scheme for Lancashire County (the Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2013 in line with the Local Government Pension Scheme (Administration) Regulations 2008. The Authority's share of pensions assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out this triennial valuation. The IAS 19 numbers to be included in the financial statements for 2013/14 will be based on the output of the triennial valuation rolled forward to 31 March 2014. For 2014/15 and 2015/16 the actuary will then roll forward the valuation for accounting purposes based on more limited data. There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data is provided to the actuary by Lancashire County Council who administer the Pension Fund	We have reviewed the Authority's arrangements for providing information to the Pension Fund through the financial year and did not identify any issues. We have verified that the month 10 balances that the actuary uses in it's assessment of the valuation of the fund were correct and accurately derived from the Authority's payroll system. We have used the work of experts engaged by KPMG and the Audit Commission to review the reasonableness of the assumptions used by the Pension Fund Actuary, Mercers, and concluded that these assumptions are in line with expectations. We have tested and verified that the entries specified by the Code and IAS 19 in the Authority's statement of accounts are materially accurate and in accordance with the requirements. The full effect of the triennial valuation, including the new contribution rates, is expected to impact on the Authority's accounts from 2014/15.

Key financial statements audit risks (continued)

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

Are Area for Consideration	Issue	Findings
Local Authority Mortgage Scheme	The Authority is participating in the Local Authority Mortgage Scheme (LAMS). The scheme is designed to encourage home buying within the local area. The Authority will provide mortgage indemnities, which would remain in place for the first 5 years of the mortgage. These will be limited to 20% of the total property value. The Authority's LAMS scheme was approved by Council in December 2012, and £1m of s106 funding was set aside .	The Council formally made the decision not to proceed with the LAMS as part of the budget setting process in March 2014. This was due to the introduction of the similar Help to Buy scheme by Government . The £1m allocated to the LAMS has been released back into the s106 funding for use on future affordable housing schemes.
Premises Schemes	The Authority's project to rationalise the premises it uses for operational purposes started in 2012/13 and has continued into 2013/14. The project includes improvement and refurbishment work for continuing premises such as the Town Hall. The refurbishments are to be funded through the disposal of surplus or under-used assets. St David's Road Depot was sold in 2013, the sale of Derby Road Wesham is expected to be completed in January 2014, and the Authority is actively marketing it's Public Offices sites for disposal.	We have reviewed the treatment of the disposal to ensure the treatment in the accounts is consistent with the requirements of the SORP. We have sample tested additions to ensure that these are consistent with accounting requirements and are correctly disclosed. We did not identify any issues from this work. The Authority has continued to struggle to find a buyer for the Public Offices, despite a number of expressions of interest being received. This may therefore put at risk the completion of the accommodation project within planned timescales. The latest medium term plan shows that a further £2.5m is expected to be spent on this project in 2014/15, funded from capital receipts that are expected the be received during the year.

Accounts production and audit process

We are pleased that the Authority has maintained the good quality of the accounts and the supporting working papers.

Officers dealt efficiently with 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 2012/13.

Accounts production and audit process ISA 260 requires us to communicate to you our views about the significant 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
Accounting practices and financial reporting	The Authority has maintained the good quality of its financial reporting process. We consider that accounting practices are appropriate. We have also reviewed key areas of judgement applied by management in preparing the financial statements and have identified one issue as follows; **NNDR Appeals Provision** Under the new arrangements for NNDR collection and distribution through the collection fund, the Authority has had to include a provision for appeals against NNDR valuations for the first time in 2013/14. The Authority has chosen to use an expert, Inform-CPI, to assist them in calculating this estimate. Inform-CPI provided a report to the Authority which included their estimate of the appeals provision value, but this report did not set out any of the details of the assumptions or methodology that Inform-CPI had used to produce their estimate. When asked, Authority officers could not fully explain how Inform-CPI's estimate was calculated, and were not able to obtain sufficient evidence from the expert to support the assumptions used and understand the basis for the estimate. The value of the provision in the collection fund is £1,216k, with the Authority's share of this in the balance sheet being £486k (40%). Our testing of the provision, based on a sample of 26 assessed cases to the end of June 2014, has provided assurance that there will not be a material error in the financial statements, with the maximum potential difference identified between the provision in the collection fund and actual costs of appeals in 2014/15 estimated to be an understatement of £246k. The Authority share of this would be an understatement of the provision in the balance sheet of £98k. We are satisfied that management have used a reasonable estimate within their financial statements, however it is important that management assure themselves that all balances within the financial statements are materially accurate, and can be supported by a clear audit trail, particularly where third parties are involved.

Accounts production and audit process (continued)

We are pleased that the Authority has maintained the good quality of the accounts and the supporting working papers.

Officers dealt efficiently with 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 2012/13.

Element	Commentary
Completeness of draft accounts	We received a complete set of draft accounts on 30 June, in line with the required deadline. Prior to this however, the accounts were not placed on deposit in accordance with the advertised timetable agreed with Authority officers, under the Accounts and Audit Regulations 2011. This meant that the audit had to be re-advertised by the Authority. We are satisfied however that the re-issued advert met the requirements of the regulations.
Quality of supporting working papers	Our *Prepared by Client* (PBC) schedule, which we issued on 9 May to the Finance Team, set out our working paper requirements for the audit. The quality of working papers provided was of a good standard.
Response to audit queries	Officers were responsive to requests for additional information and resolved audit queries in a reasonable time.

Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendations in last years ISA 260 report. The Authority has implemented all of the recommendations in our *ISA 260 Report 2012/13*.
Appendix 2 provides further details.

Organisational control environment

Your organisational control environment is effective overall.

Work completed

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit.

We obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

Key findings

We consider that your organisational controls are effective overall.

Aspect	Assessment
Organisational controls:	
Management's philosophy and operating style	3
Culture of honesty and ethical behaviour	3
Oversight by those charged with governance	3
Risk assessment process	3
Communications	3
Monitoring of controls	3

Key:
- 1 Significant gaps in the control environment.
- 2 Deficiencies in respect of individual controls.
- 3 Generally sound control environment.

Controls over key financial systems

The controls over all of the key financial systems are sound.

Work completed

We review the outcome of internal audit's work on the financial systems to influence our assessment of the overall control environment, which is a key factor when determining the external audit strategy.

Where we have determined that this is the most efficient audit approach to take, we test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Our assessment of a system will not always be in line with your internal auditors' opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

Key findings

Based on the work of your internal auditors and our own testing, the controls over all of the key financial systems are sound.

We noted some minor weaknesses in respect of individual financial systems, as follows:

- Journal authorisation: due to the small finance team, there is a lack of segregation of duties between journal input and journal authorisation. Authority officers have agreed to introduce new processes to mitigate this weakness in 14/15. Appendix 1 provides further details.

Financial system	Controls Assessment
Property, Plant & Equipment	3
Cash	3
Pensions Liabilities	3
Journals	3

Key:
1 Significant gaps in the control environment.
2 Deficiencies in respect of individual controls.
3 Generally sound control environment.

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.

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 2014, 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 4 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 provided a template to the Chief Financial Officer for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- significant difficulties encountered during the audit;
- significant matters arising from the audit that were discussed, or subject to correspondence with management;
- other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc).

There are no other matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2013/14 financial statements.

VFM conclusion

Our VFM conclusion considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Background

Auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Authority has proper arrangements in place for:

- securing financial resilience: looking at the Authority's financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Authority is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Authority to mitigate these risks and plan our work accordingly.

The key elements of the VFM audit approach are summarised in the diagram below.

Work completed

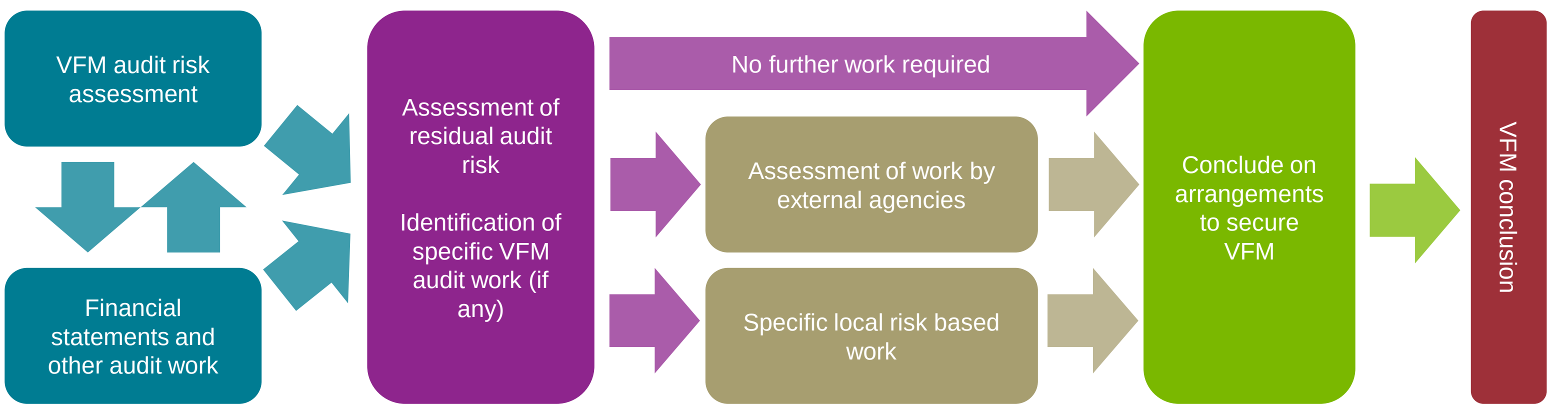
We performed a risk assessment earlier in the year and have reviewed this throughout the year.

We have not identified any significant risks to our VFM conclusion and therefore have not completed any additional work.

Conclusion

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

VFM criterion	Met
Securing financial resilience	✓
Securing economy, efficiency and effectiveness	✓



Appendix 1: Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

Priority rating for recommendations		
❶ ***Priority one***: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	❷ ***Priority two***: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	❸ ***Priority three***: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	❷	**NNDR Appeals Provision** Under the new arrangements for NNDR collection and distribution through the collection fund, the Authority has had to include a provision for appeals against NNDR valuations. The Authority has chosen to use an expert to assist them in calculating this estimate, Inform-CPI. Inform-CPI provided a report to the Authority which included their estimate of the appeals provision value, but this report did not set out any of the details of the assumptions or methodology that Inform-CPI had used to produce their estimate. The value of the provision in the collection fund is £1,216k, with the Authority's share of this in the balance sheet being £486k. When asked, Authority officers could not fully explain the basis for Inform-CPI's estimate. **Recommendation** Where the Authority engages a third party to provide information to be included within the financial statements, it should ensure that the methodology is fully understood and that it can obtain sufficient evidence to support the balance.	The calculation of a forecast of future NNDR appeal settlements is a specialist area of work and the Council has therefore (along with a number of other local authorities) engaged and worked with a specialist company, Inform-CPI Ltd, in order to provide as accurate an estimate of appeals as possible. Inform-CPI has been developing NNDR software systems alongside the Institute of Rating, Revenues and Valuation (IRRV) since 1999, and utilises the complete rating history of every heriditament that has existed in rating since 1990. Based on this extensive background information, officers were happy that the estimates provided by Inform-CPI would be more accurate than those calculated in-house. Inform-CPI are able to draw on a greater volume and more specific historical data associated with individual appeals nationally, thus enabling a more accurate estimate to be calculated. Whilst officers understand and were able to explain the basis of the estimates, it was not possible to provide the precise methodology used to calculate them. This was because the estimates were produced from Inform-CPI's own software programme and due to

Appendix 1: Key issues and recommendations (continued)

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	2	**NNDR Appeals Provision (Continued)**	commercial sensitivity Inform-CPI were initially only prepared to provide a statement on the methodology used. Inform-CPI assured officers that they would work with the Council's auditors to provide the necessary assurance to support the appeals provision, and indeed they have now done so. It is acknowledged, however, that where the Authority engages a third party to provide information to be included within the financial statements it should ensure that the methodology is fully understood and that it is possible to easily obtain evidence to support the balance, thus providing a strong audit trail. **Officer Responsible**: Deputy s151 Officer **Status**: Implemented
2	3	**Journals – segregation of duties** There is no segregation of duties in the raising of journals and the journals are not formally reviewed and authorised by another member of staff. This is due to the relatively small size of the finance team. KPMG are aware that there are compensating high level controls in place that serve to mitigate the risks posed by this weakness in the design of the controls around journal postings, such as regular budget monitoring controls. **Recommendation** The Authority should introduce a process by which journals are reviewed at regular intervals by a more senior member of the finance team than the person who raised them, and keep a record of these reviews. For example, a monthly report of all journals raised within the general ledger could be reviewed and signed by the Chief Finance Officer to demonstrate he is satisfied that they are appropriate.	We have introduced a procedure whereby both a weekly and monthly report of all manual journals raised within the general ledger will be reviewed and signed by the Financial Accounting Manager (weekly report) and the Deputy s151 Officer (monthly report) to demonstrate that both officers are satisfied that the journals are appropriate. The procedure has been provided to the Council's internal audit section who have commented that from their perspective adoption of the new procedures provides the necessary controls in respect of journal processing. The procedure has also been provided to KPMG who have confirmed that it responds appropriately to the recommendation. **Officer Responsible**: Deputy s151 Officer **Status**: Implemented

Appendix 2: Follow up of prior year recommendations

The Authority has implemented all of the recommendations in our *ISA 260 Report 2012/13.*

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2012/13* and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	2
Implemented in year or superseded	2
Remain outstanding (re-iterated below)	0

We raised recommendations in relation to two areas in our 12/13 report as follows;

- The authority should review and update it's IT Security Policy; and
- The authority should ensure it retains an audit trail of all Bank Reconciliations.

Our work during 2013/14 has shown that both of these recommendations have been fully implemented, and no prior year recommendations remain outstanding.

Appendix 3: Audit differences

This appendix sets out the significant audit differences.

These have been adjusted in the final version of the financial statements.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Corrected audit differences

The following table sets out the material audit differences identified by our audit of Fylde Borough Council's financial statements for the year ended 31 March 2014. These have been adjusted in the final version of the financial statements.

No.	Impact: Income and Expenditure Statement	Impact: Income and Expenditure Statement	Basis of audit difference
1	Dr Taxation and Non-specific Grant Income £7,971k	Cr Taxation and Non-specific Grant Expenditure £7,971k	The NNDR tariff payment has been treated gross on the face of the Comprehensive Income and Expenditure statement, whereby the Authority has accounted for it's full share of the NNDR income and treated the tariff as expenditure. Under the requirements of the Code of Accounting Practice (the SORP), this should be treated net as the Authority is merely acting as an agent for Central Government in the collection and distribution of NNDR income collected through the Collection Fund.
			Total impact of adjustments is nil

Appendix 4: 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. We do this in our *Annual Audit Letter*.

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 Engagement Lead and the audit team.

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.

Appendix 4: 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.

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 2014, 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.

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REPORT

REPORT OF	MEETING	DATE
RESOURCES	AUDIT COMMITTEE	25 SEPTEMBER 2014

MANAGEMENT REPRESENTATION LETTER 2013/14

PUBLIC ITEM

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

SUMMARY

Following the conclusion of the audit of accounts the Council is required to provide the external auditor, in the case of Fylde Council this is KPMG, with a statement confirming that the Council has acted properly and with due regard to appropriate regulations and guidance in the preparation of financial statements and that all material items have been disclosed to the auditors and all reasonable measures taken to minimise fraud and error. This statement is referred to as the 'Management Representation Letter'. The letter showing the full detail of the statement is attached at Appendix A to this report.

Previously the content of the letter formed part of the ISA260 report which this committee considered. This is no longer the case and consequently this committee is now required to consider the Management Representation Letter as a separate item for discussion.

Once agreed the Management Representation Letter must be signed on behalf of the Authority by the Chief Financial Officer and by the Member presiding at the meeting of the Audit Committee (the Chair), that being the body delegated by Council to consider and approve the Statement of Accounts in line with the Accounts and Audit Regulations 2011. The signed Management Representation Letter will then be provided to KPMG.

RECOMMENDATIONS

The Committee is requested to:

1. Agree that the Management Representation Letter be signed by the Chief Financial Officer and by the Member presiding at the meeting of the Audit Committee (the Chair) and then provided to KPMG.

CABINET PORTFOLIO

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

Finance and Resources : Councillor Karen Buckley

SUMMARY OF PREVIOUS DECISIONS
There are no previous decisions relating to the Management Representation Letter for 2013/14.

REPORT

To consider the Management Representation Letter for 2013/14 which is attached at Appendix A to this report.

IMPLICATIONS	
Finance	There are no financial implications arising from the recommendations contained in this report.
Legal	Completion of the Management Representation Letter for 2013/14 is required by the council's external auditors KPMG as part of the audit of accounts process. This ultimately ensures that the Council is able to approve the Statement of Accounts in line with the Accounts and Audit Regulations 2011.
Community Safety	None arising from this report
Human Rights and Equalities	None arising from this report
Sustainability and Environmental Impact	None arising from this report
Health & Safety and Risk Management	None arising from this report

REPORT AUTHOR	TEL	DATE	DOC ID
Paul O'Donoghue Section 151 Officer	01253 658566	September 2014	

LIST OF BACKGROUND PAPERS		
Name of document	Date	Where available for inspection

Attached documents

1. Management Representation Letter for 2013/14

Our Ref: PO'D

Your Ref:

Please Ask For: Paul O'Donoghue

Telephone: 01253 658566

Email: Paul.o'donoghue@fylde.gov.uk

Date: 25th September 2014

KPMG LLP
St James' Square
Manchester
M2 6DS

Dear Sirs,

Management Representation Letter

This representation letter is provided in connection with your audit of the financial statements of Fylde Borough Council ("the Authority") for the year ended 31 March 2014, for the purpose of expressing an opinion:

i. as to whether these financial statements give a true and fair view of the financial position of the Authority as at 31 March 2014 and of the Authority's expenditure and income for the year then ended; and

ii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

These financial statements comprise the Authority Movement in Reserves Statement, the Authority Comprehensive Income and Expenditure Statement, the Authority Balance Sheet, the Authority Cash Flow Statement, the Collection Fund and the related notes.

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

1. The Authority has fulfilled its responsibilities, as set out in regulation 8 of the Accounts and Audit (England) Regulations 2011, for the preparation of financial statements that:

   i. give a true and fair view of the financial position of the Authority as at 31 March 2014 and of the Authority's expenditure and income for the year then ended; and

ii. have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable. [ISA (UK&I) 540.22]

3. All events subsequent to the date of the financial statements and for which IAS 10 Events after the reporting period requires adjustment or disclosure have been adjusted or disclosed. [ISA (UK&I) 560.9]

Information provided

4. The Authority has provided you with:

- access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
- additional information that you have requested from the Authority for the purpose of the audit; and
- unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.

5. All transactions have been recorded in the accounting records and are reflected in the financial statements.

6. The Authority confirms the following:

i) The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

ii) The Authority has disclosed to you all information in relation to:

a) Fraud or suspected fraud that it is aware of and that affects the Authority and involves:
   - management;
   - employees who have significant roles in internal control; or
   - others where the fraud could have a material effect on the financial statements; and

b) allegations of fraud, or suspected fraud, affecting the Authority's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, the Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

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7. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

8. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

9. The Authority has disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 *Related Party Disclosures*.

10. The Authority confirms that:

    The financial statements disclose all of the uncertainties surrounding the Authority's ability to continue as a going concern as required to provide a true and fair view.

Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Authority to continue as a going concern.

11. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the business and are in accordance with the requirements of IAS 19 (revised) Employee Benefits.

    The Authority further confirms that:

    a) all significant retirement benefits, including any arrangements that are:

        - statutory, contractual or implicit in the employer's actions;
        - arise in the UK and the Republic of Ireland or overseas;
        - funded or unfunded; and
        - approved or unapproved.

    have been identified and properly accounted for; and

    b) all plan amendments, curtailments and settlements have been identified and properly accounted for.

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This letter was tabled and agreed at the Management Team meeting of 3rd September 2014 and was tabled and agreed at the meeting of the Audit Committee on 25th September 2014.

Yours faithfully

Paul O'Donoghue

Chief Financial Officer Date ……………

Councillor John Singleton JP Date ……………

Chairman of Audit Committee

<u>Appendix A to the Management Representation Letter of Fylde Borough Council: Definitions</u>

Financial Statements

IAS 1.10 states that “a complete set of financial statements comprises:

- a statement of financial position as at the end of the period;
- a statement of profit or loss and other comprehensive income for the period;
- a statement of changes in equity for the period;
- a statement of cash flows for the period;
- notes, comprising a summary of significant accounting policies and other explanatory information;
- comparative information in respect of the preceding period as specified in paragraphs 38 and 38A; and
- a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements in accordance with paragraphs 40A-40D.

An entity may use titles for the statements other than those used in this Standard. For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income'.”

Material Matters

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state that:

> “Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.”

Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity’s assets. It is 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.

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Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

a) was available when financial statements for those periods were authorised for issue; and
b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Management

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

Related parties

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the "reporting entity").

a) A person or a close member of that person's family is related to a reporting entity if that person:
    i. has control or joint control over the reporting entity;
    ii. has significant influence over the reporting entity; or
    iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
b) An entity is related to a reporting entity if any of the following conditions applies:
    i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
    ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
    iii. Both entities are joint ventures of the same third party.
    iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
    v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
    vi. The entity is controlled, or jointly controlled by a person identified in (a).
    vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:

a) a government that has control, joint control or significant influence over the reporting entity; and
b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

Related party transaction

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

REPORT

REPORT OF	MEETING	DATE
INTERNAL AUDIT	AUDIT COMMITTEE	25 SEPTEMBER 2014

REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT

PUBLIC ITEM

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

SUMMARY

The report presents the findings of a self-assessment exercise undertaken by the Head of Internal Audit in relation to the conformance of internal audit with the Public Sector Internal Audit Standards (PSIAS). The self-assessment compared existing arrangements with those specified in the PSIAS.

RECOMMENDATION

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 Public Sector Internal Audit Standards.

2) The Committee approves the enhancements to internal audit arrangements outlined in the Improvement Plan arising from the review.

CABINET PORTFOLIO

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

Finance & Resources — Councillor Karen Buckley

SUMMARY OF PREVIOUS DECISIONS

The effectiveness of Internal Audit was confirmed previously by the Audit Committee at its meeting on 27 June 2013.

REPORT

1. The Accounts and Audit Regulations 2011 require the Council, at least once a year, to conduct a review of the effectiveness of its system of internal audit. The purpose behind this is to ensure that the opinion in the annual audit report issued by the Head of Internal Audit can be relied upon as a key source of evidence in the Annual Governance Statement.

2. From the 1 April 2013 'Public Sector Internal Audit Standards' (PSIAS) replaced the 'Code of Practice for Internal Audit in Local Government'. In local government these standards are mandatory for all principal local authorities subject to the Accounts and Audit Regulations 2011. To accompany the new PSIAS an 'application note' has been produced by CIPFA to give guidance concerning the practical application of the standards. The application note constitutes 'proper practices' alongside the PSIAS and it includes a checklist for measuring the performance of Internal Audit against the standards as part of the quality assurance and improvement programme.

3. The Head of Internal Audit has assessed the effectiveness of Internal Audit using the recommended checklist contained within CIPFA's Local Government Application Note (attached at Appendix A). A small number of actions have been identified that require attention to ensure the internal audit service is fully compliant with the PSIAS. These are set out in an Improvement Action Plan (attached at Appendix B).

4. The PSIAS state that external assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. External assessment can be in the form of a full external assessment, or a self-assessment with independent external validation. The format of the external assessment will be the subject of a further report to Audit Committee.

IMPLICATIONS	
Finance	The Accounts and Audit Regulations 2011 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. 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.
Legal	No specific implications
Community Safety	No specific implications
Human Rights and Equalities	No specific implications
Sustainability and Environmental Impact	No specific implications
Health & Safety and Risk Management	No specific implications

REPORT AUTHOR	TEL	DATE	DOC ID
Savile Sykes	01253 658413	25 September 2014	

LIST OF BACKGROUND PAPERS		
Name of document	Date	Where available for inspection
Public Sector Internal Audit Standards Local Government Application Note (CIPFA)	2013	All background papers or copies can be obtained from Savile Sykes – Head of Internal Audit on 01253 658413 or e-mail saviles@fylde.gov.uk

Attached Documents

Appendix A – PSIAS and the local government application note

Appendix B – Internal Audit Improvement Plan 2014/15

CHECKLIST FOR ASSESSING CONFORMANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS AND THE LOCAL GOVERNMENT APPLICATION NOTE

Ref	Conformance with the Standard	Y	P	N	Evidence
1	Definition of Internal Auditing				
	Using evidence gained from assessing conformance with other Standards, is the internal audit activity: a) Independent? b) Objective?	✓			The Audit Manager reports to senior management and the Audit Committee. An Audit Charter is in place that sets out Internal Audit's independence. Internal Audit has no executive responsibilities, thus protecting its independence of reporting and action. Objectivity is one of the four fundamental principles listed in the Internal Audit Charter and Code of Ethics. To achieve this all reports are reviewed by the HIA prior to issue to ensure that the auditor has remained objective and provided a balanced view.
	Using evidence gained from assessing conformance with other Standards, does the internal audit activity use a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes within the organisation?	✓			There is a risk-based annual audit plan in place. The IA Procedure Manual provides guidance to auditors. Standard methodology in place for determining the ranking of risk issues and audit reports. A standardised reporting format used. The audit work undertaken supports an annual audit opinion on the effectiveness of risk management, control and governance processes.

Ref	Conformance with the Standard	Y	P	N	Evidence
2	Code of Ethics				
	Integrity Using evidence gained from assessing conformance with other Standards, do internal auditors: a) Perform their work with honesty, diligence and responsibility? b) Observe the law and make disclosures expected by the law and the profession? c) Not knowingly partake in any illegal activity nor engage in acts that are discreditable to the profession of internal auditing or to the organisation? d) Respect and contribute to the legitimate and ethical objectives of the organisation?	✓			Internal auditors are bound by their ethical and professional standards. All work undertaken within the section undertaken in conformance with the Audit Charter and the Code of Ethics and subject to review by the HIA. Staff are assessed through the performance appraisal process and feedback on work undertaken is sought from management. Responsibilities and duties are set out in detailed job descriptions.
	Objectivity Using evidence gained from assessing conformance with other Standards, do internal auditors display objectivity by not: a) Taking part in any activity or relationship that may impair or be presumed to impair their unbiased assessment? b) Accepting anything that may impair or be presumed to impair their professional judgement? c) Disclosing all material facts known to them that, if not disclosed, may distort the reporting of activities under review?	✓			Internal auditors must comply with Audit Charter / Code of Ethics. Auditors complete an annual declarations of interests.
	Confidentiality Using evidence gained from assessing conformance with other Standards, do internal auditors display objectivity by: a) Acting prudently when using information acquired in the course of their duties and protecting that information? b) Not using information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation?	✓			Internal auditors understand the requirement for confidentiality when using information in the course of their duties and the need to protect that information. This requirement is set out in both the IA Procedure Manual and Code of Ethics, and all auditors are aware of this.

Ref	Conformance with the Standard	Y	P	N	Evidence
	Competency Using evidence gained from assessing conformance with other Standards, do internal auditors display objectivity by: a) Only carrying out services for which they have the necessary knowledge, skills and experience? b) Performing services in accordance with the PSIAS? c) Continually improving their proficiency and effectiveness and quality of their services, for example through CPD schemes?	✓			The Code of Ethics requires that internal auditors should apply the knowledge, skills and experience needed in the performance of internal auditing services, seeking additional advice and support where necessary to ensure work is carried out competently. Training needs are assessed annually through the performance appraisal process.
	Do internal auditors have regard to the Standards of Public Life's Seven Principles of Public Life?	✓			A copy of the Standards is permanently displayed in the audit office and all audit staff are aware of and have regard for them.
	Standards				
3	Attribute Standards				
3.1	1000 Purpose, Authority and Responsibility				
	Does the internal audit charter include a formal definition of: a) the purpose b) the authority, and c) the responsibility of the internal audit activity consistent with the Public Sector Internal Audit Standards (PSIAS)?	✓			The Internal Audit Charter has been updated to include an up to date definition in accordance with the PSIAS and includes the purpose, authority and responsibilities of internal audit together with its independence, role and rights of access.
	Does the internal audit charter define the terms 'board' and 'senior management', for the purposes of the internal audit activity? Note that it is expected that the audit committee will fulfil the role of the board in the majority of instances.	✓			The Internal Audit Charter defines the 'board' as the Audit Committee and 'Senior Management as the Management Team

Ref	Conformance with the Standard	Y	P	N	Evidence
AN LGAN LGAN LGAN LGAN LGAN	Does the internal audit charter also: a) Set out the internal audit activity's position within the organisation? b) Establish the CAE's functional reporting relationship with the board? c) Establish the accountability, reporting line and relationship between the CAE and those to whom the CAE may report administratively? d) Establish the responsibility of the board and also the role of the statutory officers (such as the CFO, the monitoring officer and the head of paid service) with regards to internal audit? e) Establish internal audit's right of access to all records, assets, personnel and premises and its authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities? f) Define the scope of internal audit activities? g) Recognise that internal audit's remit extends to the entire control environment of the organisation? h) Identify internal audit's contribution to the review of effectiveness of the control environment, as set out in the Accounts and Audit (England) Regulations 2011? i) Establish the organisational independence of internal audit? j) Cover the arrangements for appropriate resourcing? k) Define the role of internal audit in any fraud-related work? l) Set out the existing arrangements within the organisation's anti-fraud and anti-corruption policies, to be notified of all suspected or detected fraud, corruption or impropriety? m) Include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities? n) Define the nature of assurance services provided to the organisation, as well as assurances provided to parties external to the organisation? o) Define the nature of consulting services? p) Recognise the mandatory nature of the PSIAS?	✓			The Internal Audit Charter has been updated reflect all the requirements of the Standards

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Ref	Conformance with the Standard	Y	P	N	Evidence
	Does the chief audit executive (CAE) periodically review the internal audit charter and present it to senior management and the board for approval?	✓			Last updated in November 2013. Any further updates required, other than amendments that reflect organisational changes, will be presented to Management Team and the Audit Committee for approval.
	Does the CAE attend audit committee meetings?	✓			Attendance at all meetings except any exclusively devoted to annual accounts (usually one such meeting per year).
	Does the CAE contribute to audit committee agendas?	✓			Contributes to the Forward Work Programme and the Audit Committee agenda.
3.2	1100 Independence and Objectivity				
	Does the CAE have direct and unrestricted access to senior management and the board?	✓			HIA has unrestricted access to all members of Management Team and regularly reports to the Section 151 Officer. Head of Internal Audit has freedom to report independently and impartially in his own name to all officers and members and particularly the Audit Committee.
	Does the CAE have free and unfettered access to, as well as communicate effectively with, the chief executive or equivalent and the chair of the audit committee?	✓			Access rights and reporting lines are specified in the Internal Audit Charter. HIA can contact Chief Executive and Chair of the Audit Committee at any time. There is also the opportunity for the HIA to meet privately with the Chair of the Audit Committee.
	Are threats to objectivity identified and managed at the following levels: a) Individual auditor? b) Engagement? c) Functional? d) Organisation?	✓			Audit staff complete declaration of interests annually. Moreover, Internal Audit has no non-audit responsibilities with the limited exception of benefit fraud, thus protecting its independence and objectivity. The Council's benefit fraud SLA arrangements are the responsibility of the HIA but the service is externally managed.

Ref	Conformance with the Standard	Y	P	N	Evidence
	1110 organisational Independence				
	Does the CAE report to an organisational level equal or higher to the corporate management team?	✓			The Head of Internal Audit is line managed administratively by the Head of Governance, but internal audit activity is organisationally independent in its planning and operation. The HIA reports functionally to the Audit Committee, and organisationally to the Director of Resources, who is a member of the council's Management Team. In addition, the HIA has unrestricted reporting access to all Directors and Management Team.
LGAN	Does the CAE report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities?	✓			See above.
LGAN	Have reporting and management arrangements been put in place that preserve the CAE's independence and objectivity? This is of particular importance when the CAE is line managed by another officer of the authority.	✓			Access rights and reporting lines are specified in the Internal Audit Charter and the HIA can contact the Chief Executive and/or Section 151 Officer at any time.
LGAN	Does the CAE's position in the management structure: a) Reflect the influence he or she has on the control environment? b) Provide the CAE with sufficient status to ensure that audit plans, reports and action plans are discussed effectively with the board? c) Ensure that he or she is sufficiently senior and independent to be able to provide credibly constructive challenge to senior management?	✓			Audit plans are agreed with Management Team and Audit Committee. Audit Reports, including action plans, are issued to the relevant Director/Service Head.
	Does the CAE confirm to the board, at least annually, that the internal audit activity is organisationally independent? The following examples can be used by the CAE when assessing the organisational independence of the internal audit activity: The board: a) approves the internal audit charter b) approves the risk-based audit plan c) approves the internal audit budget and resource plan d) receives communications from the CAE on the activity's performance (in relation to the plan, for example)	✓ ✓ ✓ ✓		 x	HIA confirms to the Audit Committee annually that internal audit activity is independent in the HIA's annual report. a) Audit Committee b) Management Team and Audit Committee c) Director of Resources d) Audit Committee

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Ref	Conformance with the Standard	Y	P	N	Evidence
	e) approves decisions relating to the appointment and removal of the CAE f) seeks reassurance from management and the CAE as to whether there are any inappropriate scope or resource limitations.	✓		x	e) Director of Resources f) Audit Committee The approval of the budget and the appointment / dismissal of the HIA is the responsibility of the Director of Resources. No action possible.
	Does the chief executive or equivalent undertake, countersign, contribute feedback to or review the performance appraisal of the CAE?	✓			The Chief Executive contributes feedback to the HIA's annual staff appraisal.
	Is feedback sought from the chair of the audit committee for the CAE's performance appraisal?	✓			Feedback from the Chair of the Audit Committee is sought and provided as part of the HIA's staff appraisal process.
	1111 Direct Interaction with the Board				
	Does the CAE communicate and interact directly with the board?	✓			Corporate Management Team and Audit Committee
	1120 Individual Objectivity				
	Do internal auditors have an impartial, unbiased attitude?	✓			Auditors are expected to deploy impartial and effective professional judgement. Feedback questionnaires sent after each audit are used to monitor the auditors' approach.
	Do internal auditors avoid any conflict of interest, whether apparent or actual?	✓			Auditors report any potential conflict to HIA, and the HIA to the Head of Governance
	1130 Impairment to Independence or Objectivity				
	If there has been any real or apparent impairment of independence or objectivity, has this been disclosed to appropriate parties (depending on the nature of the impairment and the relationship between the CAE and senior management/the board as set out in the internal audit charter)?	✓			None has arisen.
	Have internal auditors assessed specific operations for which they have been responsible within the previous year?	✓			Internal audit has no non-audit operational responsibilities with the limited exception of the benefit fraud SLA, which is externally managed.
	If there have been any assurance engagements in areas over which the CAE also has operational responsibility, have these engagements been overseen by someone outside of the internal audit activity?	✓			HIA does not have any direct operational responsibility.

Ref	Conformance with the Standard	Y	P	N	Evidence
LGAN	Are assignments for ongoing assurance engagements and other audit responsibilities rotated periodically within the internal audit team?			x	The team is not large enough to allow this. However, all audit work is subject to independent review by HIA. No further action possible.
LGAN	Have internal auditors declared interests in accordance with organisational requirements?	✓			Auditors sign declarations of interest forms annually.
LGAN	Where any internal auditor has accepted any gifts, hospitality, inducements or other benefits from employees, clients, suppliers or other third parties (other than as may be allowed by the organisation's own policies), has this been declared and investigated fully?	✓			None offered or accepted.
LGAN	Have any instances been discovered where an internal auditor has used information obtained during the course of duties for personal gain?	✓			There have been no such instances.
LGAN	Have internal auditors disclosed all material facts known to them which, if not disclosed, could distort their reports or conceal unlawful practice, subject to any confidentiality agreements?	✓			Auditors sign declaration of interest forms annually.
LGAN	Have internal auditors complied with the Bribery Act 2010?	✓			The Council has an Anti-Bribery Policy that reflects the requirements of the Bribery Act 2010. Internal auditors have received a copy of the policy and are fully aware of its terms and requirements.
	If there has been any real or apparent impairment of independence or objectivity relating to a proposed consulting services engagement, was this disclosed to the engagement client before the engagement was accepted?	✓			The internal audit service does not engage in external consulting services. However, no impairment of independence has arisen in any event.
	Where there have been significant additional consulting services agreed during the year that were not already included in the audit plan, was approval sought from the board before the engagement was accepted?	N/A	N/A	N/A	See above.
3.3	1200 Proficiency and Due Professional Care				
	1210 Proficiency				
	Does the CAE hold a professional qualification, such as CMIIA/CCAB or equivalent?	✓			CIPFA
	Is the CAE suitably experienced?	✓			HIA since 1981.

Ref	Conformance with the Standard	Y	P	N	Evidence
LGAN	Is the CAE responsible for recruiting appropriate internal audit staff, in accordance with the organisation's human resources processes?	✓			HIA fully responsible for recruitment.
LGAN	Does the CAE ensure that up-to-date job descriptions exist that reflect roles and responsibilities and that person specifications define the required qualifications, competencies, skills, experience and personal attributes?	✓			Job descriptions and person specifications in place.
	Does the internal audit activity collectively possess or obtain the skills, knowledge and other competencies required to perform its responsibilities?	✓			Auditor competencies assessed by annual staff appraisals. Computer audit skills are bought-in from LCC. In addition, the HIA is a member of the Lancashire Districts Audit Group for knowledge sharing. TIS online available for advisory backup.
	Where the internal audit activity does not possess the skills, knowledge and other competencies required to perform its responsibilities, does the CAE obtain competent advice and assistance?	✓			Internal Audit buys in additional resources where there is a perceived skills gap.
	Do internal auditors have sufficient knowledge to evaluate the risk of fraud and anti-fraud arrangements in the organisation?	✓			Internal Audit is aware of fraud risks and the role of internal audit, particularly in the prevention of fraud. IA also has the benefit of advice from Preston City Council Fraud Manager as part of SLA.
	Do internal auditors have sufficient knowledge of key information technology risks and controls?	✓			Computer audit skills are bought-in from LCC and used to formulate an IT audit workplan on the basis of risk
	Do internal auditors have sufficient knowledge of the appropriate computer-assisted audit techniques that are available to them to perform their work, including data analysis techniques?	✓			Internal audit co-operates with Blackpool Council in the use of data analysis to focus assurance testing work in relation to main financial systems.

Ref	Conformance with the Standard	Y	P	N	Evidence
	1220 Due Professional Care				
	Do internal auditors exercise due professional care by considering the: a) Extent of work needed to achieve the engagement's objectives? b) Relative complexity, materiality or significance of matters to which assurance procedures are applied? c) Adequacy and effectiveness of governance, risk management and control processes? d) Probability of significant errors, fraud, or non-compliance? e) Cost of assurance in relation to potential benefits?	✓			Overall consideration takes place as part of the annual planning cycle. Analysis of these factors is undertaken planning stage of every assignment. Risks (including fraud risk) are considered when scoping and undertaking the audit. Audit work is reviewed and time spent on engagements recorded and monitored. If additional work is required the SA will agree this with the HIA subject to an assessment of cost/benefits.
	Do internal auditors exercise due professional care during a consulting engagement by considering the: a) Needs and expectations of clients, including the nature, timing and communication of engagement results? b) Relative complexity and extent of work needed to achieve the engagement's objectives? c) Cost of the consulting engagement in relation to potential benefits?	✓			All these matters are discussed with the client at the scoping meeting when the terms of reference are agreed.
	1230 Continuing Professional Development				
LGAN	Has the CAE defined the skills and competencies for each level of auditor?	✓			Defined in the person specification for each position.
LGAN	Does the CAE periodically assess individual auditors against the predetermined skills and competencies?	✓			Annual staff appraisal process.
	Do internal auditors undertake a programme of continuing professional development?	✓			Each auditor is responsible for their own CPD where appropriate to meet the requirements of their professional body.
	Do internal auditors maintain a record of their professional development and training activities?	✓			Maintained by each individual.
3.4	1300 Quality Assurance and Improvement Programme				
	Has the CAE developed a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the internal audit activity and enables conformance with all aspects of the PSIAS to be evaluated?	✓			A QAIP has been developed to demonstrate conformance with the Definition of Internal Auditing, the Code of Ethics and the PSIAS.

Ref	Conformance with the Standard	Y	P	N	Evidence
	Does the QAIP assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement?	✓			The QAIP identifies opportunities for improvement based on the assessment of the efficiency and effectiveness of internal audit activity.
	Does the CAE maintain the QAIP?	✓			The HIA maintains the QAIP
LGAN	If the organisation is a 'larger relevant body' in England, does it conduct a review of the effectiveness of its internal audit at least annually, in accordance with the Accounts and Audit (England) Regulations 2011 section 6(3)?	✓			The review is conducted by the HIA annually and presented to the Audit Committee.
	1310 Requirements of the Quality Assurance and Improvement Programme				
	Does the QAIP include both internal and external assessments?	✓			An external review of the effectiveness of the internal audit function forms part of the QAIP and will be carried out within the time frames established by the PISIAS (at least once every five years).
	1311 Internal Assessments				
LGAN	Does the CAE ensure that audit work is allocated to staff with the appropriate skills, experience and competence?	✓			This process is part of the planning process for individual assignments within the limitations of a small audit team. However, LCC will be used if technical IT skills are required or Preston City for certain fraud investigation activities.
	Do internal assessments include ongoing monitoring of the internal audit activity such as: a) Routine quality monitoring processes? b) Periodic assessments for evaluating conformance with the PSIAS?	✓			a) All audit work is subject to quality review. b) Annual assessments carried out by HIA.
LGAN	Does ongoing performance monitoring include comprehensive performance targets?	✓			There are comprehensive performance targets for the audit team, which are reported to the Audit Committee. Where appropriate individual targets may be agreed for internal auditors, both at fortnightly planning meetings or during annual staff appraisals.

Ref	Conformance with the Standard	Y	P	N	Evidence
LGAN	Are the performance targets developed in consultation with appropriate parties and included in any service level agreement?	✓			Performance measures and targets were developed following an exercise to canvass the views of stakeholders. Subsequently the Audit Committee adopted the seven indicators with highest usefulness ratings from stakeholders and established performance targets.
LGAN	Does the CAE measure, monitor and report on progress against these targets?	✓			Progress against departmental targets reported to Audit Committee twice yearly.
LGAN	Does ongoing performance monitoring include obtaining stakeholder feedback?	✓			Feedback questionnaires are issued on completion of every audit assignment.
	Are the periodic self-assessments or assessments carried out by people external to the internal audit activity undertaken by those with a sufficient knowledge of internal audit practices? Sufficiency would require knowledge of the PSIAS and the wider guidance available such as the Local Government Application Note and/or IIA practice advisories, etc.	✓			Self Assessments have been carried out by the HIA, both against the previous CIPFA standards and the current PSIAS. In previous years peer review external assessments have been undertaken by other Heads of Internal Audit and the external auditor. A decision has not yet been finalised concerning the conduct of the periodic external review to ensure compliance with the PSIAS and the Local Government Application Note; however, it will be undertaken by an assessor who has full knowledge of both documents.
LGAN	Does the periodic assessment include a review of the activity against the risk-based plan and the achievement of its aims and objectives?	✓			Previous external assessment included a review of the annual HIA report, which documents the achievement of the audit plan and its wider aims and objectives. It is anticipated that this will continue.
	1312 External Assessments				
	Has an external assessment been carried out, or is planned to be carried out, at least once every five years?	✓			An external assessment of the internal audit function will be carried out within the time frames established by the PISIAS (at least once every five years).

Ref	Conformance with the Standard	Y	P	N	Evidence
LGAN	Has the CAE considered the pros and cons for the different types of external assessment (i.e. 'full' or self-assessment plus 'independent validation')?	✓			Although a decision about external assessment has yet to be made, it is anticipated that an annual self-assessment will be carried out by the HIA and presented to the Audit Committee. Every 5 years external validation will be carried out.
	Has the CAE discussed the proposed form of the external assessment and the qualifications and independence of the assessor or assessment team with the board?			x	This is a new requirement. A report will be presented to the Audit Committee now the initial assessment has been made. Possible peer review with neighbouring authorities or the appointment of an appropriate person are two possible options. **Action: Report to Audit Committee concerning options for external review**
LGAN	Has the CAE agreed the scope of the external assessment with an appropriate sponsor, such as the chair of the audit committee, the CEO or the chief executive?	N/A	N/A	N/A	See above. External assessment arrangement not yet decided.
	Has the CAE agreed the scope of the external assessment with the external assessor or assessment team?	N/A	N/A	N/A	See above. External assessment arrangement not yet decided.
	Has the assessor or assessment team demonstrated its competence in both areas of professional practice of internal auditing and the external assessment process? Competence can be determined in the following ways: a) experience gained in organisations of similar size b) complexity c) sector (i.e. the public sector) d) industry (i.e. local government), and e) technical experience. Note that if an assessment team is used, competence needs to be demonstrated across the team and not for each individual member.	N/A	N/A	N/A	See above. External assessment arrangement not yet decided.
	How has the CAE used his or her professional judgement to decide whether the assessor or assessment team demonstrates sufficient competence to carry out the external assessment?	N/A	N/A	N/A	See above. External assessment arrangement not yet decided.

Ref	Conformance with the Standard	Y	P	N	Evidence
	Does the assessor or assessment team have any real or apparent conflicts of interest with the organisation? This may include, but is not limited to, being a part of or under the control of the organisation to which the internal audit activity belongs.	N/A	N/A	N/A	See above. External assessment arrangement not yet decided.
	1320 Reporting on the Quality Assurance and Improvement Programme				
	Has the CAE reported the results of the QAIP to senior management and the board? Note that: a) the results of both external and periodic internal assessment must be communicated upon completion b) the results of ongoing monitoring must be communicated at least annually c) the results must include the assessor's or assessment team's evaluation with regards to the degree of the internal audit activity's conformance with the PSIAS.	✓			The results of the QAIP has been reported to senior management and is presented to Audit Committee. This will occur on an annual basis. Conformance with the PSIAS is the principal focus of the report.
	Has the CAE included the results of the QAIP and progress against any improvement plans in the annual report?			x	The QAIP was not prepared in time for the annual report, although reference was made to it. **Action: Include the results of the QAIP and progress against any improvement plan in the annual report.**
	1321 Use of 'Conforms with the International Standards for the Professional Practice of Internal Auditing'				
	Has the CAE stated that the internal audit activity conforms with the PSIAS only if the results of the QAIP support this?	✓			An initial assessment was carried out and broad conformance to the PSIAS was reported in the HIA annual report.
	1322 Disclosure of Non-conformance				
	Has the CAE reported any instances of non-conformance with the PSIAS to the board?	✓			This report shows the current position. Further self assessments will be carried out annually and duly reported to Audit Committee.
	Has the CAE considered including any significant deviations from the PSIAS in the governance statement and has this been evidenced?	✓			The initial assessment carried out in 2013 did not reveal anything that impacted sufficiently to merit

					inclusion in the governance statement.

Ref	Conformance with the Standard	Y	P	N	Evidence
4	Performance Standards				
4.1	2000 Managing the Internal Audit Activity				
	Do the results of the internal audit activity's work achieve the purposes and responsibility of the activity, as set out in the internal audit charter?	✓			Evidenced by audit reports and action plans, as reported in the annual report and annual assurance opinion.
	Does the internal audit activity conform with the Definition of Internal Auditing and the Standards	✓			The Internal Audit Charter and the IA Procedure Manual both demonstrate this.
	Do individual internal auditors, who are part of the internal audit activity, demonstrate conformance with the Code of Ethics and the Standards?	✓			Internal auditors are familiar with the Audit Charter and the Code of Ethics and demonstrate conformance.
	Does the internal audit activity add value to the organisation and its stakeholders by a) Providing objective and relevant assurance? b) Contributing to the effectiveness and efficiency of the governance, risk management and internal control processes?	✓			Audit plan is based on the organisation's objectives. Every audit review gives consideration to these areas and audit reports contain recommendations designed to enhance governance, risk management and internal control. Client feedback scores are high.
	2010 Planning				
	Has the CAE determined the priorities of the internal audit activity in a risk-based plan and are these priorities consistent with the organisation's goals?	✓			Strategic and Operational plan are risk-based and reflect the Council's objectives.
	Does the risk-based plan take into account the requirement to produce an annual internal audit opinion?	✓			Strategic and Operational plan designed to provide evidence needed for annual opinion.
	Does the risk-based plan take into account the organisation's assurance framework?	✓			Sources of assurance are considered during planning. The audit plan takes account of the council's risk registers, service plans, priority projects / objectives and also any emerging threats, opportunities for fraud etc.

Ref	Conformance with the Standard	Y	P	N	Evidence
	Does the risk-based plan incorporate or is it linked to a strategic or high level statement of: a) How the internal audit service will be delivered? b) How the internal audit service will be developed in accordance with the internal audit charter? c) How the internal audit service links to organisational objectives and priorities?	✓			a) Documented in the Internal Audit Charter b) Development of the IA Service will be identified as part of the annual assessment process c) Plan is linked to the Council's corporate objectives
	Does the risk-based plan set out how internal audit's work will identify and address local and national issues and risks?		✓		Although this is not documented within the Audit Plan, local and national issues and risks are considered during the process of putting the plan together.
	In developing the risk-based plan, has the CAE taken into account the organisation's risk management framework and relative risk maturity of the organisation?	✓			Risk maturity assessed by internal audit.
	If such a risk management framework does not exist, has the CAE used his or her judgement of risks after input from senior management and the board and evidenced this?	N/A	N/A	N/A	A risk management framework exists.
LGAN	Does the risk-based plan set out the: a) Audit work to be carried out? b) Respective priorities of those pieces of audit work? c) Estimated resources needed for the work?	✓			The detailed plan sets out the audit work to be carried out and the priorities of those pieces of audit work, together with an estimate of resources needed
LGAN	Does the risk-based plan differentiate between audit and other types of work?	✓			All work categorised within the plan.
LGAN	Is the risk-based plan sufficiently flexible to reflect the changing risks and priorities of the organisation?	✓			The plan includes a contingency allowance, and is subject to review throughout the year.
	Does the CAE review the plan on a regular basis and has he or she adjusted the plan when necessary in response to changes in the organisation's business, risks, operations, programmes, systems and controls?	✓			The plan is subject to review throughout the year, with significant amendments reported to the Audit Committee.

Ref	Conformance with the Standard	Y	P	N	Evidence
	Is the internal audit activity's plan of engagements based on a documented risk assessment?	✓			The planning process is based on a documented annual risk assessment.
	Is the risk assessment used to develop the plan of engagements undertaken at least annually?	✓			See above.
LGAN	In developing the risk-based plan, has the CAE also considered the following: a) Any declarations of interest (for the avoidance for conflicts of interest)? b) The requirement to use specialists, eg IT or contract and procurement auditors? c) Allowing contingency time to undertake ad hoc reviews or fraud investigations as necessary? d) The time required to carry out the audit planning process effectively as well as regular reporting to and attendance of the board, the development of the annual report and the CAE opinion?	✓			a) Considered in assignment planning. There are currently no known conflicts b) Considered in assignment planning. c) Contingency included in the plan. d) Included in the plan.
	Is the input of senior management and the board considered in the risk assessment process?	✓			Consultation takes place with senior management whilst producing the audit plan. Chair and Vice Chair of Audit Committee consulted on risk.
	Does the CAE identify and consider the expectations of senior management, the board and other stakeholders for internal audit opinion and any other conclusions?	✓			During audit planning and in the production of the annual IA report
	Does the CAE take into consideration any proposed consulting engagement's potential to improve the management of risks, to add value and to improve the organisation's operations before accepting them?	✓			All proposed consulting work is considered before it is accepted.
	Are consulting engagements that have been accepted included in the risk-based plan?	✓			Included in the plan and reported to the Audit Committee.
	2020 Communication and Approval				
	Has the CAE communicated the internal audit activity's plans and resource requirements to senior management and the board for review and approval?	✓			Reported to Management Team and Audit Committee.

Ref	Conformance with the Standard	Y	P	N	Evidence
	Has the CAE communicated any significant interim changes to the plan and/or resource requirements to senior management and the board for review and approval, where such changes have arisen?	✓			Reported to Management Team and Audit Committee as necessary.
	Has the CAE communicated the impact of any resource limitations to senior management and the board?	✓			Reported to Management Team and Audit Committee as necessary.
	2030 Resource Management				
	Does the risk-based plan explain how internal audit's resource requirements have been assessed?	✓			Assessment of IA resource requirements is documented in the Audit Charter approved by Audit Committee.
LGAN	Has the CAE planned the deployment of resources, especially the timing of engagements, in conjunction with management to minimise abortive work and time?	✓			All managers are consulted prior to commencement of annual plan. Also discussed in planning meetings and updated throughout the year
LGAN	If the CAE believes that the level of agreed resources will impact adversely on the provision of the internal audit opinion, has he or she brought these consequences to the attention of the board? This may include an imbalance between the work plan and resource availability and/or other significant matters that jeopardise the delivery of the plan or require it to be changed.	✓			Reported to Management Team and Audit Committee as necessary.
	2040 Policies and Procedures				
	Has the CAE developed and put into place policies and procedures to guide the internal audit activity?	✓			Internal Audit Charter and IA Procedure Manual in place.
LGAN	Has the CAE established policies and procedures to guide staff in performing their duties in a manner than conforms to the PSIAS? Examples include maintaining an IA Procedure Manual and/or using electronic management systems.		✓		Internal Audit Charter conforms to the PSIAS. **Action: IA Procedure Manual to be refreshed to ensure compliance with requirements of PSIAS**
LGAN	Are the policies and procedures regularly reviewed and updated to reflect changes in working practices and standards?	✓			Regular reviews to ensure compliance with new requirements. See above.
	2050 Coordination				
	Does the risk-based plan include the approach to using other sources of assurance and any work that may be required to place reliance upon those sources?	✓			Reliance placed on external auditors and regulators.

Ref	Conformance with the Standard	Y	P	N	Evidence
LGAN	Has the CAE carried out an assurance mapping exercise as part of identifying and determining the approach to using other sources of assurance?	N/A	N/A	N/A	See above.
	Does the CAE share information and coordinate activities with other internal and external providers of assurance and consulting services?	✓			All IA reports and annual plan shared with external auditors.
LGAN	Does the CAE meet regularly with the nominated external audit representative to consult on and coordinate their respective audit plans?		✓		There is liaison with external auditors but face to face meetings are rare. Annual plans are shared.
	2060 Reporting to Senior Management and the Board				
	Does the CAE report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility and performance relative to its plan?	✓			Regular reports to Audit Committee and liaison meetings with Section 151 Officer.
	Does the periodic reporting also include significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by senior management and the board?	✓			The Audit Committee is informed of all high priority concerns, and of the overall level of assurance assessed for each area reviewed. Audit reports with full details are provided to the responsible Head of Service.
	Is the frequency and content of such reporting determined in discussion with senior management and the board and are they dependent on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management or the board?	✓			An agreed work plan for the Audit Committee is in place documenting when reports are to be submitted. However, additional reporting would take place if there was sufficient importance and urgency.
	2070 External Service Provider and Organisational Responsibility for Internal Auditing				
	Where an external internal audit service provider acts as the internal audit activity, does that provider ensure that the organisation is aware that the responsibility for maintaining and effective internal audit activity remains with the organisation?	N/A	N/A	N/A	An external IA service provider is not used.
4.2	2100 Nature of Work				
	Does the internal audit activity evaluate and contribute to the improvement of the organisation's governance, risk management and internal control processes?	✓			Overall aim of the internal audit service.

Ref	Conformance with the Standard	Y	P	N	Evidence
	Does the internal audit activity evaluate and contribute to the improvement of the above using a systematic and disciplined approach and is this evidenced?	✓			Through the completion of the audit plan.
	2110 Governance				
	Does the internal audit activity: a) Promote appropriate ethics and values within the organisation? b) Ensure effective organisational performance management and accountability? c) Communicate risk and control information to appropriate areas of the organisation? d) Coordinate the activities of and communicate information among the board, external and internal auditors and management?	✓			Through the completion of the audit plan and communication of audit findings to management.
	Does the internal audit activity assess and make appropriate recommendations for improving the governance process as part of accomplishing the above objectives?	✓			Through individual assignments and by the input of the HIA to the Corporate Governance Group. IA also specifically reviews corporate governance framework annually.
	Has the internal audit activity evaluated the: a) design b) implementation, and c) effectiveness	✓			HIA is a member of Corporate Governance Group which considers these matters. IA reviews Ethical Governance periodically.
	of the organisation's ethics-related objectives, programmes and activities?				
	Has the internal audit activity assessed whether the organisation's information technology governance supports the organisation's strategies and objectives?	✓			Information technology governance included in the audit plan. Various relevant reviews undertaken by LCC IT-audit team.
LGAN	Has the CAE considered the proportionality of the amount of work required to assess the ethics and information technology governance of the organisation when developing the risk-based plan?	✓			All competing priorities are considered when finalising the plan.

Ref	Conformance with the Standard	Y	P	N	Evidence
	2120 Risk Management				
	Has the internal audit activity evaluated the effectiveness of the organisation's risk management processes by determining that: a) Organisational objectives support and align with the organisation's mission? b) Significant risks are identified and assessed? c) Appropriate risk responses are selected that align risks with the organisation's risk appetite? d) Relevant risk information is captured and communicated in a timely manner across the organisation, thus enabling the staff, management and the board to carry out their responsibilities?	✓			Risk management included in the audit plan every other year.
	Has the internal audit activity evaluated the risks relating to the organisation's governance, operations and information systems regarding the: a) Achievement of the organisation's strategic objectives? b) Reliability and integrity of financial and operational information? c) Effectiveness and efficiency of operations and programmes? d) Safeguarding of assets? e) Compliance with laws, regulations, policies, procedures and contracts?	✓			As part of audit planning and the completion of individual audit assignments.
	Has the internal audit activity evaluated the potential for fraud and also how the organisation itself manages fraud risk?	✓			As part of audit planning. IA regularly test compliance with counter fraud policies. The Council takes part the NFI process with HIA as key contact.
	Do internal auditors address risk during consulting engagements consistently with the objectives of the engagement?	✓			Dependent on the nature of the assignment.
	Are internal auditors alert to other significant risks when undertaking consulting engagements?	✓			Any other risks noted are reported to management.
	Do internal auditors successfully avoid managing risks themselves, which would in effect lead to taking on management responsibility, when assisting management in establishing or improving risk management processes?	✓			Auditors do not take on management responsibility or risk management roles.

Ref	Conformance with the Standard	Y	P	N	Evidence
	2130 Control				
	Has the internal audit activity evaluated the adequacy and effectiveness of controls in the organisation's governance, operations and information systems regarding the: a) Achievement of the organisation's strategic objectives? b) Reliability and integrity of financial and operational information? c) Effectiveness and efficiency of operations and programmes? d) Safeguarding of assets? e) Compliance with laws, regulations, policies, procedures and contracts?	✓			As part of audit planning and the completion of individual audit assignments.
	Do internal auditors utilise knowledge of controls gained during consulting engagements when evaluating the organisation's control processes?	✓			All relevant knowledge is used.
4.3	2200 Engagement Planning				
	Do internal auditors develop and document a plan for each engagement?	✓			A terms of reference document is developed and agreed for each audit review.
	Does the engagement plan include the engagement's: a) Objectives? b) Scope? c) Timing? d) Resource allocations?	✓			Standard format that includes all these.
	Do internal auditors consider the following in planning an engagement, and is this documented: a) The objectives of the activity being reviewed? b) The means by which the activity controls its performance? c) The significant risks to the activity being audited? d) The activity's resources? e) The activity's operations? f) The means by which the potential impact of risk is kept to an acceptable level? g) The adequacy and effectiveness of the activity's governance, risk	✓			These aspects are considered in planning an audit, the extent of consideration of each depends on the area under review and the reason for the review. Details will therefore not always be fully documented for every aspect for every audit, however relevant aspects are considered as part of the preparation for each assignment.

Ref	Conformance with the Standard	Y	P	N	Evidence
	management and control processes compared to a relevant framework or model? h) The opportunities for making significant improvements to the activity's governance, risk management and control processes?				
	Where an engagement plan has been drawn up for an audit to a party outside of the organisation, have the internal auditors established a written understanding with that party about the following: a) Objectives? b) Scope? c) The respective responsibilities and other expectations of the internal auditors and the outside party (including restrictions on distribution of the results of the engagement and access to engagement records)?	N/A	N/A	N/A	No work undertaken outside of the organisation.
	For consulting engagements, have internal auditors established an understanding with the engagement clients about the following: a) Objectives? b) Scope? c) The respective responsibilities of the internal auditors and the client and other client expectations?	✓			Agreed with management at the start of the work.
	For significant consulting engagements, has this understanding been documented?	N/A	N/A	N/A	No work undertaken outside of the organisation.
	2210 Engagement Objectives				
	Have objectives been agreed for each engagement?	✓			Objectives are agreed.
	Have internal auditors carried out a preliminary risk assessment of the activity under review?	✓			Completed whilst formulating the terms of reference. Auditors will review previous audits, risk registers and other intelligence.
	Do the engagement objectives reflect the results of the preliminary risk assessment that has been carried out?	✓			Where applicable.
	Have internal auditors considered the probability of the following, when developing the engagement objectives: a) Significant errors? b) Fraud? c) Non-compliance? d) Any other risks?	✓			When developing the terms of reference.

Ref	Conformance with the Standard	Y	P	N	Evidence
	Have internal auditors ascertained whether management and/or the board have established adequate criteria to evaluate and determine whether objectives and goals have been accomplished?	✓			Management plans and processes track progress against corporate objectives. KPI's included within the audits where applicable.
	If the criteria have been deemed adequate, have the internal auditors used the criteria in their evaluation of governance, risk management and controls?	✓			Risk register, documented internal controls and KPIs reviewed where applicable to the area under review and the nature of the assignment.
	If the criteria have been deemed inadequate, have the internal auditors worked with management and/or the board to develop appropriate evaluation criteria?	✓			Lack of KPIs and controls reported where applicable.
LGAN	If the value for money criteria have been referred to, has the use of all the organisation's main types of resources been considered; including money, people and assets?	✓			Where referred to. Few value for money assignments completed.
	Do the objectives set for consulting engagements address governance, risk management and control processes as agreed with the client?	✓			Objectives agreed with the client.
	Are the objectives set for consulting engagements consistent with the organisation's own values, strategies and objectives?	✓			Objectives agreed with the client.
	2220 Engagement Scope				
	Is the scope that is established for the engagement sufficient to satisfy the engagement's objectives?	✓			The scope of the audit work is agreed at the start of the audit. If during the audit the scope has to be extended to ensure the objectives of the audit are met, this is agreed with the HIA.
	Does the engagement scope include consideration of the following relevant areas of the organisation: a) Systems? b) Records? c) Personnel? d) Premises?	✓			All assignments include consideration of systems. Other aspects considered when appropriate,
	Does the engagement scope include consideration of the following relevant areas under the control of outside parties, where appropriate: a) Systems? b) Records? c) Personnel? d) Premises?	✓			This scenario would apply for activities undertaken for the Council by third parties, such as Blackpool Council where audits would consider these areas.

Ref	Conformance with the Standard	Y	P	N	Evidence
	Where significant consulting opportunities have arisen during an assurance engagement, was a specific written understanding as to the objectives, scope, respective responsibilities and other expectations drawn up?	N/A	N/A	N/A	This has not occurred. However, should this occur, this process would be followed
	Where significant consulting opportunities have arisen during an assurance engagement, were the results of the subsequent engagement communicated in accordance with the relevant consulting Standards?	N/A	N/A	N/A	This has not occurred. However, should this occur, this process would be followed
	For a consulting engagement, was the scope of the engagement sufficient to address any agreed-upon objectives?	✓			Scope agreed at the start of the audit.
	If the internal auditors developed any reservations about the scope of a consulting engagement while undertaking that engagement, did they discuss those reservations with the client and therefore determine whether or not to continue with the engagement?	N/A	N/A	N/A	This has not occurred. However, should this occur, this process would be followed
	During consulting engagements, did internal auditors address the controls that are consistent with the objectives of those engagements?	✓			As normal procedure.
	During consulting engagements, were internal auditors alert to any significant control issues?	✓			As normal procedure.
	2230 Engagement Resource Allocation				
	Have internal auditors decided upon the appropriate and sufficient level of resources required to achieve the objectives of the engagement based on: a) The nature and complexity of each individual engagement? b) Any time constraints? c) The resources available?	✓			Planned at start of the year, then amended with detailed planning where applicable.
	2240 Engagement Work Programme				
	Have internal auditors developed and documented work programmes that achieve the engagement objectives?	✓			Work programmes developed for each engagement.
	Do the engagement work programmes include the following procedures for: a) Identifying information? b) Analysing information? c) Evaluating information? d) Documenting information?	✓			Work programme sets out the objective of each test, the information required, documentation required and the evaluation required.

Ref	Conformance with the Standard	Y	P	N	Evidence
	Were work programmes approved prior to implementation for each engagement?	✓			Agreed by HIA and Senior Auditor.
	Were any adjustments required to work programmes approved promptly?	✓			Agreed by HIA and/or Senior Auditor.
4.4	2300 Performing the Engagement				
	Have internal auditors carried out the following in order to achieve each engagement's objectives: a) Identify sufficient information? b) Analyse sufficient information? C) Evaluate sufficient information?	✓			Files reviewed by HIA and/or Senior Auditor. Checks are made to ensure that the objectives of the audit have been achieved and that there is sufficient evidence to support any findings. Additional work may be required or certain matters require further clarification.
	d) Document sufficient information?				
	2310 Identifying In formation				
	Have internal auditors identified the following in order to achieve each engagement's objectives: a) Sufficient information? b) Reliable information? c) Relevant information? d) Useful information?	✓			Quality assurance reviews of working paper files by HIA and /or Senior Auditor. See above.
	2320 Analysis and Evaluation				
	Have internal auditors based their conclusions and engagement results on appropriate analyses and evaluations?	✓			Quality assurance reviews of working paper files by HIA and /or Senior Auditor. See above.
LGAN	Have internal auditors remained alert to the possibility of the following: a) intentional wrongdoing b) errors and omissions c) poor value for money d) failure to comply with management policy, and e) conflicts of interest when performing their individual audits, and has this been documented?	✓			All internal auditors are aware of the need to look for concerns in areas a) to e) in any audit undertaken. .

Ref	Conformance with the Standard	Y	P	N	Evidence
	2330 Documenting Information				
	Have internal auditors documented the relevant information required to support engagement conclusions and results?	✓			Standardised reports are used to document conclusions and findings along with a management action plan.
LGAN	Are working papers sufficiently complete and detailed to enable another experienced internal auditor with no previous connection with the audit to ascertain what work was performed, to re-perform it if necessary and to support the conclusions reached?	✓			Quality assurance reviews of working paper files by HIA and /or Senior Auditor.
	Does the CAE control access to engagement records?	✓			Access rights are documented in the IA Charter.
	Has the CAE obtained the approval of senior management and/or legal counsel as appropriate before releasing such records to external parties?	N/A	N/A	N/A	Audit files have not been released to external parties other than the Council's external auditor; KPMG
	Has the CAE developed and implemented retention requirements for all types of engagement records?	✓			IA document retention arrangements developed within IA Manual.
	Are the retention requirements for engagement records consistent with the organisation's own guidelines as well as any relevant regulatory or other requirements?	✓			Any retention periods agreed are consistent with the Council's Retention Policy.
	2340 Engagement Supervision				
	Are all engagements properly supervised to ensure that objectives are achieved, quality is assured and that staff are developed?	✓			Supervised by HIA and/or Senior Auditor
	Is appropriate evidence of supervision documented and retained for each engagement?	✓			Recorded in the files for each assignment.
4.5	2400 Communicating Results				
	Do internal auditors communicate the results of engagements?	✓			At closure meeting, draft and final reports.
	2410 Criteria for Communicating				
	Do the communications of engagement results include the following: a) The engagement's objectives? b) The scope of the engagement? c) Applicable conclusions? d) Recommendations and action plans, if appropriate?	✓			Included in reports.

Ref	Conformance with the Standard	Y	P	N	Evidence
LGAN	Has the internal auditor discussed the contents of the draft final report with the appropriate levels of management to confirm factual accuracy, seek comments and confirm the agreed management actions?	✓			Standard practice.
LGAN	If recommendations and an action plan have been included, are recommendations prioritised according to risk?	✓			High, medium, low.
LGAN	If recommendations and an action plan have been included, does the communication also state agreements already reached with management, together with appropriate timescales?	✓			Included in final report and action plan.
LGAN	If there are any areas of disagreement between the internal auditor and management, which cannot be resolved by discussion, are these recorded in the action plan and the residual risk highlighted?	✓			Any recommendations not agreed are detailed in the final report.
LGAN	Do communications disclose all material facts known to them in their audit reports which, if not disclosed, could distort their reports or conceal unlawful practice, subject to confidentiality requirements?	✓			All material known facts disclosed.
LGAN	Do the final communications of engagement results contain, where appropriate, the internal auditor's opinions and/or conclusions, building up to the annual internal audit opinion on the control environment?	✓			Included in the final report.
	When an opinion or conclusion is issued, are the expectations of senior management, the board and other stakeholders taken into account?	✓			Prior communication via the closure meeting and draft report. Views considered, but the opinion remains that of the auditors
	When an opinion or conclusion is issued, is it supported by sufficient, reliable, relevant and useful information?	✓			Reports supported by evidence in the file.
	Where appropriate, do engagement communications acknowledge satisfactory performance of the activity in question?	✓			Included in report.
	When engagement results have been released to parties outside of the organisation, does the communication include limitations on the distribution and use of the results?	✓			Status of reports included in communications.
LGAN	If the CAE has been required to provide assurance to other partnership organisations, has he or she also demonstrated that their fundamental responsibility is to the management of the organisation to which they are obliged to provide internal audit services?	N/A	N/A	N/A	This has not occurred. However, should this occur, this process would be followed

Ref	Conformance with the Standard	Y	P	N	Evidence
	2420 Quality of Communications				
	Are communications: a) Accurate? b) Objective? c) Clear? d) Concise? e) Constructive? f) Complete? g) Timely?	✓			Audit practice aims for all of these, through specified report format, IA Procedure Manual requirements, training and experience, review of files and reports. Closure meetings are also used to agree factual accuracy of the report and findings.
	2421 Errors and Omissions				
	If a final communication has contained a significant error or omission, did the CAE communicate the corrected information to all parties who received the original communication?	N/A	N/A	N/A	This has not occurred. However, should this occur, this process would be followed
	2430 Use of 'Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing'				
	Do internal auditors report that engagements are 'conducted in conformance with the PSIAS' only if the results of the QAIP support such a statement?			x	Internal auditors do not comment on conformance with the PSIAS in relation to assignment reports **Action: Audit reports will be amended to state that audits are conducted in accordance with the PSIAS**
	2431 Engagement Disclosure of Non conformance				
	Where any non-conformance with the PSIAS has impacted on a specific engagement, do the communication of the results disclose the following: a) The principle or rule of conduct of the Code of Ethics or Standard(s) with which full conformance was not achieved? b) The reason(s) for non-conformance? c) The impact of non-conformance on the engagement and the engagement results?	N/A	N/A	N/A	No engagements have been identified as not conforming to PSIAS in 2013/14

Ref	Conformance with the Standard	Y	P	N	Evidence
	2440 Disseminating Results				
	Has the CAE determined the circulation of audit reports within the organisation, bearing in mind confidentiality and legislative requirements?	✓			Reports issued to Directors / Heads of Service / Section 151 Officer / relevant managers / external auditors. Confidentiality and exclusions are considered as per the process.
	Has the CAE communicated engagement results to all appropriate parties?	✓			Through closure meetings, draft and final reports.
	Before releasing engagement results to parties outside the organisation, did the CAE: a) Assess the potential risk to the organisation? b) Consult with senior management and/or legal counsel as appropriate? c) Control dissemination by restricting the use of the results?	N/A	N/A	N/A	Audit files have not been released to external parties other than the Council's external auditor; KPMG.
	Where any significant governance, risk management and control issues were identified during consulting engagements, were these communicated to senior management and the board?	✓			Included in reports and issued to Directors / Corporate Heads.
	2450 Overall Opinion				
	Has the CAE delivered an annual internal audit opinion?	✓			In the IA Annual Report.
	Does the annual internal audit opinion conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control?	✓			IA Annual Report includes the opinion.
	Does the annual internal audit opinion take into account the expectations of senior management, the board and other stakeholders?	✓			Expectations taken into account, but it remains the audit opinion.
	Is the annual internal audit opinion supported by sufficient, reliable, relevant and useful information?	✓			Built up from all reports in the year, together with external opinions.

Ref	Conformance with the Standard	Y	P	N	Evidence
	Does the communication identify the following: a) The scope of the opinion, including the time period to which the opinion relates? b) Any scope limitations? c) The consideration of all related projects including the reliance on other assurance providers? d) The risk or control framework or other criteria used as a basis for the overall opinion?	✓			All these are included in the Annual Report.
	Where a qualified or unfavourable annual internal audit opinion is given, are the reasons for that opinion stated?	N/A	N/A	N/A	Not given. If this were the case, reasons would be included.
	Has the CAE delivered an annual report that can be used by the organisation to inform its governance statement?	✓			Used and quoted in the Annual Governance Statement.
	Does the annual report incorporate the following:				The Annual Internal Audit Report incorporates all of these except point (i) which is a new requirement
LGAN	a) The annual internal audit opinion?	✓			
LGAN	b) A summary of the work that supports the opinion?	✓			
LGAN	c) A disclosure of any qualifications to the opinion?	✓			
	d) The reasons for any qualifications to the opinion?	✓			
LGAN	e) A disclosure of any impairments or restriction in scope?	✓			
LGAN	f) A comparison or work actually carried out with the work planned?	✓			
	g) A statement on conformance with the PSIAS?				
	h) The results of the QAIP?	✓		x	N/A. New requirement
	i) Progress against any improvement plans resulting from the QAIP?	✓			
LGAN LGAN	j) A summary of the performance of the internal audit activity against its performance measures and targets?				
LGAN	k) Any other issues that the CAE judges is relevant to the preparation of the governance statement?	✓			**Action: Report results of the QAIP in the annual report**

Ref	Conformance with the Standard	Y	P	N	Evidence
4.6	2500 Monitoring Progress				
	Has the CAE established a process to monitor and follow up management actions to ensure that they have been effectively implemented or that senior management have accepted the risk of not taking action?	✓			Follow-up review of audit recommendations carried out and reported to Audit Committee. .
	Where issues have arisen during the follow-up process, has the CAE considered revising the internal audit opinion?	✓			A follow up report is issued after the follow up review with a revised opinion if necessary.
	Do the results of monitoring management actions inform the risk-based planning of future audit work?	✓			Included in planning for the subsequent year.
	Does the internal audit activity monitor the results of consulting engagements as agreed with the client?	✓			These are tracked in the same way as audit recommendations for any substantial consultancy engagements.
4.7	2600 Communicating the Acceptance of Risks				
	If the CAE has concluded that management has accepted a level of risk that may be unacceptable to the organisation, has he or she discussed the matter with senior management?	N/A	N/A	N/A	N/A. This has not occurred. However, should this occur, this process would be followed
	If, after discussion with senior management, the CAE continues to conclude that the level of risk may be unacceptable to the organisation, has he or she communicated the situation to the board?	N/A	N/A	N/A	N/A. This has not occurred. However, should this occur, this process would be followed

APPENDIX B

INTERNAL AUDIT IMPROVEMENT PLAN 2014/15

Reference	The Standard	Action	By When	Comments
1	Has the CAE discussed the proposed form of the external assessment and the qualifications and independence of the assessor or assessment team with the board?	Present a report to Audit Committee with proposals for periodic external assessment of internal audit.	March 2015	Possible peer review with neighbouring authorities or the appointment of an appropriate person are two possible options
2	Has the CAE included the results of the QAIP and progress against any improvement plans in the annual report?	Include the results of the QAIP and progress against any improvement plan in the annual report.	March 2015	The QAIP was not prepared in time for the annual report, although reference was made to it.
3	Has the CAE established policies and procedures to guide staff in performing their duties in a manner than conforms to the PSIAS? Examples include maintaining an IA Procedure Manual and/or using electronic management systems.	Refresh the IA Procedure Manual to ensure compliance with the requirements of the PSIAS.	March 2015	Internal Audit Charter conforms to the PSIAS.
4	Do internal auditors report that engagements are ‘conducted in conformance with the PSIAS’ only if the results of the QAIP support such a statement?	Audit reports will be amended to state the extent to which audits are conducted in accordance with the PSIAS.	October 2014	Internal auditors do not currently comment on conformance with the PSIAS in relation to assignment reports

REPORT

REPORT OF	MEETING	DATE
INTERNAL AUDIT	AUDIT COMMITTEE	25 SEPTEMBER 2014

QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

PUBLIC ITEM

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

SUMMARY

The report presents an explanation of the Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the internal audit activity and enables conformance with all aspects of the Public Sector Internal Audit Standards (PSIAS) to be evaluated.

RECOMMENDATION

The Committee notes the Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the internal audit activity.

CABINET PORTFOLIO

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

Finance & Resources — Councillor Karen Buckley

SUMMARY OF PREVIOUS DECISIONS

There have been no previous decisions on this matter.

REPORT

Introduction

1. Internal Audit's Quality Assurance and Improvement Program (QAIP) is designed to provide reasonable assurance to the various stakeholders of the service that Internal Audit:

    - Performs its work in accordance with its Charter, which is consistent with the Public
    - Sector Internal Audit Standards (PSIAS), Definition of Internal Auditing and Code of Ethics;
    - Operates in an efficient and effective manner;
    - Is adding value and continually improving internal audit operations

2. The Head of Internal Audit is ultimately responsible for the QAIP, which covers all types of Internal Audit activities. The QAIP must include both internal and external assessments.

3. Internal assessments are both ongoing and periodic, while external assessments must be undertaken at least once every five years.

Internal Assessment

Ongoing Reviews

4. Ongoing assessments are conducted through:

    - Supervision of engagements
    - Documented review of work papers during engagements by the Head of Internal Audit/Senior Auditor
    - Audit policies and procedures used for each engagement including the Procedure Manual to ensure compliance with applicable planning, fieldwork and reporting standards
    - Feedback from customer surveys on individual engagements
    - Analysis of key performance indicators established to improve Internal Audits effectiveness and efficiency
    - All draft and final reports and recommendations are reviewed and approved by the Head of Internal Audit

Periodic Reviews

5. Periodic assessments are designed to assess conformance with Internal Audit's Charter, the Public Sector Internal Audit Standards, Definition of Internal Auditing, the Code of Ethics, and the efficiency and effectiveness of internal audit in meeting the needs of its various stakeholders. Periodic assessments will be conducted through:

    - Annual self-assessment of conformance with the PSIAS
    - Review of internal audit key performance indicators by the HIA on a quarterly basis
    - Half-yearly activity and performance reporting to the Audit Committee and senior management

External Assessment

6. External assessments will appraise and express an opinion about Internal Audit's conformance with the PSIAS, Definition of Internal Auditing and Code of Ethics and include recommendations for improvement, as appropriate.

7. An external assessment will be conducted every 5 years by a qualified, independent assessor from outside the Council. The assessment will be in the form of a full external assessment, or a self-assessment with independent external validation. The format of the external assessment will be the subject of a further report to Audit Committee.

Reporting

8. Results of internal assessments will be reported to the Audit Committee on an annual basis. Similarly, external assessment results will be reported to the Audit Committee and senior management at the earliest opportunity following receipt of the external assessor's report.

9. Both internal and external assessment reports will be accompanied by a written action plan in response to significant findings contained in the report.

10. The Head of Internal Audit will implement appropriate follow-up actions to ensure that recommendations made in the report and the action plans developed are implemented within a reasonable timeframe. Outcomes will be reported to the Audit Committee.

IMPLICATIONS	
Finance	The Quality Assurance and Improvement Programme will help ensure that Internal Audit continues to provide an adequate and effective service in accordance with proper practices.
Legal	No specific implications
Community Safety	No specific implications
Human Rights and Equalities	No specific implications
Sustainability and Environmental Impact	No specific implications
Health & Safety and Risk Management	No specific implications

REPORT AUTHOR	TEL	DATE	DOC ID
Savile Sykes	01253 658413	25 September 2014	

LIST OF BACKGROUND PAPERS		
Name of document	Date	Where available for inspection
Public Sector Internal Audit Standards	2013	All background papers or copies can be obtained from Savile Sykes – Head of Internal Audit on 01253 658413 or e-mail saviles@fylde.gov.uk

REPORT

REPORT OF	MEETING	DATE
RISK MANAGEMENT	AUDIT COMMITTEE	25 SEPTEMBER 2014

RISK MANAGEMENT UPDATE REPORT

PUBLIC ITEM

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

SUMMARY

The report provides the updates on the current position with regard to the Local Plan Risk Action Plan and progress on the implementation of the recommendations of the internal audit action plan on Business Continuity as requested by the Audit Committee in June 2014.

RECOMMENDATION

1) The Committee notes the latest position regarding the Local Plan.

2) The Committee notes the update on the audit action plan for Business Continuity.

CABINET PORTFOLIO

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

Finance & Resources Councillor Karen Buckley

SUMMARY OF PREVIOUS DECISIONS

An update on these items was requested by the Audit Committee at its meeting on 26 June 2014.

REPORT

1. The Annual Risk Management Report approved by the Audit Committee on 26 June 2014, contained Risk Action plans for Capacity & Change, Travellers, Review of Assets & Development Management – Cost of Appeals.

2. At the time the report was considered at committee the Risk Plan for the Local Plan was not included and it was reported that this action plan would be presented to the Audit Committee in September 2014, for consideration and approval.

LATEST POSITION REGARDING RISK ACTION PLAN FOR THE LOCAL PLAN

3. Following consideration of the responses to the Preferred Option Consultation, a decision has been taken by the Portfolio Holder to re-examine the preferred spatial option. This will require additional work in regard to assessing the deliverability of alternative strategic development sites which will not be possible within the previously approved timetable.

   A revised Strategic Housing Market Assessment (SHMA) was commissioned by Blackpool, Wyre and Fylde Councils and the final report was accepted on the 4th June after a call in. The SHMA included an objectively assessed need for Fylde of between 300 – 420 dwellings per annum. In May 2014 the Office for National Statistics (ONS) released new population projections which show a reduced population forecast for Fylde during the plan period. In September 2014 the Department of Communities and Local Government (CLG) is expected to release revised household projections based on the ONS updates.

   Blackpool, Wyre and Fylde Councils have reappointed consultants who are currently working on revisions to the SHMA based on the new population projections. This work will result in a revised objectively assessed need. This work is expected to be completed by the end of September. An objective assessment of housing need is fundamental to developing a sound local plan and work on producing a revised preferred option will not be able to proceed until this work has been completed.

   On completion of the above exercises and their acceptance by members, it will be possible to produce and agree a revised timetable with the Portfolio Holder for consideration by Cabinet. At this time we will be able to produce a new risk action plan which will be presented to the Audit Committee for comment and approval.

UPDATE ON THE AUDIT ACTION PLAN FOR BUSINESS CONTINUITY

4. At the June meeting of the committee members also requested an update on the progress made in implementing the Internal Audit Action Plan on Business Continuity. At the time of writing this report, the 7 medium priority tasks scheduled to be completed by the end of July 2014 have been successfully completed, along with the 2 high priority actions due to be completed this month. There are no actions overdue and work is already underway to ensure that the next 9 actions (2 high, 5 medium & 2 low priority) due for completion by the end of December 2014, are completed on time.

5. The Head of Internal Audit will be able to update the committee further on this action plan in his interim audit report to the committee in January 2015.

IMPLICATIONS	
Finance	The Accounts and Audit Regulations 2011 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. 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.
Legal	No specific implications
Community Safety	No specific implications
Human Rights and Equalities	No specific implications
Sustainability and Environmental Impact	No specific implications
Health & Safety and Risk Management	No specific implications

REPORT AUTHOR	TEL	DATE	DOC ID
Andrew Wilsdon	01253 658412	25 September 2014	

LIST OF BACKGROUND PAPERS		
Name of document	Date	Where available for inspection
Audit Minutes	26 June 2014	www.fylde.gov.uk

REPORT

REPORT OF	MEETING	DATE
RESOURCES	AUDIT COMMITTEE	25 SEPTEMBER 2014

REGULATION OF INVESTIGATORY POWERS ACT 2000: AUTHORISATIONS

PUBLIC ITEM

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

SUMMARY

Councillors are obliged to review the use of covert surveillance and covert human intelligence sources by the council at least quarterly. In the quarters to June and September 2014, there were no authorised operations.

RECOMMENDATION

To note the information in the report.

CABINET PORTFOLIO

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

Finance and resources: Councillor Karen Buckley

SUMMARY OF PREVIOUS DECISIONS

A report about the use of covert surveillance and covert human intelligence sources is brought regularly to the Audit Committee for noting.

On 29 July 2013, the council resolved to note a report about the council's use of surveillance powers and changes in the legal framework governing them and to adopt an updated policy on the council's use of such powers.

REPORT

1. The Regulation of Investigatory Powers Act 2000 ("RIPA") regulates covert investigations by a number of bodies, including local authorities. It was introduced to ensure that individuals' rights are protected while also ensuring that law enforcement and security agencies have the powers they need to do their job effectively.

2. Fylde Council is therefore included within RIPA framework with regard to the authorisation of both directed surveillance and of the use of covert human intelligence sources.

3. Directed surveillance includes the covert surveillance of an individual in circumstances where private information about that individual may be obtained. A covert human intelligence source ("CHIS") is a person who, pretending to be someone that they are not, builds up a relationship of trust with another person for the purpose of obtaining information as part of an investigation.

4. Directed surveillance or use of a CHIS must be authorised by the chief executive or a director and confirmed by a Justice of the Peace. All authorisations are recorded centrally by the Head of Governance.

5. Regulations under RIPA require councillors to consider a report on the use of RIPA at least quarterly.

6. This is the required quarterly report on the use of RIPA. The information in the table below is about authorisations granted by the council during the quarters concerned.

Quarter	Directed surveillance	CHIS	Total	Purpose
Apr - Jun 2014	0	0	0	
Jul – Sep 2014[1]	0	0	0	

IMPLICATIONS	
Finance	No direct financial implications. This work will be delivered within existing revenue budget resources
Legal	The report is for the information of councillors and is produced to comply with the council's obligations under the Regulation of Investigatory Powers (Directed Surveillance and Covert Human Intelligence Sources) Order 2010. The council is only able to authorise surveillance under RIPA if it is for the purpose of preventing or detecting crime or preventing disorder. Such authorisation must be endorsed by a Justice of the Peace.
Community Safety	An authorising officer should consider any community safety issues among the other relevant factors in deciding whether to authorise surveillance
Human Rights and Equalities	None arising directly from this report.
Sustainability and Environmental Impact	None arising directly from this report.
Health & Safety and Risk Management	None arising directly from this report.

[1] Correct to the date the report was written. Officers will verbally update members if the figures have changed by the date of the meeting.

REPORT AUTHOR	TEL	DATE	DOC ID
Ian Curtis	01253 658506	12 September 2014	

LIST OF BACKGROUND PAPERS		
Name of document	Date	Where available for inspection
None		

REPORT

REPORT OF	MEETING	DATE
RESOURCES	AUDIT COMMITTEE	25 SEPTEMBER 2014

PROTOCOL FOR MEMBERS ON OUTSIDE BODIES

PUBLIC ITEM

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

SUMMARY

This report provides an overview of the effectiveness of, and compliance with, the Protocol for Members Serving on Outside Bodies, as requested by the previous meeting of the committee.

RECOMMENDATION

To note the information in the report.

CABINET PORTFOLIO

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

Finance and resources: Councillor Karen Buckley

SUMMARY OF PREVIOUS DECISIONS

Council, 3 December 2012: Approved the Protocol for Members Serving on Outside Bodies and incorporated the same within the Council's Constitution.

Audit Committee, 26 June 2014: Requested that a report providing an overview of the effectiveness, and compliance with, the protocol for members on outside bodies, be brought to a future meeting of the Audit Committee.

REPORT

1. The council adopted the Protocol for Members serving on Outside bodies as part of its constitution on 3 December 2012. The protocol has therefore been in place for 21 months.

2. The protocol has four elements. First, it sets out core competencies for members serving on outside bodies. Second, it provides guidance for such members. Third, it provides a reporting form which to be completed by members serving on outside bodies, and sets out procedures for reporting the contents of the completed forms to members of the council and for what should happen if required forms are not completed. Finally, it contains an application form for members

seeking nomination as to represent the council on an outside body. The remainder of this report considers the effectiveness of and, where relevant, compliance with, each of these elements in turn

3. The core competencies, like other councillor core competencies, were intended to form the backbone of the member development process. They encourage members to identify areas of their roles where they consider that they could be helped to be more effective and provides training and development in those areas, where practicable. The core competencies are effectively checklists of skills and areas of knowledge which can help members to identify their development needs. Officers consider that they remain effective. Officers believe that the competencies continue to be relevant and useful for those purposes.

4. The guidance for members has been reviewed and is still relevant and up-to-date.

5. The reporting form should be completed every six months by each member serving on an outside body. The completed forms are circulated to all members of the Council for information. Those members failing to complete the information following a second reminder would, under the protocol, be brought to the attention of Group Leaders. Group Leaders would then determine whether they wish to request a Notice of Motion at the next Council meeting as to whether the subject member should continue to represent the Council on the particular outside body.

6. The latest round of returns was initially requested by a letter dated 10 January 2014. The requested return date was 31 March. Reminders, where necessary, were sent out on 13 February and 14 March. Of 34 reports expected, 28 were provided within time requested. Five were provided later. A query was raised about the existence of the remaining body. All of the returns were circulated to all councillors on 3 July.

7. Finally, the council’s representation on outside bodies has remained unchanged since the protocol was adopted. The application form has therefore not been used yet.

IMPLICATIONS	
Finance	No financial implications.
Legal	No implications.
Community Safety	No implications.
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.

REPORT AUTHOR	**TEL**	**DATE**	**DOC ID**
Ian Curtis	01253 658506	12 September 2014	

LIST OF BACKGROUND PAPERS		
Name of document	Date	Where available for inspection
None		